TESCO PERSONAL FINANCE PLC

PRELIMINARY RESULTS

FOR THE YEAR ENDED 28 FEBRUARY 2014

COMPANY NUMBER SC173199

CONTENTS

BUSINESS AND FINANCIAL REVIEW

In the Business and Financial Review and Financial Statements, unless specified otherwise, the 'Company' means Tesco Personal Finance Plc and the 'Group' means the Company and its subsidiaries and associated undertaking included in the consolidated financial statements. The Group operates using the trading name of Tesco Bank.

Tesco Personal Finance Plc is a wholly owned subsidiary of Tesco Personal Finance Group Limited, the share capital of which is wholly owned by Tesco PLC. A reconciliation of the results contained within this preliminary report to the Tesco Bank results presented in the Tesco PLC preliminary results 2013/14 can be found on the Tesco PLC internet page
http://www.tescoplc.com/media/247951/rns.pdf.

BUSINESS MODEL

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

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

FINANCIAL PERFORMANCE

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

Headlines

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

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

BUSINESS AND FINANCIAL REVIEW (continued)

STRATEGIC PRIORITIES

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

Customer

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

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

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

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

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

Colleagues

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

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

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

Community

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

BUSINESS AND FINANCIAL REVIEW (continued)

BUSINESS REVIEW

Banking

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

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

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

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

Insurance

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

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

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

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

BUSINESS AND FINANCIAL REVIEW (continued)

CONSOLIDATED INCOME STATEMENT

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

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

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

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

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

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

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

Net Interest Income

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

Non Interest Income

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

BUSINESS AND FINANCIAL REVIEW (continued)

This is presented in the table below:

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

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

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

Of the total customer redress provision, £20.0m reflects an increase in the provision recognised in respect of the cost of settling Payment Protection Insurance (PPI) claims and £43.0m relates to a new provision in respect of certain classes of loans and credit cards sold by the Group which are regulated under the Consumer Credit Act (CCA). The Group has identified instances where the requirements for the provision of certain post-contractual documentation to customers with CCA-regulated products have not been fully met. It is the Group's intention to compensate customers in order to reflect the operation of the CCA in respect of the customers' liability. Further information in respect of these provisions is set out at note 9 to the financial statements.

Operating Expenses

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

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

Impairment

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

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

BUSINESS AND FINANCIAL REVIEW (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

Loans and Advances to Customers

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

Deposits from Customers

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

Net Assets

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

Capital and Liquidity Ratios

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

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

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

2 During the year the method by which the tier 1 capital ratio is calculated has been amended to reflect the industry standard approach of including annual profits in full within capital resources for the year to which they relate. This has resulted in an amendment to the 2013 Tier 1 capital ratio which has increased by 0.4% to 13.2%. Refer note 13 for further detail.

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

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

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

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

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

BUSINESS AND FINANCIAL REVIEW (continued)

The Group has taken advantage of the Bank of England's Funding for Lending scheme to grow its asset base and accordingly there has been an increase in the loan to deposit ratio.

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

RISKS AND UNCERTAINTIES

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

- Credit risk
- Operational risk
- Liquidity and Funding risk
- Market risk
- Insurance risk
- Legal and Regulatory compliance risk
- Conduct risk

Greater detail on the risks and uncertainties faced by the Group will be set out in the Group's 2014 Financial Statements, the publication of which will be announced in due course.

With the exception of the items discussed below, there have been no significant changes in the nature of the risks faced by the Group over the year.

Interchange regulation

In July 2013, the European Commission announced proposed changes in regulation which would cap interchange fees on consumer debit and credit cards. The regulation remains draft and while it is unclear at this stage how and when the proposals will be finally implemented, transaction fees on credit cards represent a significant part of the Group's revenue so any reduction in interchange fees may have a material effect on the Group's prospects.

Scottish independence

The Scottish Government is holding a referendum in September 2014 on the issue of Scottish independence from the UK. A vote in favour of Scottish independence could significantly impact the fiscal, monetary and regulatory environment within which the Group operates. The decision on independence is one for the people of Scotland. The Group is monitoring developments to enable it to respond to whatever decision is reached.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	2014 £m	2013 £m
Interest and similar income	3	503.5	472.8
Interest expense and similar charges	3	(153.5)	(182.9)
Net interest income		**350.0**	**289.9**
Fees and commissions income	4	423.9	451.5
Fees and commissions expense	4	(29.9)	(26.6)
Provision for customer redress	9	(63.0)	(115.0)
Other fees and commissions income		-	30.0
Net fees and commissions income		**331.0**	**339.9**
Gains on financial instruments, movements on derivatives and hedge accounting		5.6	6.2
Realised gain on investment securities		1.0	7.4
Other income		**6.6**	**13.6**
Total income		**687.6**	**643.4**
Administrative expenses		(405.1)	(385.7)
Depreciation and amortisation		(71.5)	(61.9)
Operating expenses		**(476.6)**	**(447.6)**
Impairment		(60.8)	(82.0)
Operating profit		**150.2**	**113.8**
Share of profit of associate		2.4	10.2
Profit before tax		**152.6**	**124.0**
Income tax expense	5	(34.3)	(20.6)
Profit for the year attributable to owners of the parent		**118.3**	**103.4**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE YEAR ENDED 28 FEBRUARY 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 28 FEBRUARY 2014

	Note	2014 £m	2013 £m
Assets			
Cash and balances with central banks		494.0	919.8
Loans and advances to customers	7	6,922.0	5,570.4
Derivative financial instruments		36.6	33.5
Investment securities:			
– Available for sale		850.3	958.7
– Loans and receivables		34.1	41.6
Prepayments and accrued income		27.1	33.9
Current income tax asset		0.8	36.1
Other assets		285.0	250.2
Investment in associate		77.3	95.3
Intangible assets		427.7	397.4
Property, plant and equipment		92.8	94.3
Total assets		**9,247.7**	**8,431.2**
Liabilities			
Deposits from banks		779.8	15.2
Deposits from customers		6,082.4	6,003.5
Debt securities in issue	8	394.8	406.7
Derivative financial instruments		41.8	63.5
Provisions for liabilities and charges	9	105.5	102.0
Accruals and deferred income		127.1	123.7
Other liabilities		125.6	116.5
Deferred income tax liability		19.3	43.4
Subordinated liabilities		190.0	330.0
Total liabilities		**7,866.3**	**7,204.5**
Equity and reserves attributable to owners of the parent			
Share capital	10	122.0	108.0
Share premium account	10	1,097.9	971.9
Retained earnings		105.1	87.9
Other reserves		11.4	13.9
Subordinated notes		45.0	45.0
Total equity		**1,381.4**	**1,226.7**
Total liabilities and equity		**9,247.7**	**8,431.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Sub-ordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2013		**108.0**	**971.9**	**87.9**	**45.0**	**13.9**	**1,226.7**
Comprehensive income / (expense)							
Profit for the year		-	-	118.3	-	-	118.3
Net gains on available for sale investment securities		-	-	-	-	0.1	0.1
Net gains on cash flow hedges		-	-	-	-	1.6	1.6
Share of other comprehensive expense of associate		-	-	-	-	(5.4)	(5.4)
Total comprehensive income / (expense)		**-**	**-**	**118.3**	**-**	**(3.7)**	**114.6**
Transactions with owners							
Shares issued in the year	10	14.0	126.0	-	-	-	140.0
Dividends to ordinary shareholders	6	-	-	(100.0)	-	-	(100.0)
Dividends to holders of other equity	6	-	-	(1.1)	-	-	(1.1)
Share based payments		-	-	-	-	1.2	1.2
Total transactions with owners		**14.0**	**126.0**	**(101.1)**	**-**	**1.2**	**40.1**
Balance at 28 February 2014		**122.0**	**1,097.9**	**105.1**	**45.0**	**11.4**	**1,381.4**

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Sub-ordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2012		**103.5**	**931.4**	**90.2**	**45.0**	**19.9**	**1,190.0**
Comprehensive income / (expense)							
Profit for the year		-	-	103.4	-	-	103.4
Net losses on available for sale investment securities		-	-	-	-	(3.7)	(3.7)
Net gains on cash flow hedges		-	-	-	-	0.1	0.1
Share of other comprehensive expense of associate		-	-	-	-	(1.6)	(1.6)
Total comprehensive income / (expense)		**-**	**-**	**103.4**	**-**	**(5.2)**	**98.2**
Transactions with owners							
Shares issued in the year	10	4.5	40.5	-	-	-	45.0
Dividends to ordinary shareholders	6	-	-	(105.0)	-	-	(105.0)
Dividends to holders of other equity	6	-	-	(0.7)	-	-	(0.7)
Share based payments		-	-	-	-	(0.8)	(0.8)
Total transactions with owners		**4.5**	**40.5**	**(105.7)**	**-**	**(0.8)**	**(61.5)**
Balance at 28 February 2013		**108.0**	**971.9**	**87.9**	**45.0**	**13.9**	**1,226.7**

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	2014 £m	2013 £m
Operating activities			
Profit before tax		152.6	124.0
Adjusted for:			
Non cash items included in operating profit before tax	12	213.9	243.3
Changes in operating assets and liabilities	12	(661.6)	(384.1)
Income tax paid		(22.9)	(39.3)
Cash flows used in operating activities		**(318.0)**	**(56.1)**
Investing activities			
Purchase of non current assets		(107.6)	(137.5)
Purchase of available for sale investment securities		(254.8)	(101.3)
Sale of non current assets		-	0.8
Sale of available for sale investment securities		194.5	548.1
Loan to associate		-	(7.2)
Repayment of loan from associate		7.5	-
Proceeds from repayment of capital loan		-	258.5
Investment in associate		-	(14.3)
Distribution from associate		15.0	-
Deposit with parent		-	(145.0)
Cash flows (used in)/generated from investing activities		**(145.4)**	**402.1**
Financing activities			
Proceeds from issue of debt securities		-	198.4
Proceeds from issue of share capital	10	-	45.0
Dividends paid to ordinary shareholders	6	(100.0)	(105.0)
Dividends paid to holders of other equity	6	(1.1)	(1.0)
Interest paid on subordinated liabilities		(5.4)	(7.8)
Cash flows (used in)/generated from financing activities		**(106.5)**	**129.6**
Net (decrease)/increase in cash and cash equivalents		(569.9)	475.6
Cash and cash equivalents at the beginning of the year		1,054.5	578.9
Cash and cash equivalents at the end of the year	11	**484.6**	**1,054.5**

The unaudited preliminary consolidated financial information for the year ended 28 February 2014 was approved by the Directors on 14 April 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1 BASIS OF PREPARATION

This unaudited preliminary consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretation Committee (IFRIC) interpretations as endorsed by the European Union (EU). The accounting policies applied are consistent with those described in the financial statements of the Group for the year ended 28 February 2013, apart from those arising from the adoption of new and amended IFRS as detailed below.

This preliminary consolidated financial information does not constitute statutory consolidated financial statements for the year ended 28 February 2014 or the year ended 28 February 2013 as defined in section 434 of the Companies Act 2006. The financial statements for the year ended 28 February 2013 were approved by the Board of Directors on 1 May 2013 and have been filed with the Registrar of Companies. The report of the auditors on those consolidated financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The financial statements for 2014 will be filed with the Registrar in due course.

GOING CONCERN

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

ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

- IFRS 13 'Fair value measurement'

IFRS 13 sets out a single IFRS framework for defining and measuring fair value. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The application of IFRS 13 has not significantly impacted the fair value measurement of any financial assets or liabilities held by the Group.

IFRS 13 has been applied prospectively.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1 BASIS OF PREPARATION (continued)

The amendments to IFRS 7 require entities to disclose information to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on the statement of financial position.

The amendment to IAS 7 has been applied to disclosures in the full consolidated financial statements retrospectively.

- IAS 19 'Employee benefits (Revised 2011)'

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

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

- Annual Improvements 2009-2011

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

2 SEGMENTAL REPORTING

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

The Group has two main operating segments:

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2 SEGMENTAL REPORTING (continued)

a) Segment results of operations

	Banking £m	Insurance £m	Central costs £m	Total £m
2014				
Total income *	518.4	169.2	-	687.6
Profit/(loss) before tax **	289.8	94.6	(231.8)	152.6
Total assets *** (excluding taxation)	8,948.1	298.8	-	9,246.9
Total liabilities (excluding taxation)	7,817.3	29.7	-	7,847.0
2013				
Total income *	435.0	208.4	-	643.4
Profit/(loss) before tax **	169.8	134.6	(180.4)	124.0
Total assets (excluding taxation) ***	8,037.4	357.7	-	8,395.1
Total liabilities (excluding taxation)	7,133.8	27.3	-	7,161.1

* Total income is net of a charge of £63.0m in relation to the provision for customer redress (2013: charge of £115.0m in relation to the provision of customer redress and £30.0m of non trading income).

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

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

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

	Total management reporting £m	Consolidation and adjustments £m	Total consolidated £m
2014			
Total income	687.6	-	687.6
Profit before tax	152.6	-	152.6
Total assets	9,246.9	0.8	9,247.7
Total liabilities	7,847.0	19.3	7,866.3
2013			
Total income	643.4	-	643.4
Profit before tax	124.0	-	124.0
Total assets	8,395.1	36.1	8,431.2
Total liabilities	7,161.1	43.4	7,204.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3 NET INTEREST INCOME

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

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

4 NET FEES AND COMMISSIONS INCOME

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

5 INCOME TAX

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6 DISTRIBUTIONS TO EQUITY HOLDERS

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

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

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

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

7 LOANS AND ADVANCES TO CUSTOMERS

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

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

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

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

Fair value hedge adjustments amounting to £4.2m (2013: £23.4m) are in respect of fixed rate loans. These adjustments reflect movements in interest rates from the date the loans were issued to the reporting date. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

The following table shows impairment provisions for loans and advances:

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

8 DEBT SECURITIES IN ISSUE

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

All retail bonds are listed on the London Stock Exchange.

Debt securities in issue balances are non current.

9 PROVISIONS FOR LIABILITIES AND CHARGES

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

CUSTOMER REDRESS PROVISION – PAYMENT PROTECTION INSURANCE

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

CUSTOMER REDRESS PROVISION – CREDIT CARD PROTECTION

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

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

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

CUSTOMER REDRESS PROVISION – CONSUMER CREDIT ACT

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

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

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

OTHER PROVISIONS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

10 SHARE CAPITAL AND SHARE PREMIUM

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

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

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

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

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

11 CASH AND CASH EQUIVALENTS

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

	2014 £m	2013 £m
Cash and balances with central banks*	484.6	914.5
Certificates of deposit	-	140.0
	484.6	**1,054.5**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

12 CASH INFLOW FROM OPERATING ACTIVITIES

	2014 £m	2013 £m
Loan impairment charges	55.0	73.2
Depreciation and amortisation	71.5	61.9
Gain on disposal of investment securities	(1.1)	(7.4)
Loss on disposal of non current assets	1.6	3.5
Provision for customer redress	63.0	115.0
Impairment loss on amounts due from insurance business	5.8	8.8
Share of profit of associate	(2.4)	(10.2)
Insurance policy cancellation provision	(0.1)	0.5
Warranty provision	1.3	-
Equity settled share based payments	1.2	(0.7)
Interest on subordinated liabilities	4.6	8.0
Interest on tax balances	(0.5)	-
Fair value movements	14.0	(9.3)
Non cash items included in operating profit before taxation	**213.9**	**243.3**
Net movement in mandatory balances with central banks	(4.1)	(0.2)
Net movement in loans and advances to customers	(1,431.4)	(973.2)
Net movement in prepayments and accrued income	6.8	9.4
Net movement in other assets	(34.8)	92.2
Net movement in deposits from banks	764.6	(62.5)
Net movement in deposits from customers	78.9	613.7
Net movement in accruals and deferred income	10.1	17.9
Provisions utilised	(60.7)	(91.8)
Net movement in other liabilities	9.0	10.4
Changes in operating assets and liabilities	**(661.6)**	**(384.1)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

13 CAPITAL RESOURCES

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

	2014 £m	2013* £m
Movement in common equity tier 1:		
At the beginning of the year	705.3	744.7
Ordinary shares issued	140.0	45.0
Profit attributable to shareholders	114.8	92.5
Other reserves	1.2	(0.7)
Ordinary dividends	(100.0)	(105.0)
Movement in intangible assets	(30.3)	(60.5)
Movement in material holdings / financial sector entities	11.2	(10.7)
CRD IV adjustments:		
Deferred tax liabilities related to intangible assets	32.2	-
Material holdings / financial sector entities	39.2	-
At the end of the year	**913.6**	**705.3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

13 CAPITAL RESOURCES (continued)

	End point 2014 £m	Transitional 2014 £m	2013* £m
Common equity tier 1			
Shareholders' equity (accounting capital)	1,375.2	1,375.2	1,217.5
Regulatory adjustments:			
Subordinated notes not qualifying as tier 1	(45.0)	(45.0)	(45.0)
Unrealised losses on available for sale investment securities	-	(5.9)	(5.8)
Unrealised losses on cash flow hedge reserve	(1.7)	(1.7)	(0.1)
Intangible assets	(427.7)	(427.7)	(397.4)
Deferred tax liabilities related to intangible assets	32.2	32.2	-
Material holdings in financial sector entities	-	(13.5)	(63.8)
Core tier 1 capital	**933.0**	**913.6**	**705.3**
Tier 2 capital (instruments and provisions)			
Undated subordinated notes	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	326.5
Collectively assessed impairment provisions	32.8	32.8	25.1
Tier 2 capital (instruments and provisions) before regulatory adjustments	267.8	267.8	396.6
Regulatory adjustments			
Material holdings in financial sector entities	(34.1)	(20.6)	(63.8)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(34.1)	(20.6)	(63.8)
Total tier 2 capital (instruments and provisions)	**233.7**	**247.2**	**332.8**
Total capital	**1,166.7**	**1,160.8**	**1,038.1**
Total risk weighted assets (unaudited)	**6,546.8**	**6,546.8**	**5,353.3**
Common equity tier 1 ratio	**14.3%**	**14.0%**	**13.2%**
Tier 1 ratio	**14.3%**	**14.0%**	**13.2%**
Total capital ratio	**17.8%**	**17.7%**	**19.4%**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

13 CAPITAL RESOURCES (continued)

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

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

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

LEVERAGE RATIO

The Basel III reforms include the introduction of a capital leverage measure defined as the ratio of tier 1 capital to total exposure. This is intended to reinforce the risk based capital requirements with a simple, non-risk based 'backstop' measure. The Basel Committee have proposed that final adjustments to the definition and calibration of the leverage ratio be carried out in 2017, with a view to migrating to a Pillar 1 treatment in 2018.

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

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

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

CAPITAL MANAGEMENT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

14 CONTINGENT LIABILITIES

THE FINANCIAL SERVICES COMPENSATION SCHEME

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

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

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

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

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

15 RELATED PARTY TRANSACTIONS

During the financial year there were no related party transactions requiring disclosure that were materially different to those reported in the Financial Statements for the year ended 28 February 2013.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The accounting policies applied are consistent with those described in the financial statements for the year ended 28 February 2013, apart from those arising from the adoption of new International Financial Reporting Standards and Interpretations. In preparing the consolidated financial information, the Directors have also made reasonable and prudent judgements and estimates and prepared the consolidated financial information on the going concern basis. The consolidated financial information and management report contained herein give a true and fair view of the assets, liabilities, financial position and profit of the Group. The Directors of Tesco Personal Finance plc as at the date of this announcement are as set out below.

By order of the Board,

Peter Bole
Director
14 April 2014

The Board of Directors

Executive Directors	**Independent non-executive Directors**	**Company Secretary**
Peter Bole	Graham Pimlott – Chairman	Jonathan Lloyd
Iain Clink	Gareth Bullock	
Bernard Higgins	Paul Hewitt	
Ricky Hunkin	Simon Machell	
	Deanna Oppenheimer	
	Raymond Pierce	