TESCO PERSONAL FINANCE plc

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 2015

Company Number SC173199

TESCO PERSONAL FINANCE PLC

CONTENTS

TESCO PERSONAL FINANCE PLC

DIRECTORS AND ADVISERS

Directors:	Graham Pimlott - Chairman Peter Bole - Chief Financial Officer Gareth Bullock - Non-Executive Director Iain Clink - Deputy Chief Executive Robert Endersby - Independent Non-Executive Director Bernard Higgins - Chief Executive Simon Machell - Independent Non-Executive Director James McConville - Independent Non-Executive Director Deanna Oppenheimer- Non-Executive Director Raymond Pierce – Senior Independent Non-Executive Director
Company Secretary:	Michael Mustard
Registered Office:	Interpoint Building 22 Haymarket Yards Edinburgh EH12 5BH
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT
Bankers:	The Royal Bank of Scotland plc 36 St Andrew Square Edinburgh EH2 2YB HSBC Bank plc 8 Canada Square London E14 5HQ

TESCO PERSONAL FINANCE PLC

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 28 February 2015.

In the Annual Report and Financial Statements, unless specified otherwise, the 'Company' means Tesco Personal Finance plc and the 'Group' means the Company and its subsidiaries and joint venture included in the consolidated Financial Statements. The Group operates using the trading name of Tesco Bank.

Cautionary Statement regarding forward-looking information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions users of these Financial Statements that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Principal risks and uncertainties' on pages 8 to 10 of this Annual Report.

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.

Headlines

- The Group is now servicing more customer accounts than ever before with the total number growing to 7.4m at the year end (2014: 7.1m), an increase of 5%.
- Adjusting for non trading items[1], underlying profit before tax is 5.7% higher at £221.9m (2014: £210m). The investment in the successful launch of the Group's first current account product partially offset underlying profit growth.
- Income, adjusted for non trading items[1], has increased by 3.2% to £769m (2014: £745m) due to strong lending growth.
- Growth across the product range, underpinned by mortgage growth, delivered an increase in customer lending of 11.6% to £7.7bn (2014: £6.9bn).
- Growth in lending is primarily funded by customer deposit growth of 13.7% over the year, with deposits totalling £6.9bn (2014: £6.1bn).
- The Group successfully completed an external credit card securitisation of £500m in June 2014 which was used, in part, to reduce Funding for Lending Scheme (FLS) borrowings, with the balance supporting customer lending.
- Credit quality remains good. Impairments reduced 13.3% from £60.8m in 2014 to £52.7m. The bad debt: asset ratio has accordingly decreased since 2014 from 1.0% to 0.7%.
- The balance sheet remains strong and well positioned to support future lending growth from both a liquidity and capital stand point. At February 2015, the risk asset ratio was 18.8% (2014: 17.7%) and net stable funding ratio was 116.6% (2014: 116.5%).
- In the first half of the year profit was impacted by an additional charge for customer redress provisions of £27m (2014: £63m) (refer note 27).

---

[1] Non trading items consist of customer redress provisions of £27m (2014: £63m) and losses on financial instruments, adverse movements on derivatives and hedge accounting of £18.6m (2014: gains of £5.6m) within total income; and restructure charges of £8.1m (2014: nil) presented within administrative expenses.

STRATEGIC REPORT (continued)

Strategic priorities

Throughout the year the Group has continued to make good progress towards achieving its vision to be the bank for Tesco customers.

During the year the Group launched its first Personal Current Account (PCA); introduced 90% maximum Loan To Value (LTV) mortgages; expanded loan products to include £1,000 - £2,999 loans; and added a new Foundation Credit Card, designed to help customers who would ordinarily be declined due to a poor credit rating or as a result of never having had credit before.

In June 2014, the Group launched its mobile banking app, helping customers to bank in a convenient and secure way. The app has been well received by customers with over 450,000 downloads at 28 February 2015. The Group also refreshed its website, making it simpler for customers to use and optimised for touch based tablet use, with further improvements planned in the coming year.

The Group's commitment to offering attractive products and good service for customers has resulted in the achievement of its highest ever net promoter score – a key measure of customer satisfaction. Furthermore, in January 2015 the UK Institute of Customer Service ranked Tesco Bank 3rd among financial service providers for customer service in the UK.

The Group continues to be guided by its core values: no one tries harder for customers; we treat everyone how they like to be treated; and we use our scale for good. Our commitment to the communities we serve resulted in Tesco Bank being awarded the 2014 Company Culture Award (Scottish Business Awards). During the year, colleagues raised over £200,000 for the Group's charity partners and volunteered over 5,750 hours to their local communities.

Business Review

Banking

The Banking business has performed strongly in the year, continuing to serve more customers in more ways. This growth has been delivered within an extremely competitive trading environment and total customer accounts now stand at over 5.4m (2014: 4.9m).

The Group has delivered solid lending growth over the year. Our mortgage offering continues to make good progress, with balances growing to £1.2bn (2014: £0.7bn), while credit card balances increased by 3% and personal loans by 7%.

The Group's first Personal Current Account launched in June 2014, to customer and industry acclaim. The account was awarded 5 stars by MoneyFacts and Defaqto.

Customer lending is primarily funded by customer deposits, which saw growth of 13.7% over the year, taking total deposits to over £6.9bn. The Group's funding position has been further diversified with the issue of £500m of securities backed by credit card assets.

Mortgage growth led to a reduction in interest margin to 4.2% (2014: 4.4%).

Impairment charges have continued to improve, reducing 13.3% from £60.8m in 2014 to £52.7m, reflecting the credit quality of the Group's lending.

STRATEGIC REPORT (continued)

BUSINESS REVIEW (continued)

Insurance

The Insurance business continues to focus on enhancing the existing product suite, expanding the underwriting footprint and implementing digital improvements, particularly to the customer experience. The emphasis on improving the customer offering and experience was recognised with the Group being awarded Best Direct Car Insurer and Best Direct Life Insurer ('Your Money' Awards) and has supported good growth in new business sales.

Despite strong price led competition in the Motor and Home markets, new business sales have performed well with Motor growing 5%, in part due to strong growth in the Group's telematics product, and Home growing 6% since February 2014. Strong competition in the Pet market has led to a reduction in the Group's market share. Overall however, total in force policies on the primary products remain in line with the prior year.

STRATEGIC REPORT (continued)

CONSOLIDATED INCOME STATEMENT

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

	2015 £m	2014 £m	% change
Net interest income	378.6	350.0	8.2
Underlying non interest income [1]	390.4	395.0	(1.2)
Total underlying income	**769.0**	**745.0**	**3.2**
Underlying operating expenses [2]	(499.7)	(476.6)	(4.8)
Impairment on loans and advances to customers	(52.7)	(60.8)	13.3
Share of profit of joint venture	5.3	2.4	120.8
Underlying profit before tax	**221.9**	**210.0**	**5.7**
Non trading items [1,2]			
Restructure Costs	(8.1)	-	
Customer redress provision	(27.0)	(63.0)	
(Losses)/gains on financial instruments, movements on derivatives and hedge accounting	(18.6)	5.6	
Profit before tax	**168.2**	**152.6**	**10.2**

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

	2015	2014
Net interest margin [3]	**4.2%**	4.4%
Underlying cost:income ratio [4]	**65.0%**	64.0%
Cost: income ratio [5]	**70.2%**	69.3%
Bad debt: asset ratio (BDAR) [6]	**0.7%**	1.0%

1 Underlying non interest income excludes non trading items which consist of customer redress provisions of £27m (2014: £63m), and losses on financial instruments, adverse movements on derivatives and hedge accounting of £18.6m (2014: gains of £5.6m). These are presented within total income on page 22.

2 During the final quarter of the year the group undertook an organisational restructure resulting in a non-recurring charge of £8.1m in the year (2014: £nil). This is presented within administrative expenses on page 22.

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

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

5 The cost: income ratio is calculated by dividing operating expenses by total income (including non trading items).

6 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 8.2% to £378.6m (2014: £350m) on the back of strong lending growth across Mortgages, Personal Loans and Credit Cards.

Net interest margin decreased to 4.2% (2014: 4.4%), impacted by mortgage growth.

Underlying non interest income has decreased by 1.2% to £390.4m (2014: £395m), impacted by the discontinuation of a number of Insurance products and lower banking fees.

STRATEGIC REPORT (continued)

Non trading items
Profit has been adversely impacted by a £27m increase in the provision recognised in respect of the cost of settling Payment Protection Insurance (PPI) claims. A significant degree of uncertainty remains with regard to the ultimate cost of settling PPI complaints. Further information on these provisions is set out at note 27 to the Financial Statements.

Underlying operating expenses have grown 4.8% to £499.7m (2014: £476.6m). This reflects additional operational costs supporting Personal Current Accounts together with increased depreciation for the investment in systems to support that product.

Impairment
The quality of the Group's lending has remained strong during the year. The combination of relatively benign economic conditions and enhanced operational processes has led to improved cash recoveries. Overall, impairment charges have reduced by 13.3% to £52.7m (2014: £60.8m).

As a result of the lower impairment charges, the Group's bad debt: asset ratio (BDAR) has improved to 0.7% (2014: 1.0%).

STRATEGIC REPORT (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2015 £m	2014 £m	% change
Loans and advances to customers	**7,725.3**	6,922.0	11.6
Total assets	**10,059.7**	9,247.7	8.8
Deposits from customers	**6,914.8**	6,082.4	13.7
Deposits from banks	**106.5**	779.8	(86.3)
Net assets	**1,470.6**	1,381.4	6.5

Loans and Advances to Customers have increased by 11.6% to £7.7bn (2014: £6.9bn). The mortgage book has grown to £1.2bn (2014: £0.7bn) on the back of an expanded product range, while Personal Loans have grown 7% reflecting higher average loans, and credit cards 3%, reflecting growth in the number of customers.

Deposits from Customers
Customer deposits remain the Group's primary source of funding and increased in the year to £6.9bn (2014: £6.1bn) on the back of competitive customer propositions.

Deposits from Banks
Deposits from Banks reduced to £106.5m (2014: £779.8m). The Group reduced Funding for Lending Scheme (FLS) borrowings in the year, following an external credit card securitisation of £500m in June 2014.

The Group's capital position has remained strong and able to support future lending growth from both a liquidity and capital standpoint. The Directors consider the following to be Key Performance Indicators for capital and liquidity reporting:

	2015	2014
Tier 1 capital ratio [1]	**15.2%**	14.0%
Risk asset ratio [2]	**18.8%**	17.7%
Net stable funding ratio [3]	**116.6%**	116.5%
Loan to deposit ratio [4]	**111.7%**	113.8%

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

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

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

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

The Group's risk asset ratio remains above internal targets at 18.8% (2014: 17.7%) 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 116.6% (2014: 116.5%). The Group maintains a liquid asset portfolio of high quality securities of £1.5bn (2014: £1.4bn).

A final dividend of £50m (2014: £100m) was paid in the year.

STRATEGIC REPORT (continued)

Risk Management

Risk Management Approach

The Board of Directors has overall responsibility for determining the Group's strategy and related risk appetite. The Group's Risk Statement, approved by the Board defines the level of risk that the Group is prepared to accept to achieve its strategic objectives.

The Board is also responsible for overall corporate governance which includes overseeing a robust and effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business. To support this, an Enterprise Wide Risk Management Framework (EWRMF) has been embedded across the Group and is underpinned by governance, controls, processes, systems and policies.

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

Principal risks and uncertainties	Key controls and mitigating factors
Credit risk The risk that a borrower or counterparty fails to repay the interest or capital on a loan or other financial instrument.	All lending is subject to robust underwriting processes and the performance of all loans is monitored closely. Regular management reports are submitted to the appropriate Boards and Committees.
Operational risk The risk of loss resulting from ineffective or inadequately designed internal processes, system failure, improper conduct, human error or from external events. The threat of sophisticated Financial Crime activity. Of note is the industry-wide focus on IT security and cyber-crime.	The Group's aim is to minimise all operational risks and reputational impacts, and to actively manage the Group's operational resilience. The Group's Financial Crime, Operational and Regulatory Risk Committee (FORRC) provides oversight of the Group's operational risk profile and provides regular reports and recommendations to the appropriate governance bodies. An Operational Risk Framework comprising Event and Loss management, Risk and Control Self Assessment (RCSA) and Operational Risk Scenario Analysis processes is in place. This also includes prescribed frameworks for Financial Crime and Information Security. The RCSA process is used by the business to identify, assess, quantify, monitor and report its operational risks and management's effectiveness in mitigating them. Regular reporting is provided to the Risk Management Committee (RMC) and remedial actions taken as required. Major operational change initiatives are subject to a robust project management framework. Oversight is provided through a dedicated governance structure of senior committees.
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.	The Procurement and Supplier Management policy provides consistent and robust standards for supplier sourcing and selection. The Strategic Relationship Management process enables the monitoring of the performance of third-party outsourced service providers and suppliers against agreed service level agreements, the management of those relationships and the improvement of supply or termination of contract where appropriate.
Increased market demand for specialist personnel could result in increased costs of recruitment and retention or reduced organisational effectiveness if a sufficient number of skilled staff cannot be employed.	The People Matters Group (PMG) oversees key aspects of people risk, including: talent management; performance management; retention; and succession planning.

Liquidity and Funding risk

Liquidity risk is the risk that the Group has insufficient capital resources to meet its obligations as they fall due or can do so only at excessive cost.

The Treasury function ensures all liquidity and funding measures are managed within policy and appetite on a daily basis. A robust liquidity position is maintained in excess of internal and regulatory requirements. Liquidity risk is governed through the Liquidity Management Forum, Asset and Liability Management Committee (ALCO), Board Risk Committee (BRC) and the Board.

Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.

The Group is predominantly funded by its retail deposit base which reduces reliance on wholesale funding and in particular results in minimal short term wholesale funding.

Capital risk

The risk that the Group holds regulatory capital which is of insufficient quality and quantity to enable it to absorb losses.

The Group undertakes close monitoring of capital ratios to ensure it complies with current regulatory capital requirements and is well positioned to meet any future requirement. Management of capital is governed through the ALCO, the BRC, and the Board.

The Group undertakes an Internal Capital Adequacy Assessment Process (ICAAP). Material risks to the Group are reviewed through stress testing to support an internal assessment of the level of capital that the Group should maintain. Where capital is not considered to be an appropriate mitigant for a particular risk, alternative management actions are identified.

The stress testing scenarios and final ICAAP results are presented to the Executive Committee, BRC, and Board for challenge and approval. The ICAAP is submitted to the regulator on a regular basis and forms the basis of the Individual Capital Guidance given to the Group.

Market risk

The risk that the value of the Group's assets, liabilities, income or costs might vary due to changes in the value of financial market prices; this includes interest rates, foreign exchange rates, credit spreads and equities.

Control of market risk is managed by the ALCO and the Market Risk Forum (MRF). These bodies provide oversight of the Group's market risk position at a detailed level and provide regular reports and recommendations to Board Committees.

The Group has no trading book.

Insurance risk

The risks accepted through the provision of insurance products in return for a premium.

The Group's aim is to actively manage insurance risk exposure with particular focus on those risks that impact profit volatility. The Group has no direct underwriting risk, however it is exposed to underwriting risk through its joint venture, Tesco Underwriting Limited (TU). TU is a separately regulated entity and is capitalised accordingly.

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.

Risk appetite and a suite of risk policies are in place to manage risk in TU and the Group.

TU operates a risk management framework designed to identify and manage risks to which it is exposed. This includes the use of reinsurance to limit risk exposure above certain levels and the engagement of external independent actuaries to provide assurance over the valuation of insurance liabilities.

Legal and regulatory compliance risk

The risk of consequences arising as a result of non-compliance with laws and regulatory requirements as defined by external regulators.

The Group's aim is to meet all legal and regulatory requirements by maintaining an effective risk management framework.

The Group has a dedicated Regulatory Risk team and Regulatory Legal team to support business areas in identifying and managing regulatory risks.

Conduct risk

There remains significant regulatory focus in relation to Conduct risk and Treating Customers Fairly. Specifically there has been continued industry-wide focus on provision for customer redress.

Business areas manage conduct risk within the design of new products and use a range of management information to monitor the fair treatment of existing customers and to assess the fairness of existing products. The Conduct Committee and the Board review and challenge delivery of fair outcomes for customers.

Business risk

In July 2013, the European Commission proposed legislation which would, amongst other things, impose caps on interchange fees on credit cards and debit cards.

A final regulation has been published by the European Commission which, as a general rule, imposes caps on interchange fees for debit and credit cards of 0.2% and 0.3% of the transaction value respectively. For consumer debit cards, the Regulation also gives flexibility to Member States to define lower percentage caps and impose maximum fee amounts. The regulation was adopted by the European Parliament on 10 March 2015 and by the Council of the EU on 20 April 2015. It is currently expected that the Regulation will enter into force during the second half of the Group's 2015/16 financial year.

In advance of full implementation, MasterCard has reduced its interchange rates for UK-issued consumer credit cards used at UK merchants by reducing the interchange rates applicable to its 'premium' cards to the level of its 'standard' cards from 1 April 2015. Graduated reductions of MasterCard's interchange rates are also being implemented until the relevant European Commission caps on interchange fees take full effect, expected to be in the second half of 2015 or first half of 2016. MasterCard credit cards make up the considerable majority of the Group's credit card portfolio.

Transaction fees on debit and credit cards represent a significant part of the Group's revenues so the reduction in interchange fees will result in significantly lower interchange income. The Group is actively engaged in developing and implementing plans to respond to these developments, with a number of possible responses well progressed. The ultimate impact on the Group is difficult to predict, however, as it depends in large part on the effectiveness of its commercial response which in turn depends on the actions of its customers and competitors, among other factors.

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

STRATEGIC REPORT (continued)

A fuller description of these risk and controls can also be found in the Pillar 3 Disclosure Statements of Tesco Personal Finance Group Ltd for the year ended 28 February 2015. These disclosures will be published in the Financial Information section of the Tesco Bank corporate website in due course: http://www.corporate.tescobank.com/48/accounts-and-disclosures

Enterprise Wide Risk Management Framework (EWRMF)

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

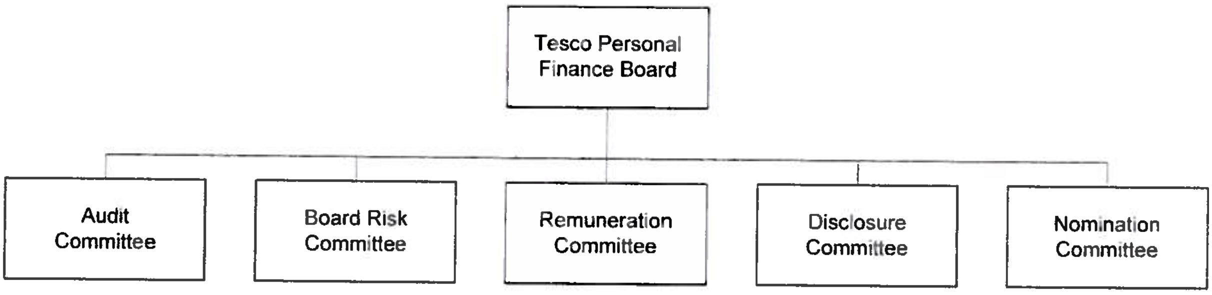
i. Risk Governance Structure

The Board is the key governance body and is responsible for overall strategy, performance of the business and ensuring appropriate and effective risk management. It has delegated responsibility for the 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 to deliver against the strategy in an effective and controlled way.

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

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

- **The Board**



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

a. Audit Committee

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

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

b. Board Risk Committee (BRC)

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

c. Remuneration Committee
The role of the Remuneration Committee is: to determine and approve remuneration arrangements for all identified (Code) staff within the Group as defined within the Prudential Regulatory Authority (PRA)'s Remuneration Code; to approve a remuneration framework for employees of the Group below the leadership level; to align where appropriate, remuneration in the Group with Tesco PLC Group Reward Policy; to design the levels and structure of remuneration necessary 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 ensure that the remuneration policy in the Group is compliant with all applicable legislation, regulation and guidelines.

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

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

e. Nomination Committee
The role of the Nomination Committee includes reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes; reviewing the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace; and identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise.

- **Executive Committee (ExCo)**

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

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

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

The ALCO has three sub-committees: the Liquidity Management Forum (LMF); Market Risk Forum (MRF); and the Capital Management Forum (CMF).

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

Six sub-committees: the Financial Crime, Operational and Regulatory Risk Committee (FORRC); the Credit Risk Management Committee (CRMC); the Wholesale Credit Risk Forum (WCRF); the Operational Resilience Steering Committee (ORSC); Supplier Management Group (SMG); and Banking Price Models Committee (BPMC) support the RMC in discharging its duties.

d. People Matters Group (PMG)
The principal role of the PMG is to lead the People Agenda and monitor personnel and staffing matters so as to ensure that the Group has the skills and resources to deliver its strategy and goals.

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

The Insurance Pricing Committee (IPC) helps the IEC to discharge its responsibilities.

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

ii. Three Lines of Defence
The Group has adopted the "three lines of defence" model of governance with clearly defined roles and responsibilities to help drive effective risk management.

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

- **Second line of defence** - the Risk Management function (RMFu) 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 independent monitoring of the risk profile, providing additional assurance where required. The RMFu uses their expertise and provide frameworks, tools and techniques to assist management in meeting its responsibilities, as well as acting as a central coordinator to identify enterprise wide risks and make recommendations to address them.

- **Third line of defence** - comprises the Internal Audit function who are responsible for providing independent assurance to the Board and senior management on the adequacy of design and operational effectiveness of internal control systems.

iii. Group Policies
The Group has a formal structure for reporting, monitoring and managing risks. This comprises at its highest level the Group's Risk Appetite approved by the Board, which is supported by detailed risk management frameworks (including policies and supporting documentation), independent governance and oversight of risk. Each policy is owned by a senior manager who is responsible for maintenance and assurance of the policy. Each policy must be reviewed on at least an annual basis to ensure its continued effectiveness and applicability in line with changing risks.

iv. Risk Management Function (RMFu)
The independent RMFu operates under the leadership of the Chief Risk Officer (CRO), who is a member of ExCo. During the year, an interim CRO was appointed following the resignation of the previous CRO. The interim CRO has reported to the deputy Chief Executive since their appointment. Risk teams reporting to the CRO are the second line of defence, and are resourced by people with risk expertise in each of the principal risks faced by the Group. This allows them to provide appropriate analysis, challenge, understanding and oversight of each of the principal risks.

v. Stress Testing
Stress testing is the process by which the Group's business plans are regularly subjected to severe adverse impact scenarios to assess the potential impact on the Group's business, including projected capital and liquidity positions. The results of stress testing, along with proposed actions are reported by the RMFu in the Individual Liquidity Adequacy Assessment (ILAA) and the Internal Capital Adequacy Assessment Process (ICAAP).

vi. Monitoring and Reporting
The RMFu has responsibility for integrated risk reporting across the Group. The RMFu monitors and aggregates risk exposures to ensure that risk coverage is considered holistically so that risks and issues have clear ownership and do not fall between other functions.

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

vii. Risk Appetite Framework
The Group has established a robust Risk Appetite Framework. Defined Risk Appetite forms a key link between the day to day risk management of the business and the Group's strategic risk objectives. Risk Appetite defines the type and amount of risk that the Group is prepared to accept to achieve its strategic objectives. The Group's Risk Appetite is translated into specific risk measures that are tracked, monitored and reported to the appropriate Risk Committees and Board.

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

Michael Mustard

Michael Mustard
Company Secretary
30 April 2015

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated Financial Statements for the year ended 28 February 2015.

Business Review and Future Developments

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

Risk management

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

Financial instruments

The Group's policies for hedging each major type of forecast transaction are discussed in note 15.

Going Concern

The Directors have completed an 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 and having regard to the Group's risk profile. As a result of this assessment, the Directors consider the Group to be in a satisfactory financial position and have a reasonable expectation 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.

Dividends

A final dividend of £50m (2014: £100m) in respect of ordinary share capital was paid to Tesco Personal Finance Group Limited in February 2015.

Treating Customers Fairly

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

Directors

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

Since 1 March 2014 to date the following changes have taken place:

	Appointed	Resigned
Paul Hewitt		1 May 2014
Ricky Hunkin		30 June 2014
Jonathan Lloyd (Company Secretary)		13 May 2014
Robert Endersby	5 December 2014	
James McConville	25 November 2014	
Michael Mustard (Company Secretary)	13 May 2014	

Audit Committee

Introduction from the Committee Chairman

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

Audit Committee responsibilities

The key responsibilities of the Committee are to:

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

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

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

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

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

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

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

DIRECTORS' REPORT (continued)

An external quality assessment was performed by a third party during 2014 for which the Internal Audit function received the highest rating. The assessment reviewed the effectiveness of the Internal Audit function against Institute of Internal Auditors (IIA) Standards and Code of Ethics; the UK Chartered Institute of Internal Auditors' Effective Internal Audit in the Financial Services Sector ("the Code"); and a comparison against appropriate industry peers. The function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors.

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

Non-audit fees

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

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

1. Pre-approved for the external auditors – audit-related in nature;
2. Work for which Audit Committee approval is specifically required – transaction work and corporate tax services, and certain advisory services; and
3. Work from which the external auditors are prohibited.

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

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

The fees paid to the external auditors in the year are disclosed in note 8 to the Financial Statements.

Directors' Indemnities

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

There were also Qualifying Third Party Indemnity Provisions issued by Tesco Personal Finance Group Limited in force during the year for both Paul Hewitt and Ricky Hunkin until their respective resignation dates.

Our People

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

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

DIRECTORS' REPORT (continued)

The Group is committed to developing the skills and knowledge, and supporting the wellbeing of, its colleagues in order to help achieve its objectives and create a great place to work. It ensures that Group values are reflected within its employment policies and practices to encourage engagement, and ensure colleagues can be their best and are able to contribute to the delivery of the Group's core purpose.

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

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

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

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 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, 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 being disclosed and explained in the Financial Statements; and
- 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

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

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

Disclosure in respect of Independent Auditors

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

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

Michael Mustard
Company Secretary
30 April 2015

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

Report on Financial Statements

Our opinion
In our opinion:

- Tesco Personal Finance PLC's Group Financial Statements and Company Financial Statements (the "Financial Statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 28 February 2015 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

What we have audited
Tesco Personal Finance PLC's Financial Statements comprise:

- Consolidated and Company Statements of Financial Position as at 28 February 2015;
- Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- Consolidated and Company Cash Flow Statements for the year then ended;
- Consolidated and Company Statements of Changes in Equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

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

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

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the Directors

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

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

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

What an audit of Financial Statements involves

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

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 April 2015

TESCO PERSONAL FINANCE PLC

CONSOLIDATED INCOME STATEMENT

For the Year Ended 28 February 2015

	Note	2015 £m	2014 £m
Interest and similar income	4	534.7	503.5
Interest expense and similar charges	4	(156.1)	(153.5)
Net interest income		378.6	350.0
Fees and commissions income	5	419.6	423.9
Fees and commissions expense	5	(29.4)	(29.9)
Provision for customer redress	27	(27.0)	(63.0)
Net fees and commissions income		363.2	331.0
(Losses)/gains on financial instruments, movements on derivatives and hedge accounting	6	(18.6)	5.6
Realised gain on investment securities	7	0.2	1.0
Other (expense)/income		(18.4)	6.6
Total income		723.4	687.6
Administrative expenses	8	(427.3)	(405.1)
Depreciation and amortisation	22,23	(80.5)	(71.5)
Operating expenses		(507.8)	(476.6)
Impairment on loans and advances to customers	9	(52.7)	(60.8)
Operating profit		162.9	150.2
Share of profit of joint venture	20	5.3	2.4
Profit before tax		168.2	152.6
Income tax expense	11	(39.0)	(34.3)
Profit for the year attributable to owners of the parent		129.2	118.3

Profit for the year of £131.3m (2014: £115.9m) is attributable to the operations of the Company.

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

TESCO PERSONAL FINANCE PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 28 February 2015

	Note	2015 £m	2014 £m
Profit for the year		**129.2**	118.3
Items that may be reclassified subsequently to the income statement			
Unrealised net gains on available-for-sale investment securities before tax	11	2.8	0.1
Net (losses)/gains arising on cash flow hedges before tax	11	(1.3)	2.0
Tax relating to items that may be reclassified subsequently to the income statement	11	(0.3)	(0.4)
Share of other comprehensive income/(expense) of joint venture	20	4.5	(5.4)
Total items that may be reclassified subsequently to the income statement		5.7	(3.7)
Total comprehensive income for the year attributable to owners of the parent		134.9	114.6

TESCO PERSONAL FINANCE PLC

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

For the Year Ended 28 February 2015

Company number SC173199

	Note	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Assets					
Cash and balances with central banks	13	626.3	494.0	563.9	437.8
Loans and advances to customers	14	7,725.3	6,922.0	7,725.3	6,922.0
Derivative financial instruments	15	31.7	36.6	31.7	36.6
Investment securities:					
– Available-for-sale	16	827.3	850.3	827.3	850.3
– Loans and receivables	16	34.1	34.1	34.1	34.1
Prepayments and accrued income	17	41.0	27.1	41.0	27.1
Current income tax asset		4.5	0.8	4.5	0.8
Other assets	18	200.8	285.0	251.5	343.1
Investment in joint venture	20	79.7	77.3	71.0	71.0
Intangible assets	22	402.6	427.7	402.6	427.7
Property, plant and equipment	23	86.4	92.8	86.4	92.8
Total assets		**10,059.7**	9,247.7	**10,039.3**	9,243.3
Liabilities					
Deposits from banks	24	106.5	779.8	106.5	779.8
Deposits from customers	25	6,914.8	6,082.4	6,914.8	6,082.4
Debt securities in issue	26	898.0	394.8	399.9	394.8
Derivative financial instruments	15	86.9	41.8	86.9	41.8
Provisions for liabilities and charges	27	90.1	105.5	90.1	105.5
Accruals and deferred income	28	120.0	127.1	120.0	127.1
Other liabilities	29	143.0	125.6	629.3	127.4
Deferred income tax liability	21	39.8	19.3	39.8	19.3
Subordinated liabilities	30	190.0	190.0	190.0	190.0
Total liabilities		**8,589.1**	7,866.3	**8,577.3**	7,868.1
Equity and reserves attributable to owners of the parent					
Share capital	31	122.0	122.0	122.0	122.0
Share premium account	31	1,097.9	1,097.9	1,097.9	1,097.9
Retained earnings		183.1	105.1	175.1	95.0
Other reserves	32	22.6	11.4	22.0	15.3
Subordinated notes	33	45.0	45.0	45.0	45.0
Total equity		**1,470.6**	1,381.4	**1,462.0**	1,375.2
Total liabilities and equity		**10,059.7**	9,247.7	**10,039.3**	9,243.3

The consolidated and Company Financial Statements on pages 22 - 102 were approved by the Board of Directors and authorised for issue on 30 April 2015 and were signed on its behalf by:

Peter Bole
Director

TESCO PERSONAL FINANCE PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 28 February 2015

	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 2014		**122.0**	**1,097.9**	**105.1**	**45.0**	**11.4**	**1,381.4**
Comprehensive income/(expense)							
Profit for the year		-	-	129.2	-	-	129.2
Net gains on available-for-sale investment securities	11	-	-	-	-	2.2	2.2
Net losses on cash flow hedges	11	-	-	-	-	(1.0)	(1.0)
Share of other comprehensive income of joint venture	20	-	-	-	-	4.5	4.5
Total comprehensive income		**-**	**-**	**129.2**	**-**	**5.7**	**134.9**
Transactions with owners							
Dividends to ordinary shareholders	12	-	-	(50.0)	-	-	(50.0)
Dividends to holders of other equity	12	-	-	(1.2)	-	-	(1.2)
Share based payments	32	-	-	-	-	5.5	5.5
Total transactions with owners		**-**	**-**	**(51.2)**	**-**	**5.5**	**(45.7)**
Balance at 28 February 2015		**122.0**	**1,097.9**	**183.1**	**45.0**	**22.6**	**1,470.6**

	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	11	-	-	-	-	0.1	0.1
Net gains on cash flow hedges	11	-	-	-	-	1.6	1.6
Share of other comprehensive expense of joint venture	20	-	-	-	-	(5.4)	(5.4)
Total comprehensive income/(expense)		-	-	**118.3**	-	**(3.7)**	**114.6**
Transactions with owners							
Shares issued in the year	31	14.0	126.0	-	-	-	140.0
Dividends to ordinary shareholders	12	-	-	(100.0)	-	-	(100.0)
Dividends to holders of other equity	12	-	-	(1.1)	-	-	(1.1)
Share based payments	32	-	-	-	-	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**

COMPANY STATEMENT OF CHANGES IN EQUITY

For the Year Ended 28 February 2015

	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 2014		**122.0**	**1,097.9**	**95.0**	**45.0**	**15.3**	**1,375.2**
Comprehensive income/(expense)							
Profit for the year		-	-	131.3	-	-	131.3
Net gains on available-for-sale investment securities	11	-	-	-	-	2.2	2.2
Net losses on cash flow hedges	11	-	-	-	-	(1.0)	(1.0)
Total comprehensive income/(expense)		**-**	**-**	**131.3**	**-**	**1.2**	**132.5**
Transactions with owners							
Dividends to ordinary shareholders	12	-	-	(50.0)	-	-	(50.0)
Dividends to holders of other equity	12	-	-	(1.2)	-	-	(1.2)
Share based payments	32	-	-	-	-	5.5	5.5
Total transactions with owners		**-**	**-**	**(51.2)**	**-**	**5.5**	**(45.7)**
Balance at 28 February 2015		**122.0**	**1,097.9**	**175.1**	**45.0**	**22.0**	**1,462.0**

	Note	Share capital £m	Share premium account £m	Retained earnings £m	Sub-ordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2013		**108.0**	**971.9**	**80.2**	**45.0**	**12.4**	**1,217.5**
Comprehensive income/(expense)							
Profit for the year		-	-	115.9	-	-	115.9
Net gains on available-for-sale investment securities	11	-	-	-	-	0.1	0.1
Net gains on cash flow hedges	11	-	-	-	-	1.6	1.6
Total comprehensive income/(expense)		**-**	**-**	**115.9**	**-**	**1.7**	**117.6**
Transactions with owners							
Shares issued in the year	31	14.0	126.0	-	-	-	140.0
Dividends to ordinary shareholders	12	-	-	(100.0)	-	-	(100.0)
Dividends to holders of other equity	12	-	-	(1.1)	-	-	(1.1)
Share based payments	32	-	-	-	-	1.2	1.2
Total transactions with owners		**14.0**	**126.0**	**(101.1)**	**-**	**1.2**	**40.1**
Balance at 28 February 2014		**122.0**	**1,097.9**	**95.0**	**45.0**	**15.3**	**1,375.2**

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
For the Year Ended 28 February 2015

	Note	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Operating activities					
Profit before tax		168.2	152.6	170.3	150.2
Adjusted for: Non cash items included in operating profit before taxation	38	200.3	213.9	198.4	216.3
Changes in operating assets and liabilities	38	(782.3)	(661.6)	(775.1)	(717.7)
Income taxes paid		(22.5)	(22.9)	(22.5)	(22.9)
Cash flows used in operating activities		(436.3)	(318.0)	(428.9)	(374.1)
Investing activities					
Purchase of non current assets		(74.1)	(107.6)	(74.1)	(107.6)
Purchase of available-for-sale investment securities		(207.7)	(254.8)	(207.7)	(254.8)
Sale of available-for-sale investment securities		250.9	194.5	250.9	194.5
Repayment of loan from joint venture		-	7.5	-	7.5
Distribution from joint venture	20	-	15.0	-	15.0
Dividend received from joint venture	20	7.4	-	7.4	-
Deposit with parent		145.0	-	145.0	-
Cash flows generated from/(used in) investing activities		121.5	(145.4)	121.5	(145.4)
Financing activities					
Net Proceeds received in association with issuance of debt securities	26,29	498.0	-	484.4	-
Dividends paid to ordinary shareholders	12	(50.0)	(100.0)	(50.0)	(100.0)
Dividends paid to holders of other equity	12	(1.2)	(1.1)	(1.2)	(1.1)
Interest paid on subordinated liabilities		(3.3)	(5.4)	(3.3)	(5.4)
Cash flows generated from/(used in) financing activities		443.5	(106.5)	429.9	(106.5)
Net increase/(decrease) in cash and cash equivalents		128.7	(569.9)	122.5	(626.0)
Cash and cash equivalents at the beginning of the year		484.6	1,054.5	428.4	1,054.4
Cash and cash equivalents at the end of the year	37	613.3	484.6	550.9	428.4

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

Basis of Preparation

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

In these Financial Statements the 'Company' means Tesco Personal Finance plc and the 'Group' means the Company and its subsidiaries and joint venture. Details of these subsidiaries and joint venture are provided in notes 19 and 20. These consolidated Financial Statements comprise the Financial Statements of the Group.

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

Going Concern

The Directors have completed an 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 and having regard to the Group's risk profile. As a result of this assessment, the Directors consider the Group to be in a satisfactory financial position and have a reasonable expectation 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.

Principal Accounting Policies

a) Accounting Convention

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

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

b) Basis of Consolidation

The consolidated Financial Statements of the Group comprise the Financial Statements of the Company and all consolidated subsidiaries, including certain securitisation structured entities, and the Group's share of its interests in a joint venture, as at 28 February 2015.

Investment in group undertakings

Subsidiaries are all entities (including structured entities) over which the group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting Policies (continued)

Securitisation structured entities

The Group enters into securitisation transactions in which it assigns credit card receivables to a securitisation structured entity which supports the issuance of securities backed by the cash flows from the securitised credit card receivables. Although none of the equity of the securitisation structured entities 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 securitisation structured entities are consolidated on a line by line basis in the Group consolidated Financial Statements.

As at 28 February 2015 there were £2bn notes in issue in relation to securitisation transactions (2014: £1.75bn), of which £500m relates to externally issued notes.

Investment in joint venture

A joint arrangement is an arrangement over which the Group has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the Group has rights to the net assets of the joint arrangement.

The Group's share of the results of joint ventures is included in the Consolidated Income Statement using the equity method of accounting. Investments in joint ventures are carried in the Consolidated 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 a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

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

c) Net Interest Income Recognition

Interest income and expense for all financial instruments measured at amortised cost are recognised using the Effective Interest Rate (EIR) method.

The EIR 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 EIR is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the EIR takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual and behavioural terms of a financial instrument are considered when estimating future cash flows.

d) Net Fees and Commissions Income Recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting Policies (continued)

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

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

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

Government grants relating to costs are deferred and recognised in the Consolidated Income Statement over the period necessary to match them with the costs that they are intended to compensate.

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

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

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

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

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

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

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

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

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

1 Accounting Policies (continued)

h) Foreign Currency Translation

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

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments. All foreign exchange gains and losses recognised in the Consolidated Income Statement are presented net in the Consolidated Income Statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

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

i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments with short term maturities.

j) Financial Instruments

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

k) Financial Assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting Policies (continued)

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

l) Financial Liabilities

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

m) Derecognition of Financial Assets and Financial Liabilities

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

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

n) Offsetting of Financial instruments

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

o) Impairment of Financial Assets

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

Financial assets carried at amortised cost

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

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

1 Accounting Policies (continued)

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

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 the Consolidated Income Statement – is removed from equity and recognised in the Consolidated Income Statement. Impairment losses recognised in the consolidated income statement on investment securities are not reversed through the Consolidated Income Statement but recognised as increases in fair value through the Statement of Other Comprehensive Income.

p) Derivative Financial Instruments and Hedge Accounting

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

Cash flow hedges

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

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

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

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

Fair value hedges

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting Policies (continued)

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the EIR method is used is amortised to the Consolidated Income Statement over the period to maturity and recorded as net interest income.

Derivatives not in hedge accounting relationships
Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Income Statement as they arise.

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

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

Depreciation is charged to the Consolidated Income Statement on a straight-line basis so as to allocate the costs less residual value over the estimated useful lives of the related assets. 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 are:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in administrative expenses in the Consolidated Income Statement.

s) Intangible Assets
Acquired intangible assets
Intangible assets that are acquired by the Group are stated at historical cost less accumulated amortisation and any impairment losses. Amortisation is charged to the Consolidated Income Statement on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

- Computer software 3 to 10 years

NOTES TO THE FINANCIAL STATEMENTS (continued)

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. Work in Progress assets are not amortised until they are brought into use and transferred to the appropriate category of intangible assets.

t) Leases

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

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

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

u) Employee Benefits

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

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

v) Share Based Payments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting Policies (continued)

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

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

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

Contingent liabilities are not recognised in the Consolidated Income Statement but are disclosed unless the possibility of an outflow of resources is remote.

x) Dividends Paid
Dividends are recognised in equity in the period they are approved by the Group's Board.

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

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

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

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

aa) Adoption of new and amended International Financial Reporting Standards

During the year to 28 February 2015, the Group has adopted the following new accounting standards and amendments to standards and applied a new interpretation issued by the International Accounting Standards Board which became effective with relevant EU endorsement for annual periods beginning on or after 1 January 2014:

- IFRS 10, 'Consolidated financial statements':
IFRS 10 redefines the concept of control in relation to the requirement to prepare Consolidated Income Statements. The adoption of this new standard has not had any impact on the identified subsidiaries or related accounting of the Group.

- IFRS 11, 'Joint arrangements':
IFRS 11 redefines the term 'joint arrangement' and limits the type of joint arrangement to joint operations and joint ventures. The adoption of this new standard has resulted in the reclassification of the Group's investment in Tesco Underwriting Limited as a joint venture. This investment was previously classified as an associate. This change in classification has not resulted in any change to the accounting for this investment.

IFRS 11 has been applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting Policies (continued)

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

IFRS 12 contains amended disclosure requirements for all forms of interest in other entities. These amended disclosures are included in notes 19 and 20 to these Financial Statements.

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

The revised IAS 27 contains guidance on the preparation of separate Financial Statements after the control and consolidation provisions in the previous IAS 27 have been replaced with IFRS 10. There has been no impact on the Group of the adoption of this new standard.

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

The revised IAS 28 contains the requirements for joint ventures to be equity accounted following the issue of IFRS 11. The adoption of this new standard has not had any impact on the accounting for the Group's joint venture.

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

This amendment clarifies the transition guidance contained in IFRS 10, IFRS 11 and IFRS 12 and provides additional transition relief. The only impact of the adoption of this amendment is on the disclosure requirements under IFRS 12. These amended disclosures are included in notes 19 and 20 to the Financial Statements.

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

This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. There has been no impact on the Group of the adoption of this amendment.

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

This amendment clarifies the disclosure requirements in respect of the recoverable amount of impaired assets if that amount is based on fair value less costs to sell. There has been no impact on the Group of the adoption of this amendment.

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

This amendment provides an exception to the requirement to discontinue hedge accounting in situations where over the counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations. There has been no impact on the Group of the adoption of this amendment.

- IFRIC 21 'Levies':

This IFRIC clarifies the timing of recognition of a liability to pay a levy recognised in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The adoption of this interpretation has impacted the timing of the Group's recognition of the Financial Services Compensation Scheme (FSCS) Levy in the current financial year as a result of a change in the date at which the liability is measured. Refer to note 41 for further details. The impact is not significant to the Financial Statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting Policies (continued)

ab) Standards and interpretations issued but not yet effective

The following standards and amendments which are relevant to the Group have been issued and are mandatory for the Group's accounting periods beginning on or after 1 March 2015 or later periods.

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

This amendment is effective for annual periods beginning on or after 1 July 2014, however is endorsed for application by the EU from 1 February 2015. It provides additional guidance on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan. The impact of this amendment on the Group is still being assessed.

- Annual Improvements:

The Annual Improvements process covers minor amendments to IFRS that the IASB consider non-urgent but necessary.

The Annual Improvements 2010-2012 and 2011-2013 process resulted in several minor changes to standards which are effective for annual periods beginning on or after 1 July 2014, however these are endorsed for application by the EU from 1 February 2015. These amendments are not expected to have any significant impact on the Financial Statements of the Group.

The Annual Improvements 2012-2014 process resulted in several minor changes to standards which are effective for annual periods beginning on or after 1 January 2016, subject to endorsement by the EU. The impact of these amendments on the Group is still being assessed.

- Amendment to IFRS 11 'Joint arrangements: acquisition of an interest in a joint operation':

This amendment is effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement. It provides new guidance on how to account for the acquisition of an interest in a joint venture. The impact of this amendment on the Group is dependent on any future acquisitions.

- Amendments to IAS 16 and IAS 38 'Property, Plant and Equipment and Intangible Assets: Clarification of acceptable methods of depreciation and amortisation':

These amendments are effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement. They clarify that the use of revenue based methods to calculate depreciation and amortisation of assets is not appropriate. These amendments are not expected to impact the Group.

- Amendment to IAS 27 'Separate financial statements: Equity method':

This amendment is effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement. It allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The impact of this amendment on the Group is still being assessed.

- Amendment to IFRS 10 and IAS 28 'Consolidated financial statements and Associates and Joint Ventures: Sale or contribution of assets':

These amendments are effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement. They address an inconsistency in current requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture. This amendment is not expected to have any impact based on the current Group structure.

- Amendment to IAS 1 'Presentation of financial statements: Disclosure initiative':

This amendment is effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement. It clarifies some of the requirements for disclosure within the financial statements. The impact of this amendment on the Group is still being assessed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting Policies (continued)

- IFRS 15, 'Revenue from contracts with customers'

IFRS 15 is effective for annual periods beginning on or after 1 January 2017, subject to endorsement by the EU. IFRS 15 is a replacement for IAS 18 'Revenue' and introduces a five step approach to revenue recognition. The full impact of this new standard on the Group is still being assessed.

- IFRS 9, 'Financial instruments'

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, subject to endorsement by the EU. IFRS 9 is a replacement for IAS 39 'Financial Instruments' and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and financial liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected loss basis rather than the current incurred loss basis required by IAS 39. Phase 3 relates to requirements for general hedge accounting. The adoption of IFRS 9 is likely to have a significant impact on the Group in future periods, specifically in relation to the impairment charge recognised on financial asset balances. The full impact of this and the other phases of IFRS 9 on the Group is still being assessed.

ac) Early Adoption of New Standards

The Group did not early adopt any new or amended standards in the year ended 28 February 2015.

NOTES TO THE FINANCIAL STATEMENTS

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 IFRSs 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 IFRSs dealing with similar and related issues and the IASB Framework for the Preparation and Presentation of Financial Statements.

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

a) Loan Impairment Provisions

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

At 28 February 2015, gross loans and receivables totalled £7,864.8m (2014: £7,078.9m) and loan impairment provisions amounted to £139.5m (2014: £156.9m).

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

b) Provision for Customer Redress

The Group has a provision for potential customer redress in relation to Payment Protection Insurance, Credit Card Protection and Consumer Credit Act requirements. Refer to note 27 for further details.

Payment Protection Insurance (PPI)

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 additional interest of 8.0% per annum.

During the course of the year, the Group completed the programme of proactive customer contact to those customers sold PPI during a specific time period where there were concerns about the way in which the product was sold. 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 24,700 for personal loans and 22,400 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 350 were in receipt of redress offers that were pending acceptance as at 28 February 2015.

A significant degree of uncertainty remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers not subject to proactive contact. A detailed review of new complaints has resulted in a revised view of future expected complaint volumes.

2 Critical Accounting Estimates and Judgements in applying Accounting Policies (continued)

The duration over which claims are expected to emerge has been increased and a revised estimate of future compensation has been prepared. This revised assessment increased the total estimated cost of redress by a further £27m during the period. This provides redress capacity at current run rates (average of last 3 months) for a total of 32 months.

The carrying amount of the PPI provision at 28 February 2015 is £38m (2014: £32.9m).

Credit Card Protection (CCP)

An industry-wide Scheme of Arrangement dealing with customers who purchased products underwritten by CPP plc ("CPP") has operated during the year. At 28 February 2015 customer responses totalled 40,700 (equivalent to 34.2% of the customer population). The Scheme features a court and regulatory approved closure date for new complaints (subject to certain exceptions) of 31 August 2014.

The Group is currently working to undertake a redress programme which will compensate those customers who were sold a similar product in earlier years. The specific structure of any such programme remains under discussion with the regulator and product provider. The level of provision held is based on assumptions relating to 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 (including the CPP Scheme of Arrangement) and historic customer payment information. The level of the provision allows for the repayment of charges paid by the customer together with simple interest of 8.0%.

The calculation of the provision is based on a series of assumptions including the number and value of cases for which compensation may be paid. In arriving at these assumptions management have exercised their judgement based on earlier redress programmes and the redress estimates provided independently as part of the industry wide Scheme of Arrangement. The carrying amount of the CCP provision at 28 February 2015 is £16.8m (2014: £24.4m).

Consumer Credit Act (CCA)

During the course of the prior financial year the Group instigated a review of certain 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 redress certain customers affected by these breaches.

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 considered the legal and regulatory position with respect to these matters and has sought external advice which it took into account when it made its judgement. The provision represents management's best estimate at the reporting date of the cost of providing redress 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 redress campaign and the final scope of any amounts payable. The carrying amount of the CCA provision at 28 February 2015 is £31m (2014: £43m).

The OFT and FCA have been advised of the Group's approach to determining the proposed customer redress. Oversight of CCA-related matters passed from the OFT to the FCA on 1 April 2014. Customer redress payments commenced in October 2014 and it is expected that these will continue into the first half of the next financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Critical Accounting Estimates and Judgements in applying Accounting Policies (continued)

c) Effective Interest Rate (EIR)

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

3 Segmental reporting

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

The Group has two main operating segments:

- Banking – incorporating personal current accounts, credit cards, personal 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.

a) Segment results of operations

Group 2015	**Banking £m**	**Insurance £m**	**Central Costs £m**	**Total £m**
Interest and similar income	499.5	35.2	-	534.7
Interest expense and similar charges	(156.1)	-	-	(156.1)
Fees and commissions income	288.4	131.2	-	419.6
Fees and commissions expense	(29.4)	-	-	(29.4)
Provision for customer redress	(27.0)	-	-	(27.0)
Losses on financial instruments, movements on derivatives and hedge accounting	(18.6)	-	-	(18.6)
Realised gain on investment securities	0.2	-	-	0.2
Administrative expenses*	(193.9)	(66.0)	(167.4)	(427.3)
Depreciation and amortisation	-	-	(80.5)	(80.5)
Impairment	(48.4)	(4.3)	-	(52.7)
Share of profit of joint venture	-	5.3	-	5.3
Profit/(loss) before tax	**314.7**	**101.4**	**(247.9)**	**168.2**
Total assets (excluding taxation)**	**9,766.9**	**288.3**	**-**	**10,055.2**
Total liabilities (excluding taxation)	**8,521.9**	**27.4**	**-**	**8,549.3**

*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 £79.7m (2014: £77.3m) in Tesco Underwriting Limited, a joint venture company accounted for using the equity method, is shown within the total assets of the Insurance segment.

3 Segmental reporting (continued)

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

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

Group 2015	Total management reporting £m	Consolidation and adjustments £m	Total consolidated £m
Interest and similar income	534.7	-	534.7
Interest expense and similar charges	(156.1)	-	(156.1)
Fees and commissions income	419.6	-	419.6
Fees and commissions expense	(29.4)	-	(29.4)
Provision for customer redress	(27.0)	-	(27.0)
Losses on financial instruments, movements on derivatives and hedge accounting	(18.6)	-	(18.6)
Realised gain on investment securities	0.2	-	0.2
Administrative expenses	(427.3)	-	(427.3)
Depreciation and amortisation	(80.5)	-	(80.5)
Impairment	(52.7)	-	(52.7)
Share of profit of joint venture	5.3	-	5.3
Profit before tax	**168.2**	-	**168.2**
Total assets	**10,055.2**	**4.5**	**10,059.7**
Total liabilities	**8,549.3**	**39.8**	**8,589.1**

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Segmental reporting (continued)

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

4 Net Interest Income

	2015 £m	2014 £m
Interest and similar income		
Loans and advances to customers	511.9	484.0
Loans and advances to banks	3.2	3.6
Interest on investment securities	19.6	15.9
	534.7	**503.5**
Interest expense and similar charges		
Deposits from customers	(102.8)	(105.9)
Deposits from banks	(26.9)	(22.7)
Interest rate swap expenses	(23.0)	(20.3)
Subordinated liabilities	(3.4)	(4.6)
	(156.1)	**(153.5)**

Interest income recognised due to the unwinding of the discount on impairment provisions relating to impaired financial assets amounted to £2.5m (2014: £3.9m)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Net Fees and Commissions Income

	2015 £m	2014 £m
Fees and commissions income		
Banking income	278.3	283.9
Insurance income	131.2	132.6
Other income	10.1	7.4
	419.6	423.9
Fees and commissions expense		
Banking expense	**(29.4)**	(29.9)

6 (Losses)/Gains on Financial Instruments, Movements on Derivatives and Hedge Accounting

	2015 £m	2014 £m
Foreign exchange loss on financial assets	(9.1)	(12.2)
Net (losses)/gains arising on derivatives not designated as hedging instruments under the terms of IAS 39	(4.5)	16.7
Fair value hedge ineffectiveness	(5.0)	1.1
	(18.6)	5.6

7 Realised Gain on Investment Securities

	2015 £m	2014 £m
Financial assets classified as available-for-sale		
Realised gain on disposals	**0.2**	1.0

8 Administrative Expenses

	2015 £m	2014 £m
Staff costs		
Wages and salaries	111.7	104.3
Social security costs	9.4	8.1
Other Pension costs	3.9	9.0
Share based payments	6.3	3.2
Other costs including temporary staff	28.7	20.6
	160.0	145.2
Non staff costs		
Premises and equipment	86.0	79.9
Operating leases	4.9	4.9
Marketing	69.7	66.0
Auditors' remuneration (refer below)	0.7	0.7
Outsourcing and professional fees	64.5	53.3
Other administrative expenses	41.5	55.1
	267.3	259.9
	427.3	405.1

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

	2015 £'000	2014 £'000
Audit services		
Audit of the Company and consolidated Financial Statements	472	395
Audit of the Company's subsidiaries	38	37
	510	432
Non audit services		
Audit related assurance services	73	102
Services related to corporate finance transactions not covered above	80	20
Other non audit services not covered above	46	128
	199	250
Total auditor remuneration	709	682

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

	2015 Number	2014 Number
Head office and administration	1,001	882
Operations	2,870	2,725
	3,871	3,607

15 (2014: 16) employees were seconded to Tesco Personal Finance Compare Limited, a subsidiary of the Group's immediate parent company, until this company ceased trading.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Impairment on loans and advances to customers

	2015 £m	2014 £m
Loans and advances to customers		
Increase in impairment allowance, net of recoveries (refer note 14)	48.4	55.0
Amounts written off during the year as uncollectible	4.3	5.8
	52.7	60.8

10 Directors' Emoluments

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

	2015 £m	2014 £m
Aggregate emoluments	3.7	3.8
Aggregate amounts receivable under long-term incentive schemes	-	-
Loss of office	-	-
Share based payments	0.7	0.2
Total emoluments	**4.4**	4.0

	2015 Number	2014 Number
Number of Directors to whom retirement benefits are accruing under defined benefit schemes	1	1
Number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes	-	-
Number of Directors who exercised share options in the year	-	-

The total emoluments of the highest paid Director were £1.7m (2014: £1m). During the year the highest paid Director did not exercise any share options (2014: £nil).

At 28 February 2015 the accrued pension and lump sum under a defined benefit scheme for the highest paid Director was £nil (2014: £nil).

During the year to 28 February 2015 two (2014: two) Directors left the company. Neither Director was paid any sums upon leaving.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Income Tax

a) Income tax expense

		2015 £m	2014 £m
Current tax charge for the year		40.8	49.6
Adjustments in respect of prior years		(22.6)	9.2
Total current tax charge for the year		**18.2**	58.8
Deferred tax credit for the year	21	(0.7)	(12.2)
Adjustments in respect of prior years	21	21.5	(9.5)
Impact of tax rate change		-	(2.8)
Total deferred tax charge/ (credit) for the year		**20.8**	(24.5)
Income tax expense		**39.0**	34.3

The standard rate of corporation tax in the UK was changed from 23% to 21% with effect from 1 April 2014. This gives an overall blended Corporation Tax rate for the Group for the full year of 21.2% (2014: 23.1%).

The tax assessed for the full year is higher (2014: lower) than that calculated using the overall blended Corporation Tax rate for the Group. The differences are explained below:

	2015 £m	2014 £m
Profit before taxation	168.2	152.6
Profit on ordinary activities multiplied by blended rate in the UK 21.2% (2014: 23.1%)	35.7	35.3
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	2.8	0.5
Adjustment in respect of prior years – current tax	(22.6)	9.2
Adjustment in respect of prior years – deferred tax	21.5	(9.5)
Share based payments	3.0	2.2
Other tax adjustments	(0.3)	(0.1)
Tax rate change	-	(2.8)
Share of profit of joint venture	(1.1)	(0.5)
Income tax expense	**39.0**	34.3

In the March 2013 Budget Statement it was announced that the standard rate of corporation tax in the UK would be further reduced to 20% on 1st April 2015. This further rate reduction was substantively enacted by the reporting date and is therefore included in these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Income Tax (continued)

b) Income tax relating to components of other comprehensive income

	Before tax amount £m	Tax expense £m	Net of tax amount £m
2015			
Net gains on available-for-sale investment securities	2.8	(0.6)	2.2
Net losses on cash flow hedges	(1.3)	0.3	(1.0)
	1.5	(0.3)	**1.2**
2014			
Net gains on available-for-sale investment securities	0.1	-	0.1
Net gains on cash flow hedges	2.0	(0.4)	1.6
	2.1	(0.4)	1.7

Current tax on items charged to equity is £(0.6)m for the year (2014: £nil) and deferred tax for the year is £0.3m (2014: £(0.4)m).

12 Distributions to Equity Holders

	2015 £m	2014 £m
Ordinary dividend paid	50.0	100.0
Interest payable on subordinated notes included within equity	1.2	1.1
	51.2	101.1

On 27 February 2015 a final dividend of £50m (£0.0410 per ordinary share) was paid. In the prior year, a final dividend of £100m (£0.0820 per ordinary share) was paid on 19 February 2014.

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 (2014: a spread ranging from 120 to 220 basis points).

13 Cash and Balances with Central Banks

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Cash at bank	116.5	119.5	54.1	63.3
Balances held with the Bank of England other than mandatory reserve deposits	496.8	365.1	496.8	365.1
Included in cash and cash equivalents (note 37)	613.3	484.6	550.9	428.4
Mandatory reserves deposits held with the Bank of England	13.0	9.4	13.0	9.4
	626.3	494.0	**563.9**	437.8

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Loans and Advances to Customers

Group and Company	2015 £m	2014 £m
Secured mortgage lending	1,198.3	696.5
Unsecured lending	6,651.9	6,378.2
Fair value hedge adjustment	14.6	4.2
Gross loans and advances to customers	7,864.8	7,078.9
Less: allowance for impairment	(139.5)	(156.9)
Net loans and advances to customers	**7,725.3**	**6,922.0**
Current	3,817.2	3,708.8
Non-current	3,908.1	3,213.2

The Group has prepositioned a portion of its lending balances with the Bank of England.

As at the year end, £3,011.3m (2014: £2,343.9m) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions.

As at the year end, the Group owns £1,500m of credit card backed bonds issued by Delamare Cards MTN Issuer plc (2014: £1,750m). Of this, £1,290m (2014: £1,600m) has been pledged with the Bank of England to collateralise £789m (2014: £1,096m) of Funding for Lending Scheme (FLS) drawings. On 6 June 2014 Delamare Cards MTN Issuer plc marketed and issued a further £500m of debt securities (2014: £nil) (refer note 26).

There were no personal loans or mortgages pledged or used as collateral for FLS drawings at the year end (2014: £557m).

Fair value hedge adjustments amounting to £14.6m (2014: £4.2m) are in respect of fixed rate loans. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

The following table shows impairment provisions for loans and advances.

Group and Company	2015 £m	2014 £m
At beginning of year	156.9	172.2
Amounts written off	(63.2)	(66.2)
Increase in allowance, net of recoveries, charged to the income statement (refer note 9)	48.4	55.0
Foreign currency translation	(0.1)	(0.2)
Unwind of discount	(2.5)	(3.9)
At end of year	**139.5**	**156.9**

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Derivative Financial Instruments

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

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

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

a) Fair value hedges
At 28 February 2015 the Group had hedge relationships in place with an aggregate notional principal of £2,958.7m (2014: £2,484.1m).

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

The total fair value of derivatives held within fair value hedges at 28 February 2015 was a net liability of £71.7m (2014: £32.5m). Included in the Income Statement is £25.3m of fair value losses on interest rate swaps in designated fair value hedges (2014: gain of £18.2m), offset by gains on fair value hedge adjustments on hedged items of £20.3m (2014: losses of £17.1m). The net balance of £(5)m (2014: £1.1m) represents ineffectiveness in the fair value hedge relationships.

b) Cash flow hedges
The Group held 18 interest rate swaps (2014: 10) as cash flow hedges. The group holds these hedges to mitigate the variability in cash flows associated with debt securities in issue and to mitigate the interest rate risk on the pipeline balance of mortgage products.

The hedged pipeline mortgage products are expected to complete at future dates in the next 12 months.

The total fair value of derivatives included within cash flow hedges as at 28 February 2015 was a net asset of £5.7m (2014: £5.8m).

Ineffectiveness recognised in the Consolidated Income Statement in respect of cash flow hedges, for the 12 months to 28 February 2015, was nil (2014: £nil).

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Derivative Financial Instruments (continued)

- Forward foreign exchange contracts to hedge the exchange rate risk of the initial funding of the euro credit card business and eventual repayments by customers.
- Cross currency swaps to hedge the exchange rate risk inherent in the investment securities denominated in foreign currencies.
- 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 2015 was a net asset of £10.8m (2014: net asset of £21.5m).

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

Group and Company **2015**	**Notional** **£m**	**Asset fair value** **£m**	**Liability fair value** **£m**
Derivatives in hedge accounting relationships			
Derivatives designated as fair value hedges			
Interest rate swaps	2,958.7	7.9	(79.6)
Derivatives designated as cash flow hedges			
Interest rate swaps	147.8	0.4	(0.3)
RPI basis swaps	60.0	5.6	-
	3,166.5	**13.9**	**(79.9)**
Derivatives not in hedge accounting relationships			
Interest rate derivatives			
Interest rate swaps	3,621.6	6.2	(6.4)
Currency derivatives			
Forward foreign exchange contracts	31.5	1.8	-
Cross currency swaps	79.6	9.8	(0.6)
	3,732.7	**17.8**	**(7.0)**
	6,899.2	**31.7**	**(86.9)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Derivative Financial Instruments (continued)

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

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 2015 £m**	Assets 2014 £m	**Liabilities 2015 £m**	Liabilities 2014 £m
Current	5.2	1.9	(4.9)	(4.1)
Non-current	26.5	34.7	(82.0)	(37.7)
	31.7	**36.6**	**(86.9)**	**(41.8)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Investment Securities

Group and Company	2015 £m	2014 £m
Available-for-sale		
Government-backed investment securities	93.8	161.8
Gilts	492.9	399.6
Supranational investment securities	202.7	274.7
Other investment securities	37.9	14.2
	827.3	**850.3**
Loans and receivables		
Loan to Tesco Underwriting Limited	34.1	34.1
	34.1	**34.1**
Current	145.0	167.4
Non-current	716.4	717.0

There were no impairment charges within the year (2014: £nil).

Available-for-sale
Included in investment securities are fixed-interest investment securities totalling £756.4m (2014: £745.3m) and variable-interest investment securities amounting to £70.9m (2014: £105m).

Loans and receivables
The loan to Tesco Underwriting Limited comprises a LIBOR +3.5% subordinated loan of £34.1m (2014: £34.1m). During the year impairment charges of £nil (2014: £nil) were recognised on the loan.

Assets pledged as collateral
Available-for-sale investment securities with a market value of £43.3m (2014: £60.9m) are pledged as collateral under repurchase agreements with other banks. All collateral agreements mature within 12 months.

17 Prepayments and Accrued Income

Group and Company	2015 £m	2014 £m
Prepayments	8.8	5.0
Accrued income	32.2	22.1
	41.0	**27.1**

All amounts are classified as current at the year end.

18 Other Assets

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Amount due from insurance premiums and commissions receivable	19.9	20.0	19.9	20.0
Accounts receivable and sundry receivables	172.0	118.0	172.0	156.6
Deposit with Tesco PLC	-	145.0	-	145.0
Amounts due from Tesco Group subsidiaries	8.6	1.5	8.6	1.5
Amounts due from Tesco Personal Finance Group companies	0.3	0.5	51.0	20.0
	200.8	285.0	**251.5**	343.1

All amounts are classified as current at the year end.

19 Investment in Group Undertakings

The following companies are accounted for as subsidiaries of the Group. These are securitisation structured entities established in connection with the Group's credit card securitisation transactions. Although none of the equity of the securitisation structured entities is owned by the Company, the nature of these entities means that the Group has the rights to variable returns from its involvement with these securitisation structured entities and has the ability to affect those returns through its power over them. As such they are effectively controlled by the Group. The Company does not hold any investments in group undertakings.

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

All of the above companies have a financial year end of 31 December. The management accounts of these entities are used to consolidate the results to 28 February 2015 within these Financial Statements.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Investment in Joint Venture

The following table shows the aggregate movement in the Group's investment in its joint venture in the year:

Group	2015 £m	2014 £m
At beginning of year	77.3	95.3
Distribution from joint venture	-	(15.0)
Share of profit of joint venture	5.3	2.4
Dividends received	(7.4)	-
Share of available-for-sale reserve of joint venture *	4.5	(5.4)
At end of year	**79.7**	77.3

* The Group's share of the movement in the available-for-sale reserve represents the recognised portion of other comprehensive income of the JV.

a) Details of the Group's joint venture

Name of company	Nature of business	Place of Incorporation	Ownership interest 28 February 2015	Ownership interest 28 February 2014
Tesco Underwriting Limited	Insurance	England	49.9%	49.9%

Tesco Underwriting Limited is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. Tesco Underwriting Limited is a private company and there is no quoted market price available for its shares.

The Group uses the equity method of accounting for its investment in Tesco Underwriting Limited. Tesco Underwriting Limited has a financial year end of 31 December. The accounting period end date for Tesco Underwriting Limited differs from that of the Group as it is in line with the other joint venturer. The management accounts of Tesco Underwriting Limited are used to consolidate the results to 28 February 2015 within these Financial Statements.

b) Summarised financial information for the joint venture

This information reflects the amounts presented in the management accounts of the joint venture (and not the Group's share of those amounts):

Group	2015 £m	2014 £m
Non-current assets	726.5	702.0
Current assets	176.3	196.4
Current liabilities	(404.8)	(461.0)
Non-current liabilities	(344.0)	(288.2)
Net assets	**154.0**	149.2
Cash and cash equivalents	**93.9**	21.8
Current financial liabilities (excluding trade and other payables and provisions)	**(9.9)**	(8.3)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(68.3)**	(68.3)

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Investment in Joint Venture (continued)

	2015 £m	2014 £m
Income Statement		
Revenue	420.0	460.2
Expenses including claims costs	(409.4)	(455.5)
Profit for the year	**10.6**	4.7
Other comprehensive income	14.0	(11.0)
Total comprehensive income	**24.6**	(6.3)
The above profit for the year includes the following		
Depreciation and amortisation	(3.6)	(4.0)
Interest income	13.5	11.9
Interest expense	(2.9)	(3.4)
Income tax expense	(2.1)	(1.6)

c) Reconciliation of the summarised financial information

A reconciliation of the summarised financial information presented to the carrying amount of the investment in joint venture is as follows.

Group	2015 £m	2014 £m
Net assets of the joint venture	154.0	149.2
Group share at 49.9%	76.9	74.5
Capitalised legal costs included in investment carrying value	2.8	2.8
Carrying value of investment in joint venture at end of year	**79.7**	77.3

d) Other information

There are no contingent liabilities or commitments in respect of the joint venture.

The investment in the joint venture is classified as non-current.

e) Company

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

Company	2015 £m	2014 £m
At beginning of year	71.0	86.0
Distribution from joint venture	-	(15.0)
At end of year	**71.0**	71.0

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Deferred Income Tax Liability

The deferred tax liability can be analysed as follows:

2015 **Group and Company**	**Accelerated capital allowances £m**	**Other £m**	**Total £m**
At beginning of year	(36.0)	16.7	**(19.3)**
Credited to the consolidated income statement in the current year	3.3	(2.6)	**0.7**
Charged to the consolidated income statement in respect of prior years	(12.4)	(9.1)	**(21.5)**
Credited to equity	-	0.3	**0.3**
At end of year	**(45.1)**	**5.3**	**(39.8)**
Deferred tax asset to be recovered within one year			6.9
Deferred tax asset to be recovered after more than one year			-
			6.9
Deferred tax liability to be recovered within one year			(14.0)
Deferred tax liability to be recovered after more than one year			(32.7)
			(46.7)
Deferred tax liabilities (net)			**(39.8)**

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Intangible Assets

Group and Company	Work in Progress £m	Computer software £m	Total £m
Cost			
At 1 March 2014	124.1	439.5	563.6
Additions	35.8	9.3	45.1
Transfers	(130.5)	130.6	0.1
Impairments	-	(8.4)	(8.4)
Disposals	(1.2)	(4.6)	(5.8)
At 28 February 2015	**28.2**	**566.4**	**594.6**
Accumulated amortisation			
At 1 March 2014	-	(135.9)	(135.9)
Charge for the year	-	(62.9)	(62.9)
Impairments	-	4.8	4.8
Disposals	-	2.0	2.0
At 28 February 2015	**-**	**(192.0)**	**(192.0)**
Net carrying value			
At 28 February 2015	**28.2**	**374.4**	**402.6**
Cost			
At 1 March 2013	58.6	420.5	479.1
Additions	73.5	12.4	85.9
Transfers	(8.0)	7.6	(0.4)
Disposals	-	(1.0)	(1.0)
At 28 February 2014	**124.1**	**439.5**	**563.6**
Accumulated amortisation			
At 1 March 2013	-	(81.7)	(81.7)
Charge for the year	-	(54.2)	(54.2)
At 28 February 2014	**-**	**(135.9)**	**(135.9)**
Net carrying value			
At 28 February 2014	**124.1**	**303.6**	**427.7**

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

Intangible assets balances are non-current.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 Property, Plant and Equipment

Group and Company	Work in Progress £m	Plant and Equipment £m	Fixtures and fittings £m	Computer Hardware £m	Freehold Buildings £m	Leasehold Improvements £m	Total £m
Cost							
At 1 March 2014	1.0	3.0	15.6	120.4	28.1	19.8	**187.9**
Additions	3.3	-	1.2	9.5	0.1	0.1	**14.2**
Transfers	-	-	-	(0.1)	-	-	**(0.1)**
Impairments	-	-	-	(0.5)	-	-	**(0.5)**
Disposals	-	-	(3.8)	(2.7)	-	-	**(6.5)**
At 28 February 2015	**4.3**	**3.0**	**13.0**	**126.6**	**28.2**	**19.9**	**195.0**
Accumulated depreciation							
At 1 March 2014	-	(2.9)	(5.7)	(79.9)	(1.7)	(4.9)	**(95.1)**
Charge for the year	-	(0.1)	(2.5)	(13.0)	(0.7)	(1.3)	**(17.6)**
Impairments	-	-	-	0.5			**0.5**
Disposals	-	-	1.6	2.0	-	-	**3.6**
At 28 February 2015	**-**	**(3.0)**	**(6.6)**	**(90.4)**	**(2.4)**	**(6.2)**	**(108.6)**
Net carrying value							
At 28 February 2015	**4.3**	**-**	**6.4**	**36.2**	**25.8**	**13.7**	**86.4**
Cost							
At 1 March 2013	1.4	3.0	13.2	108.9	28.1	19.7	174.3
Additions	-	-	2.1	13.8	-	0.1	16.0
Transfers	(0.4)	-	0.3	0.5	-	-	0.4
Disposals	-	-	-	(2.8)	-	-	(2.8)
At 28 February 2014	**1.0**	**3.0**	**15.6**	**120.4**	**28.1**	**19.8**	**187.9**
Accumulated depreciation							
At 1 March 2013	-	(2.6)	(3.3)	(69.5)	(1.0)	(3.6)	(80.0)
Charge for the year	-	(0.3)	(2.4)	(12.6)	(0.7)	(1.3)	(17.3)
Disposals	-	-	-	2.2	-	-	2.2
At 28 February 2014	**-**	**(2.9)**	**(5.7)**	**(79.9)**	**(1.7)**	**(4.9)**	**(95.1)**
Net carrying value							
At 28 February 2014	**1.0**	**0.1**	**9.9**	**40.5**	**26.4**	**14.9**	**92.8**

Work in progress at 28 February 2015 relates predominantly to the development of IT assets.

Property, plant and equipment balances are non-current.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 Deposits from Banks

Group and Company	2015 £m	2014 £m
Deposits from banks	**106.5**	779.8
Current	106.5	771.7
Non-current	-	8.1

Deposits from banks include balances of £97.4m (2014: £765.5m) which have been sold under sale and repurchase agreements.

25 Deposits from customers

Group and Company	2015 £m	2014 £m
Deposits from Tesco Personal Finance Group companies	1.2	4.1
Retail deposits	6,913.6	6,078.3
	6,914.8	6,082.4
Current	5,914.7	4,716.7
Non-current	1,000.1	1,365.7

26 Debt Securities in Issue

	Interest rate	Par value £m	Term (years)	Maturity date	2015 £m	2014 £m
Group						
Fixed rate retail bond – issued 24 February 2011	5.2%	125.0	7.5	2018	135.4	138.6
RPI bond – issued 16 December 2011	1.0%	60.0	8	2019	59.7	59.6
Floating rate AAA bond (A1)*	1M LIBOR + 0.45%	150.0	5	2019	149.5	-
Fixed rate retail bond - issued 21 May 2012	5.0%	200.0	8.5	2020	204.8	196.6
Floating rate AAA bond (A2)**	1M LIBOR + 0.65%	350.0	7	2021	348.6	-
					898.0	394.8
Company						
Fixed rate retail bond – issued 24 February 2011	5.2%	125.0	7.5	2018	135.4	138.6
RPI bond – issued 16 December 2011	1.0%	60.0	8	2019	59.7	59.6
Fixed rate retail bond - issued 21 May 2012	5.0%	200.0	8.5	2020	204.8	196.6
					399.9	394.8

All Floating Rate Bonds were issued by Delamare Cards MTN Issuer plc on 6 June 2014 (refer note 14) and are listed on the Irish Stock Exchange. All retail bonds are listed on the London Stock Exchange. All balances are classified as non current at the year end.

* The scheduled redemption date of this Bond is 2017

** The scheduled redemption date of this Bond is 2019

27 Provisions for Liabilities and Charges

Group and Company

2015	Customer Redress Provision £m	Insurance Provision £m	Warranty Provision £m	Total £m
At beginning of year	100.3	4.2	1.0	105.5
Charged to the income statement	27.0	0.1	-	27.1
Utilised during the year	(41.5)	-	(1.0)	(42.5)
At end of year	**85.8**	**4.3**	**-**	**90.1**
2014				
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**

Customer Redress Provision – Payment Protection Insurance

Of the total provision balance at 28 February 2015, £38m (2014: £32.9m) 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 period 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 additional interest of 8.0% per annum.

A significant degree of uncertainty remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers not subject to proactive contact. A detailed review of new complaints has resulted in a revised view of future expected complaint volumes. The duration over which claims are expected to emerge has been increased and a revised estimate of future compensation has been prepared. This revised assessment increased the total estimated cost of redress by a further £27m recognised during the first half of the financial year. This provides redress capacity at current run rates (average of last 3 months) for a total of 32 months.

The table below details, for each key assumption: actual data to 28 February 2015; forecast assumptions used in assessing the PPI provision adequacy; and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

Assumption	Cumulative actual	Future expected	Sensitivity: Change in assumption	Sensitivity: Consequential change in Provision £m
Customer initiated complaints settled	54,000	15,400	+/- 1,000 complaints	+/- 1.8
Average redress per valid claim (loans)	£1,870	£1,790	+/- £100	+/- 1.5

27 Provisions for Liabilities and Charges (continued)

Customer Redress Provision – Credit Card Protection

The Group holds a further provision of £16.8m (February 2014: £24.4m) 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 period end.

An industry-wide Scheme of Arrangement dealing with customers who purchased products underwritten by CPP plc ("CPP") has operated during the year. At the reporting date customer responses totalled approximately 40,700 (equivalent to 34.2% of the customer population). The Scheme featured a court and regulatory approved closure date for new complaints (subject to certain exceptions) of 30 August 2014.

Another industry-wide Scheme of Arrangement has been established to compensate those customers who were sold a similar product in earlier years. The level of provision held is based on assumptions relating to 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 (including the CPP Scheme of Arrangement) and historic customer payment information. The level of the provision allows for the repayment of charges paid by the customer together with simple interest of 8.0%.

The table below details for each key assumption: actual data to 28 February 2015; forecast assumptions used in assessing the Scheme of Arrangement provision adequacy; and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

Assumption	Cumulative actual	Future expected	Sensitivity: Change in assumption	Sensitivity: Consequential change in provision £m
Future customer responses	40,700	56,200	+/- 1,000 complaints	+/- 0.2
Average redress per valid claim	£158	£244	+/- £10	+/- 0.6

Customer Redress Provision – Consumer Credit Act

The Group holds a provision of £31m (February 2014: £43m) in respect of customer redress relating to instances where certain of the requirements of the CCA for post contract documentation have not been fully complied with.

During the course of the prior financial year the Group instigated a review of certain 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 determined that it was appropriate to redress certain customers affected by these breaches.

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 considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when it made its judgement. The provision represents management's best estimate at the reporting date of the cost of providing redress to those personal loan and credit card customers.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 Provisions for Liabilities and Charges (continued)

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 redress campaign and the final scope of any amounts payable.

The OFT and FCA have been advised of the Group's approach to determining the proposed customer redress. Oversight of CCA-related matters passed from the OFT to the FCA on 1 April 2014.

Customer redress payments commenced in October 2014 and it is expected that these will continue into the first half of the next financial year.

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 in the prior year relates to a provision for warranty costs following the sale of non-performing debt which took place during the year ended 28 February 2014.

28 Accruals and Deferred Income

Group and Company	2015 £m	2014 £m
Amounts accrued to Tesco Group subsidiaries	10.1	10.0
Amounts accrued to Tesco Personal Finance Group companies	0.7	0.6
Other accruals	98.3	104.3
Deferred income	10.9	12.2
	120.0	127.1

All amounts are classified as current at the year end.

29 Other Liabilities

	Group 2015 £m	2014 £m	Company 2015 £m	2014 £m
Accounts payable and sundry payables	112.7	95.9	114.6	97.7
Amounts owed to Tesco PLC	-	1.0	-	1.0
Amounts owed to Tesco Group subsidiaries	8.4	7.1	8.4	7.1
Insurance payables	13.8	15.6	13.8	15.6
Taxation and social security	8.1	6.0	8.1	6.0
Amounts due to Tesco Personal Finance Group companies	-	-	484.4	-
	143.0	125.6	**629.3**	127.4

All amounts are classified as current at the year end.

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 Subordinated Liabilities

Group and Company	2015 £m	2014 £m
Floating rate subordinated loans maturing 2030	190.0	190.0
	190.0	**190.0**

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

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

Subordinated liabilities are included in the Group's qualifying subordinated debt for regulatory capital reporting (refer note 39).

Interest payable is based on three month LIBOR plus a spread ranging from 60 to 225 points (2014: 60 to 225 points).

The subordinated liabilities balance is non-current.

31 Share Capital and Share Premium Account

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

Group and Company	2015 Number	2015 £m	2014 Number	2014 £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	1,219,900,000	122.0

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

Group and Company	Share capital 2015 £m	Share capital 2014 £m	Share premium account 2015 £m	Share premium account 2014 £m
At beginning of year	122.0	108.0	**1,097.9**	971.9
Shares issued in the year	-	14.0	-	126.0
At end of year	**122.0**	122.0	**1,097.9**	1,097.9

32 Other Reserves

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Cash flow hedge reserve	0.7	1.7	0.7	1.7
Available-for-sale reserve	8.7	2.0	8.1	5.9
Share based payment reserve	13.2	7.7	13.2	7.7
	22.6	11.4	**22.0**	15.3

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 consolidated income statement) until the financial asset is derecognised.

The consolidated available-for-sale reserve at 28 February 2015 of £8.7m (2014: £2m) also includes the Group's share of the available-for-sale reserve of its joint venture, Tesco Underwriting Limited.

Share based payment reserve
The fair value of Tesco PLC equity-settled share options granted to employees of the Group is included in the share based payment reserve. Deferred tax in relation to movements on this reserve was £nil (2014: £nil).

33 Subordinated Notes

Group and Company	2015 £m	2014 £m
Undated floating rate notes	**45.0**	45.0

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

Undated floating rate notes are included in the Group's qualifying subordinated debt for regulatory capital reporting (refer note 39).

34 Employee Benefit Liability

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

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

Detailed disclosures on the Tesco PLC pension scheme in line with the requirements of IAS 19 are included in the Tesco PLC 2015 annual report.

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 Risk Management

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

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

a) Credit Risk

i. Types of credit risk

- **Retail credit risk**

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

Controls and Risk Mitigants

To minimise the potential for the Group to be exposed to 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 appropriate credit scoring and associated rules. Judgemental analysis is used for more complex cases.

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

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

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

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

- **Wholesale Credit Risk**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 Risk Management – Credit Risk (continued)

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).

ii. Credit Risk Exposures

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

	2015 £m	2014 £m
Credit risk exposures relating to on balance sheet items		
Cash and balances with central banks*	626.3	494.0
Loans and advances to customers	7,725.3	6,922.0
Derivative financial instruments	31.7	36.6
Investment securities:		
- Available-for-sale	827.3	850.3
- Loans and receivables	34.1	34.1
Other assets*	200.8	285.0
Total credit risk exposures relating to on balance sheet items	9,445.5	8,622.0
Credit risk exposures relating to off balance sheet items		
Current account overdraft commitments	1.3	-
Mortgage commitments	67.9	91.0
Credit card commitments	11,420.7	9,620.3
Other commitments	5.6	5.8
FLS	789.0	1,214.0
Total credit risk exposures relating to off balance sheet items	12,284.5	10,931.1
Total credit risk exposures	**21,730.0**	**19,553.1**

* On a Company basis, Cash and balances with central banks is £563.9m (2014: £437.8m) and Other assets is £251.5m (2014: £343.1).

As shown above, 81.8% of the total maximum exposure to on Balance Sheet assets for the Group is derived from loans and advances to customers (2014: 80.3%) and 8.8% represents investments in financial assets classified as available-for-sale (2014: 9.9%).

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.

35 Risk Management – Credit Risk (continued)

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.

The Group also issues 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. However, exposure in the Republic of Ireland is limited.

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

	2015 £m	2014 £m
United Kingdom	21,381.4	19,034.7
Europe (excluding United Kingdom)	292.5	462.6
Other	56.1	55.8
Total	**21,730.0**	**19,553.1**

- **Credit Risk: Mortgage portfolio - LTV distribution profile**

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 agreed term of the loan. All mortgages are secured by a first charge over the property being purchased or remortgaged. Valuation of the property is performed as part of the initial application process by a valuer from the Group's approved panel of valuers and adjusted quarterly for internal purposes in line with House Property Price Index movements.

The table below provides the LTV distribution profile for the Group's mortgage portfolio by weighted average balance. The overall average LTV for the portfolio is 51.1% (2014: 50.1%) which is well within agreed risk appetite parameters.

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

	2015 £m	2014 £m
Less than 50%	372.5	225.3
50% to 60%	222.3	184.9
60% to 70%	225.8	155.9
70% to 80%	270.7	82.0
80% to 90%	104.7	47.8
90% to 100%	0.8	0.1
Greater than 100%	-	-
Total*	**1,196.8**	**696.0**

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

35 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 personal customers in the UK and Ireland, although it also has exposure to wholesale counterparties as detailed below. For on balance sheet assets, the balances set out below are based on net carrying amounts as reported in the statement of financial position.

Maximum credit risk exposures to industry sectors

	2015 £m	2014 £m
Financial institutions	608.1	539.5
Government	1,867.2	2,114.7
Individuals	19,231.4	16,553.2
Wholesale and retail trade	23.3	345.7
Total	**21,730.0**	**19,553.1**

iv. Credit Risk: Asset quality

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

Controls and Risk Mitigants

The Group's asset quality is reflected through the level of its impairment by lending type. Asset quality profiles are regularly monitored and reported to the appropriate senior management team and risk committees.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to banking assets; the retail instalment lending applies to credit agreements in the Insurance business. The balances set out below are based on gross loans and advances as provided in Note 14.

Credit quality of loans and advances 2015

	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	38.8	-	-	38.8
90–179 days past due	35.4	-	-	35.4
180 days plus past due	70.1	-	-	70.1
Past due but not defaulted				
0–29 days past due	33.7	1.8	0.2	35.7
30–59 days past due	9.3	-	0.1	9.4
60–89 days past due	6.0	-	-	6.0
Over 90 days past due	-	-	0.3	0.3
Neither past due nor defaulted				
Low risk *	6,237.9	1,194.8	153.9	7,586.6
High risk **	76.3	6.2	-	82.5
Total	**6,507.5**	**1,202.8**	**154.5**	**7,864.8**

35 Risk Management – Credit Risk (continued)

Credit quality of loans and advances 2014	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	44.9	-	-	44.9
90–179 days past due	39.8	-	-	39.8
180 days plus past due	75.2	-	-	75.2
Past due but not defaulted				
0–29 days past due	37.6	0.1	0.7	38.4
30–59 days past due	9.0	-	0.2	9.2
60–89 days past due	6.2	-	-	6.2
Over 90 days past due	-	-	0.2	0.2
Neither past due nor defaulted				
Low risk *	5,904.2	692.4	166.3	6,762.9
High risk **	98.1	4.0	-	102.1
Total	6,215.0	696.5	167.4	7,078.9

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

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

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

v. Credit Risk: Collateral

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

Controls and Risk Mitigants

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

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

The table below details the value of property collateral held against the Group's mortgage portfolio as at 28 February 2015.

Collateral held against mortgage portfolio	2015 £m	2014 £m
Exposure*	1,196.8	696.0
Collateral	2,340.9	1,388.3
Cover	195.6%	199.5%

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 Risk Management – Credit Risk (continued)

vi. Credit Risk: Forbearance

The Group could be exposed to unacceptable levels of bad debt and also suffer reputational damage 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 which temporarily allow the customer to pay an amount other than the contractual amounts due. These temporary arrangements may be initiated by the customer or the Group where financial distress would prevent repayment within the original terms and conditions of the contract. The main aim of forbearance is to support the customers in returning to a position where they are able to meet their contractual obligations.

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

- Arrangements to repay arrears over a period of time, by making payments above the contractual amount, that 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.

During the year the Group has adopted the definition of forbearance in the European Banking Authority (EBA)'s final draft Implementing Technical Standards (ITS) of July 2014. The Group reports all accounts meeting this definition, providing for them appropriately.

The table below details the values of secured and unsecured advances that are subject to forbearance programmes, in accordance with the EBA definition. The comparatives at 28 February 2014 have been amended to present these on a consistent basis with the current year presentation.

	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	
	2015	2014	2015	2014	2015	2014
	£m	£m	%	%	%	%
Credit cards UK	56.1	46.8	1.6	1.4	60.4	62.5
Credit cards euro	1.0	1.3	3.3	3.6	41.4	56.6
Credit cards commercial	0.1	-	3.5	2.3	87.7	84.6
Loans	29.4	33.1	1.0	1.3	62.7	60.3
Mortgages	1.3	0.4	0.1	0.1	0.0	0.0

35 Risk Management – Credit Risk (continued)

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. The Group is subject to the Standardised Approach (TSA) method to calculate Pillar I Operational Risk capital, as outlined in Capital Requirement Regulations (CRR) published on 27 June 2013 in the Official Journal of the European Union.

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

The CRO and the Director of Operational Risk and Financial Crime, together with a dedicated Operational Risk team, are responsible for:

i. developing and maintaining the operational risk framework;
ii. working with relevant business areas to ensure that first line responsibilities are understood and those responsibilities should be executed within the framework;
iii. supporting relevant business areas to embed policies, frameworks and instilling a positive risk management culture; and
iv. independently monitoring, assessing and reporting on operational risk profiles and losses.

The Operational Risk function maintains a suite of policies defining the minimum requirements for the management of Operational Risk, Financial Crime and Information Security.

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

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

c) Liquidity and Funding Risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 Risk Management – Liquidity and Funding Risk (continued)

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

The Group measures and manages liquidity adequacy in line with the above metrics on a daily basis and maintains a conservative liquidity and funding profile to ensure it is able to meet its financial obligations under normal, and stressed, market conditions.

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

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

Stress testing of current and forecast financial positions is conducted to inform the Group of required liquidity resources. Reverse stress testing is conducted to inform the Group of the circumstances that would result in liquidity resources being exhausted. Liquidity stress tests are presented to the Liquidity Management Forum (LMF) and ALCo on a regular basis to provide evidence that sufficient liquidity is held to meet financial obligations in a stress.

The Treasury Director is responsible for formulating, and obtaining Board approval for, an annual funding plan as part of the overall business planning process. The Group is predominantly funded by its retail deposit base which reduces reliance on wholesale funding and, in particular, results in minimal short-term wholesale funding. A significant part of these retail deposits are repayable on demand on a contractual basis. The Group continuously monitors retail deposit activity to ensure that it can reasonably predict 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.

Expected maturity dates do not differ significantly from the contract dates, except for floating rate bonds where the expected redemption date has been provided in note 26, and 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.

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

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

Primary funding sources	**2015**	**2014**
	£m	**£m**
On balance sheet		
Deposits from banks	106.5	779.8
Deposits from customers	6,914.8	6,082.4
Subordinated liabilities	190.0	190.0
Debt securities in issue	898.0	394.8
Subordinated notes	45.0	45.0
Total on balance sheet funding	**8,154.3**	7,492.0
Off balance sheet		
Treasury bills drawn under FLS (net of repurchase agreements)*	738.9	510.0
Total off balance sheet funding	**738.9**	510.0

* FLS drawdowns of £789m (2014: £1,214m) are shown net of Treasury bills used as collateral in repurchase agreements £50.1m (2014: £704m).

35 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

2015	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m	Total £m
Financial assets							
Cash and balances at central banks*	626.5	-	-	-	-	-	626.5
Loans and advances to customers	4,715.8	884.9	717.4	511.7	330.0	1,523.0	8,682.8
Investment securities							
– Available-for-sale	131.6	118.0	100.6	66.2	53.8	407.9	878.1
– Loans and receivables	35.2	-	-	-	-	-	35.2
Other assets*	200.8	-	-	-	-	-	200.8
Total financial assets	**5,709.9**	**1,002.9**	**818.0**	**577.9**	**383.8**	**1,930.9**	**10,423.4**
Financial liabilities:							
Deposits from banks	107.1	-	-	-	-	-	107.1
Deposits from customers	5,933.6	579.0	133.9	148.7	175.9	0.2	6,971.3
Debt securities in issue	-	-	-	125.0	210.0	550.0	885.0
Derivatives settled on a net basis							
– Derivatives in economic but not accounting hedges	0.5	0.9	(2.2)	(1.2)	(0.1)	(0.1)	(2.2)
– Derivatives in accounting hedge relationships	26.6	16.3	8.9	7.2	(7.6)	16.1	67.5
Derivatives settled on a gross basis							
– Outflows	21.9	0.4	57.9	-	-	-	80.2
– Inflows	(25.7)	(0.9)	(63.4)	-	-	-	(90.0)
Interest payment on borrowings	26.1	28.4	30.8	28.9	23.7	39.0	176.9
Other liabilities	143.1	-	-	-	-	-	143.1
Subordinated liabilities	-	-	-	-	-	190.0	190.0
Total financial liabilities	**6,233.2**	**624.1**	**165.9**	**308.6**	**401.9**	**795.2**	**8,528.9**
Gap analysis	**(523.3)**	**378.8**	**652.1**	**269.3**	**(18.1)**	**1,135.7**	**1,894.5**

* On a Company basis, Cash and balances with central banks is £564.1m (2014: £437.8m) and Other assets is £251.5m (2014: £343.1m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 Risk Management – Liquidity and Funding Risk (continued)

Liquidity and funding risk on financial assets and liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 Risk Management – Liquidity and Funding Risk (continued)

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

During the year the Group has adopted the definition of encumbered and unencumbered in the European Banking Authority (EBA)'s final guidelines on disclosure of June 2014. An asset is defined as encumbered if it has been pledged as collateral against an existing on or off balance sheet liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it has not been pledged against an existing liability. The comparatives at 28 February 2014 have been amended to present these on a consistent basis with the current year presentation.

Group 2015	Encumbered £m	Unencumbered £m	Total £m
Encumbered asset summary			
Cash and balances with central banks*	-	626.3	626.3
Investment securities – available-for-sale	43.3	784.0	827.3
Loans and advances to customers	2,274.5	5,450.8	7,725.3
	2,317.8	**6,861.1**	**9,178.9**
Encumbered investment securities – available-for-sale			
Repurchase transaction collateral**	**43.3**		
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	2,274.5		
Personal loans	-		
	2,274.5		

* On a Company basis, Cash and balances with central banks is £563.9m (2014: £437.8m), of which £nil (2014: £nil) is encumbered and £563.9m (2014: £437.8m) is unencumbered.

** Market value of securities posted as collateral.

2014	Encumbered £m	Unencumbered £m	Total £m
Encumbered asset summary			
Cash and balances with central banks*	-	494.0	494.0
Investment securities – available-for-sale	60.9	789.4	850.3
Loans and advances to customers	2,521.3	4,400.7	6,922.0
	2,582.2	5,684.1	8,266.3
Encumbered investment securities – available-for-sale			
Repurchase transaction collateral**	60.9		
Encumbered loans and advances to customers			
Securitisation – Delamare Master Trust	1,964.3		
Personal loans	557.0		
	2,521.3		

** Market value of securities posted as collateral

d) Market Risk

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

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

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

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

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

Controls and Risk Mitigants
The Group has established limits for 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 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. The present value of equity is derived by calculating the difference between the present value of assets and liabilities (Equity = Assets - Liabilities). The EVE calculation for the Group is subject to sensitivity analysis comprising +200 and -200 basis point movements across the yield curve. This is then expressed as a percentage change from the current capital resources.

- **Net Interest Income (NII) Sensitivity** – This measures the effect of a +1.0%; -0.5% parallel interest rate shock on the next 12 months NII, based on the re-pricing gaps in the existing portfolio.

Measure	2015	2014
Economic Value of Equity	(3.92%)	(1.16%)
NII Sensitivity	(0.09%)	(0.95%)

35 Risk Management – Market Risk (continued)

The EVE reduction over the prior year is driven by hedging activity to mitigate the potential impact of interest rate shocks. NII sensitivity has reduced year on year as a result of an increase in hedging activity.

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

The table below summarises the interest rate sensitivity gap for the Group as at 28 February 2015. 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.

Interest rate sensitivity gap of assets and liabilities

2015	**Within 3 months £m**	**After 3 months, but within 6 months £m**	**After 6 months, but within 1 year £m**	**After 1 year, but within 5 years £m**	**After 5 years £m**	**Non-interest bearing funds £m**	**Total £m**
Assets:							
Cash and balances with central banks*	613.3	-	-	-	-	13.0	**626.3**
Loans and advances to customers	2,076.8	548.9	859.1	2,668.3	105.5	1,466.7	**7,725.3**
Investment securities:							
- Available-for-sale	102.1	25.3	15.2	285.2	389.1	10.4	**827.3**
- Loans and receivables	34.1	-	-	-	-	-	**34.1**
Other financial assets*	61.4	-	-	-	-	171.1	**232.5**
Non financial assets*	-	-	-	-	-	614.2	**614.2**
Total assets	**2,887.7**	**574.2**	**874.3**	**2,953.5**	**494.6**	**2,275.4**	**10,059.7**
Deposits from banks	52.8	7.1	46.6	-	-	-	**106.5**
Deposits from customers	4,373.8	500.3	990.4	1,008.3	-	42.0	**6,914.8**
Debt securities in issue	500.0	-	-	185.0	200.0	13.0	**898.0**
Other financial liabilities	2.5	-	-	-	-	227.5	**230.0**
Subordinated liabilities	190.0	-	-	-	-	-	**190.0**
Non financial liabilities	-	-	-	-	-	249.8	**249.8**
Shareholders' equity*	45.0	-	-	-	-	1,425.6	**1,470.6**
Total liabilities and equity	**5,164.1**	**507.4**	**1,037.0**	**1,193.3**	**200.0**	**1,957.9**	**10,059.7**
On Statement of financial position Interest rate sensitivity gap	(2,276.4)	66.8	(162.7)	1,760.2	294.6	317.5	-
Notional value of derivatives	3,080.1	(198.0)	(232.4)	(2,459.9)	(189.8)	-	-
Cumulative Interest rate sensitivity gap	**803.7**	**672.5**	**277.4**	**(422.3)**	**(317.5)**	**-**	**-**

* On a Company basis, Cash and balances with central banks is £563.9m, Other financial assets is £283.2m, Non financial assets is £605.5m and Shareholders' equity is £1,462m. These remain in the same categories as above.

35 Risk Management – Market Risk (continued)

Contractual interest rate sensitivity gap of assets and liabilities

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

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

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 Euro-denominated Irish credit card exposure and through invoices received which are denominated in foreign currencies.

Controls and Risk Mitigants

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

35 Risk Management – Market Risk (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 28 February 2015. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Maximum exposure to foreign exchange risk 2015	EUR £m	USD £m	GBP £m	Other £m	Total £m
Financial assets					
Cash and balances with central banks*	6.7	2.0	615.3	2.3	626.3
Loans and advances to customers	31.0	-	7,694.3	-	7,725.3
Derivative financial instruments	-	-	31.7	-	31.7
Investment securities:					
– Available-for-sale	37.4	36.0	745.9	8.0	827.3
– Loans and receivables	-	-	34.1	-	34.1
Other assets*	0.2	-	200.6	-	200.8
Total financial assets	**75.3**	**38.0**	**9,321.9**	**10.3**	**9,445.5**
Financial liabilities					
Deposits from banks	-	-	106.5	-	106.5
Deposits from customers	-	-	6,914.8	-	6,914.8
Debt securities in issue	-	-	898.0	-	898.0
Derivative financial instruments	-	-	86.9	-	86.9
Other liabilities	(0.2)	-	143.2	-	143.0
Subordinated liabilities	-	-	190.0	-	190.0
Total financial liabilities	**(0.2)**	**-**	**8,339.4**	**-**	**8,339.2**

* On a Company basis, Cash and balances with central banks is £563.9m, and Other assets is £251.5m. These remain in the same categories as above.

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

* On a Company basis, Cash and balances with central banks was £437.8m, and Other assets £343.1m. These remain in the same categories as above.

35 Risk Management – Market Risk (continued)

iii. Tesco Underwriting Limited Investment Portfolio

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

The main risks relate to changes in:

i. interest rates affecting fair value arising as a proportion of the bonds are fixed rate in nature,
ii. credit quality, as the range of assets held are issued by a variety of institutions with different credit characteristics.

Controls and Risk Mitigants

Portfolio management is undertaken by the TU investment committee. The Group's Risk function provides oversight and challenge.

iv. Investment risk relating to pension obligations

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

e) Insurance Risk

The Group defines insurance risk as the risk accepted through insurance products in return for a premium. These risks may or may not occur and the amount and timing of these risks are uncertain and determined by events outside of the Group's control (e.g. flood or vehicular accident). 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:

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

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

Controls and Risk Mitigants

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

f) Residual Price Risk

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

Controls and Risk Mitigants

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

35 Risk Management – Market Risk (continued)

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

Impact of 10 % shock in market prices	Fair value 2015 £m	2014 £m	Impact of 10% shock 2015 £m	2014 £m	Value after 10% shock 2015 £m	2014 £m
Available-for-sale:						
Government-backed investment securities	93.8	161.8	(9.4)	(16.2)	84.4	145.6
Gilts	492.9	399.6	(49.3)	(40.0)	443.6	359.6
Supranational investment securities	202.7	274.7	(20.3)	(27.5)	182.4	247.2
Other investment securities	37.9	14.2	(3.8)	(1.4)	34.1	12.8
Certificates of deposit *	-	-	-	-	-	-
Asset-backed securities	-	-	-	-	-	-
	827.3	850.3	(82.8)	(85.1)	744.5	765.2

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

g) Legal and Regulatory Compliance 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, regulatory arrangements, business activities, risk management and conduct towards 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

As part of the Group's Policy Framework, a dedicated Regulatory Advice and Compliance team is responsible for the Compliance Policy which is approved by the Group's Board, as well as monitoring, challenge and oversight of regulatory risk and compliance across the Group's business. Guidance and advice to enable the business to operate in a compliant manner is provided by the Regulatory Risk and Regulatory Legal teams.

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

Business areas manage conduct risk and use a range of management information to monitor the fair treatment of customers. A framework of product-led conduct management information has been developed and is reviewed by senior management in the business lines. Customer outcomes are also assessed as part of the development and design of new products and through annual product reviews of existing products. The Conduct Committee and the Board review and challenge delivery of fair outcomes for customers and are provided with oversight of the management information. The Group has established organisational capacity to deal with ongoing reactive customer complaints and to action the root cause of them. Customer research and insight supports the Group's understanding of customer outcomes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 Financial Instruments

Classification of financial assets and liabilities

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

Group 2015	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	Available-for-sale £m	Total £m
Financial assets					
Cash and balances at central banks	626.3	-	-	-	626.3
Loans and advances to customers	7,725.3	-	-	-	7,725.3
Derivative financial instruments	-	-	31.7	-	31.7
Investment securities:					
- Available-for-sale	-	-	-	827.3	827.3
- Loans and receivables	34.1	-	-	-	34.1
Other assets	200.8	-	-	-	200.8
Total financial assets	**8,586.5**	**-**	**31.7**	**827.3**	**9,445.5**
Financial liabilities					
Deposits from banks	-	106.5	-	-	106.5
Deposits from customers	-	6,914.8	-	-	6,914.8
Debt securities in issue	-	898.0	-	-	898.0
Derivative financial instruments	-	-	86.9	-	86.9
Other liabilities	-	143.0	-	-	143.0
Subordinated liabilities	-	190.0	-	-	190.0
Total financial liabilities	**-**	**8,252.3**	**86.9**	**-**	**8,339.2**

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.

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

36 Financial Instruments – classification (continued)

Company 2015	Loans and receivables £m	Other (amortised cost) £m	Derivatives held for hedging £m	Available-for-sale £m	Total £m
Financial assets					
Cash and balances at central banks	563.9	-	-	-	563.9
Loans and advances to customers	7,725.3	-	-	-	7,725.3
Derivative financial instruments	-	-	31.7	-	31.7
Investment securities:					
- Available-for-sale	-	-	-	827.3	827.3
- Loans and receivables	34.1	-	-	-	34.1
Other assets	251.5	-	-	-	251.5
Total financial assets	**8,574.8**	**-**	**31.7**	**827.3**	**9,433.8**
Financial liabilities					
Deposits from banks	-	106.5	-	-	106.5
Deposits from customers	-	6,914.8	-	-	6,914.8
Debt securities in issue	-	399.9	-	-	399.9
Derivative financial instruments	-	-	86.9	-	86.9
Other liabilities	-	629.3	-	-	629.3
Subordinated liabilities		190.0	-	-	190.0
Total financial liabilities	**-**	**8,240.5**	**86.9**	**-**	**8,327.4**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 Financial Instruments (continued)

Offsetting

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

Offsetting of financial assets and liabilities
Group and Company
2015

	Gross amount of recognised financial assets/ (liabilities) £m	Gross amount of recognised financial assets/ (liabilities) set off in statement of financial position £m	Net amount of financial assets/ (liabilities) presented in statement of financial position £m	Related amounts not set off in the statement of financial position Financial instruments £m	Cash collateral (received)/ paid £m	Net amount £m
Financial assets offset						
Derivative financial instruments	31.7	-	31.7	(29.5)	(2.4)	(0.2)
Total financial assets offset	**31.7**	**-**	**31.7**	**(29.5)**	**(2.4)**	**(0.2)**
Financial liabilities offset						
Derivative financial instruments	(86.9)	-	(86.9)	29.5	61.0	3.6
Repurchases, securities lending and similar agreements*	(97.4)	-	(97.4)	103.3	0.3	6.2
Total financial liabilities offset	**(184.3)**	**-**	**(184.3)**	**132.8**	**61.3**	**9.8**

* Repurchases, securities lending and similar agreements are included within the Deposits from Banks balance of £106.5m (2014: £779.8m) in the statement of financial position.

Offsetting of financial assets and liabilities
Group and Company
2014

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

The counterparty has the right to sell or repledge cash collateral (received)/paid.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 Financial Instruments – offsetting (continued)

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

Fair values of financial assets and financial liabilities

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

Group	2015		2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets:				
Loans and advances to customers	7,725.3	7,777.1	6,922.0	6,852.3
Investment securities – loans and receivables	34.1	35.0	34.1	36.1
	7,759.4	**7,812.1**	**6,956.1**	**6,888.4**
Financial liabilities:				
Deposits from customers	6,914.8	6,873.4	6,082.4	6,048.3
Debt securities in issue	898.0	903.8	394.8	405.1
Subordinated liabilities	190.0	157.1	190.0	211.8
	8,002.8	**7,934.3**	**6,667.2**	**6,665.2**

Company	2015		2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets:				
Loans and advances to customers	7,725.3	7,777.1	6,922.0	6,852.3
Investment securities – loans and receivables	34.1	35.0	34.1	36.1
	7,759.4	**7,812.1**	**6,956.1**	**6,888.4**
Financial liabilities:				
Deposits from customers	6,914.8	6,873.4	6,082.4	6,048.3
Debt securities in issue	399.9	403.7	394.8	405.1
Subordinated liabilities	190.0	157.1	190.0	211.8
	7,504.7	**7,434.2**	**6,667.2**	**6,665.2**

The only financial assets and financial liabilities which are carried at fair value on the Statement of Financial Position are available-for-sale investment securities and derivative financial assets and financial liabilities. The valuation techniques and inputs used to derive fair values at the year end are described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where an active market is considered to exist, fair values are based on quoted prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 Financial Instruments - Fair values (continued)

In each case the fair value is calculated by discounting future cash flows using benchmark observable market interest rates based on LIBOR rather than Overnight Index Swaps (OIS) as using OIS would have no significant impact. This is kept under review.

The table below categorises all financial instruments held at fair value and the fair value of financial instruments held at amortised cost according to the method used to establish the fair value disclosed. The fair values of all financial instruments are measured on a recurring basis.

Group 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as available-for-sale	827.3	-	-	827.3
Derivative financial instruments:				
Interest rate swaps	-	20.2	-	20.2
Forward foreign currency contracts	-	1.8	-	1.8
Cross currency swaps	-	9.7	-	9.7
Financial assets carried at amortised cost				
Loans and advances to customers	-	-	7,777.1	7,777.1
Investment securities – loans and receivables	-	35.0	-	35.0
Total	**827.3**	**66.7**	**7,777.1**	**8,671.1**
Financial liabilities carried at fair value				
Derivative financial instruments:				
Interest rate swaps	-	86.4	-	86.4
Cross currency swaps	-	0.5	-	0.5
Financial liabilities carried at amortised cost				
Deposits from customers	-	-	6,873.4	6,873.4
Debt securities in issue	903.8	-	-	903.8
Subordinated liabilities	-	157.1	-	157.1
Total	**903.8**	**244.0**	**6,873.4**	**8,021.2**

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 Financial Instruments - Fair values (continued)

Company 2015	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets carried at fair value				
Financial assets classified as available-for-sale	827.3	-	-	827.3
Derivative financial instruments:				
Interest rate swaps	-	20.2	-	20.2
Forward foreign currency contracts	-	1.8	-	1.8
Cross currency swaps	-	9.7	-	9.7
Financial assets carried at amortised cost				
Loans and advances to customers	-	-	7,777.1	7,777.1
Investment securities – loans and receivables	-	35.0	-	35.0
Total	**827.3**	**66.7**	**7,777.1**	**8,671.1**
Financial liabilities carried at fair value				
Derivative financial instruments:				
Interest rate swaps	-	86.4	-	86.4
Cross currency swaps	-	0.5	-	0.5
Financial liabilities carried at amortised cost				
Deposits from customers	-	-	6,873.4	6,873.4
Debt securities in issue	403.7	-	-	403.7
Subordinated liabilities	-	157.1	-	157.1
Total	**403.7**	**244.0**	**6,873.4**	**7,521.1**

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

There are three levels to the hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 Financial Instruments - Fair values (continued)

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).

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

a) Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and FX rates; or
b) Have future cash flows which are not pre-defined, but for which the fair value of the instrument has very low sensitivity to changes in estimate of future cash flows.

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

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

Fair values of investment securities classified as loans and receivables are based on quoted prices, where available, or by using discounted cash flows applying market rates.

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

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

Loans and advances to customers 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.

The estimated fair value of deposits from customers 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.

There were no transfers between Level 1 and Level 2 in the year to 28 February 2015 (2014: no transfers).

During the year to 28 February 2015, Loans and advances to customers and Deposits from customers were transferred from Level 2 to Level 3 (2014: no transfers) following review by Management of the fair value methodology applied to these balances, which are designated at amortised cost in the statement of financial position. The fair value of these balances now includes adjustments for internal expected credit losses (2014: external market data).

37 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with short term maturities from the date of acquisition:

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Cash and balances with central banks* (refer note 13)	613.3	484.6	550.9	428.4
	613.3	484.6	550.9	428.4

* Mandatory reserve deposits held within the Bank of England of £13m (2014: £9.4m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have short term maturities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

38 Cash Outflow From Operating Activities

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Loan impairment charges (refer note 9)	48.4	55.0	48.4	55.0
Depreciation and amortisation (refer notes 22 & 23)	80.5	71.5	80.5	71.5
Gain on disposal of investment securities (refer note 7)	(0.2)	(1.0)	(0.2)	(1.0)
Intangible Asset Impairment (refer note 22)	3.6	-	3.6	-
Loss on disposal of non current assets (refer notes 22 & 23)	6.7	1.6	6.8	1.6
Provision for customer redress (refer note 27)	27.0	63.0	27.0	63.0
Impairment loss on amounts due from insurance business (refer note 9)	4.3	5.8	4.3	5.8
Share of profit of joint venture (refer note 20)	(5.3)	(2.4)	-	-
Dividend received from joint venture (refer note 20)	-	-	(7.4)	-
Insurance policy cancellation provision (refer note 27)	0.1	(0.1)	0.1	(0.1)
Warranty provision (refer note 27)	-	1.3	-	1.3
Equity settled share based payments	5.5	1.2	5.5	1.2
Interest on subordinated liabilities (refer note 4)	3.4	4.6	3.4	4.6
Interest on tax balances	-	(0.5)	-	(0.5)
Fair value movements	26.3	13.9	26.4	13.9
Non cash items included in operating profit before taxation	**200.3**	**213.9**	**198.4**	**216.3**
Net movement in mandatory balances with central banks	(3.6)	(4.1)	(3.6)	(4.1)
Net movement in loans and advances to customers	(845.6)	(1,431.4)	(845.6)	(1,431.4)
Net movement in prepayments and accrued income	(13.9)	6.8	(13.9)	6.8
Net movement in other assets	(60.8)	(34.8)	(53.4)	(92.8)
Net movement in deposits from banks	(673.3)	764.6	(673.3)	764.6
Net movement in deposits from customers	832.4	78.9	832.4	78.9
Net movement in accruals and deferred income	7.4	10.1	7.4	10.1
Provisions utilised	(42.5)	(60.7)	(42.5)	(60.7)
Net movement in other liabilities	17.6	9.0	17.4	10.9
Changes in operating assets and liabilities	**(782.3)**	**(661.6)**	**(775.1)**	**(717.7)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

39 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:

	2015 £m	2014 £m
Movement in common equity tier 1:		
At the beginning of the year	913.6	705.4
Ordinary shares issued	-	140.0
Profit attributable to shareholders	131.3	115.9
Gains and losses on liabilities arising from own credit	(0.1)	-
Other reserves	13.5	1.2
Ordinary dividends	(50.0)	(100.0)
Dividends to holders of other equity	(1.2)	(1.1)
Movement in intangible assets	25.1	(30.3)
Movement in material holdings in financial sector entities	3.3	11.2
CRD IV adjustments:	-	-
Deferred tax liabilities related to intangible assets	5.6	32.2
Material holdings in financial sector entities	-	39.1
At the end of the year	**1,041.1**	**913.6**

NOTES TO THE FINANCIAL STATEMENTS (continued)

39 Capital Resources (continued)

	End point 2015 £m	Transitional 2015 £m	2014 £m
Common equity tier 1			
Shareholders' equity (accounting capital)	1,462.0	1,462.0	1,375.2
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)
Unrealised losses on cash flow hedge reserve	(0.7)	(0.7)	(1.7)
Adjustment to own credit	(0.1)	(0.1)	-
Intangible assets	(402.6)	(402.6)	(427.7)
Deferred tax liabilities related to intangible assets	37.7	37.7	32.2
Material holdings in financial sector entities	-	(10.2)	(13.5)
Core tier 1 capital	**1,051.3**	**1,041.1**	**913.6**
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	190.0
Collectively assessed impairment provisions	36.1	36.1	32.8
Tier 2 capital (instruments and provisions) before regulatory adjustments	271.1	271.1	267.8
Regulatory adjustments			
Material holdings in financial sector entities	(34.1)	(23.9)	(20.6)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(34.1)	(23.9)	(20.6)
Total tier 2 capital (instruments and provisions)	**237.0**	**247.2**	**247.2**
Total capital	**1,288.3**	**1,288.3**	**1,160.8**
Total risk weighted assets (unaudited)	**6,844.2**	**6,844.2**	**6,546.8**
Common equity tier 1 ratio (unaudited)	**15.4%**	**15.2%**	**14.0%**
Tier 1 ratio (unaudited)	**15.4%**	**15.2%**	**14.0%**
Total capital ratio (unaudited)	**18.8%**	**18.8%**	**17.7%**

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

	2015 £m	2014 £m
Tesco Personal Finance plc (Group) shareholders' equity	1,470.6	1,381.4
Share of joint venture's retained earnings	(8.0)	(10.1)
Subsidiaries' retained earnings	-	-
Share of joint venture's available-for-sale reserve	(0.6)	3.9
Tesco Personal Finance plc (Company) shareholders' equity	**1,462.0**	**1,375.2**

NOTES TO THE FINANCIAL STATEMENTS (continued)

39 Capital Resources (continued)

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

Leverage Ratio (unaudited)

The Basel III reforms include the introduction of a capital leverage measure defined as the ratio of tier 1 capital to total exposure. This is intended to reinforce the risk based capital requirements with a simple, non-risk based 'backstop' measure. The Basel Committee have proposed that final adjustments to the definition and calibration of the leverage ratio be carried out in 2017, with a view to migrating to a Pillar 1 treatment in 2018. In January 2015 the European Commission revised the CRD IV leverage rules to closely align to the Basel III Leverage Framework.

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

Exposures for leverage ratio (unaudited) **2015**	**End point** **£m**	**Transitional** **£m**
Total balance sheet exposures	10,039.3	10,039.3
Removal of accounting value of derivatives and SFTs	(29.1)	(29.1)
Exposure value for derivatives and SFTs	60.1	60.1
Off balance sheet: unconditionally cancellable (10%)	1,142.0	1,142.0
Off balance sheet: other (20%)	13.6	13.6
Regulatory adjustment – intangible assets	(402.6)	(402.6)
Regulatory adjustment – other	-	(10.2)
Total	**10,823.3**	**10,813.1**
Common equity tier 1	**1,051.3**	**1,041.1**
Leverage ratio	**9.7%**	**9.6%**

The Company's estimated end point leverage ratio is 9.7%. 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 the higher of this internal assessment and regulatory requirements. Capital adequacy and performance against Capital plan is monitored daily by Treasury, with monthly reporting provided to the Board, ALCO and CMF.

40 Related Party Transactions

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

a) Transactions involving Directors and other key connected persons

For the purposes of IAS 24 "Related Party Disclosures", key management personnel comprise Directors of the Group. The captions in the Group's primary Financial Statements include the following amounts attributable, in aggregate, to key connected persons.

Group and Company	2015 £m	2014 £m
Loans and advances to customers		
At the beginning of the year	0.1	-
Loans issued during the year	0.1	0.1
Loan repayments during the year	(0.1)	-
Loans outstanding at the end of the year	**0.1**	0.1
Interest income earned	-	-
Deposits from customers		
Deposits at the beginning of the year	1.0	1.7
Deposits received during the year	0.9	0.5
Deposits repaid during the year	-	(1.2)
Deposits at the end of the year	**1.9**	1.0
Interest expense on deposits	-	-

No provisions have been recognised in respect of loans and advances to related parties (2014: £nil).

b) Remuneration of key management personnel

The amount of remuneration incurred by the Group in relation to the Directors is set out below in aggregate. Further information about the remuneration of Directors is provided in note 10.

Group and Company	2015 £m	2014 £m
Short-term employee benefits	3.7	3.8
Termination benefits	-	-
Post employment benefits	-	-
Other long term benefits	-	-
Share based payments	0.7	0.2
Total emoluments	**4.4**	4.0

40 Related Party Transactions (continued)

c) Trading transactions

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

Group	2015 Tesco PLC £m	2015 Tesco PLC subsidiaries £m	2015 Tesco Underwriting Limited £m	2014 Tesco PLC £m	2014 Tesco PLC subsidiaries £m	2014 Tesco Underwriting Limited £m
Interest received and other income	0.1	9.6	1.5	0.3	12.4	1.7
Dividend received	-	-	7.4	-	-	-
Interest paid	-	(3.4)	-	(0.1)	(4.6)	-
Provision of services	-	(132.5)	(0.1)	-	(148.6)	-
Deposit with parent	(145)	-	-	145	-	-

Company	2015 Tesco PLC £m	2015 Tesco PLC subsidiaries £m	2015 Tesco Underwriting Limited £m	2014 Tesco PLC £m	2014 Tesco PLC subsidiaries £m	2014 Tesco Underwriting Limited £m
Interest received and other income	0.1	9.6	1.5	0.3	12.4	1.7
Dividend received	-	-	7.4	-	-	-
Interest paid	-	(8.1)	-	(0.1)	(4.9)	-
Provision of services	-	(132.5)	(0.1)	-	(148.6)	-
Deposit with parent	(145)	-	-	145	-	-

Balances owing to/from related parties are identified in notes 16, 18, 25, 26, 28, 29, and 30.

For the year ended 28 February 2015 the Group and Company generated 60% (2014: 60%) of its insurance commission from the sale and service of Motor and Home insurance policies underwritten by TU, a joint venture company and therefore a related party. Customer premiums on such sales are collected directly by the Group and the net premium is remitted to TU.

Investment transactions with TU are identified in note 20.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

41 Contingent Liabilities and Commitments

a) Contingent Liabilities - The Financial Services Compensation Scheme (FSCS)

The FSCS is the UK statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable or likely to be 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 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. Any shortfall is being recovered by raising compensation levies on all deposit-taking participants over a three year period, which commenced in August 2013.

Each deposit-taking institution contributes in proportion to its share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March. As detailed in note 1, the adoption of IFRIC 21 'Levies' in the year has clarified that the obligating event which gives rise to the liability is the start of the FSCS scheme year rather than the 31 December balance date.

As at 28 February 2015 the Group has accrued £2.3m (2014: £6.7m) 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.

b) Lending commitments

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

Group and Company	2015 £m	2014 £m
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than one year		
Mortgage commitments	67.9	91.0
Credit card commitments	11,420.7	9,620.3
Current account overdraft commitments	1.3	-
Clubcard Plus overdraft commitments	5.6	5.8
Total commitments	**11,495.5**	9,717.1

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 received the funds.

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.

Under a Current account or Clubcard Plus overdraft commitment the Group agrees to make funds available to a customer in the future. Current account overdraft commitments are usually for a specified term, may be unconditionally cancellable or may persist, providing all facility conditions are satisfied or waived.

NOTES TO THE FINANCIAL STATEMENTS (continued)

41 Contingent Liabilities and Commitments (continued)

c) Capital commitments

At 28 February 2015 the Group and Company had capital commitments related to property, plant and equipment of £0.3m (2014: £0.1m) and intangible assets of £0.4m (2014: £1.3m). This is in respect of IT software development and IT hardware. The Group's management is confident that future net revenues and funding will be sufficient to cover this commitment.

d) Operating lease commitments

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

Group and Company	2015 £m	2014 £m
No later than one year	5.2	5.2
Later than one year and no later than five years	21.3	20.9
Later than five years	49.8	55.5
	76.3	81.6

42 Share Based Payments

The Group charge for the year recognised in respect of share-based payments is £6.6m (2014: £3.2m), which is made up of share option schemes and share bonus payments. Of this amount £6.0m (2014: £2.2m) will be equity settled and £0.6m (2014: £0.9m) cash settled.

a) Share Option Schemes

The Group had three option schemes in operation during the year, all of which are equity-settled schemes using Tesco PLC shares:

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

ii) The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

42 Share Based Payments (continued)

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

	Savings-related share option scheme Options	Savings-related share option scheme WAEP (pence)	Approved share option scheme Options	Approved share option scheme WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding as at 28 February 2014	**909,125**	**320.51**	**298,831**	**340.48**	**347,608**	**348.55**
Granted	2,945,989	150.00	-	-	-	-
Forfeited	(537,163)	307.11	(53,190)	338.40	(66,499)	338.40
Exercised	(265)	282.00	-	-	-	-
Outstanding as at 28 February 2015	**3,317,686**	**171.27**	**245,641**	**340.93**	**281,109**	**350.95**
Exercisable at 28 February 2015	**73,270**	**355.15**	**245,641**	**340.93**	**281,109**	**350.95**
Exercise price range (pence)	-	**328.00 to 364.00**	-	**338.40 to 427.00**	-	**338.40 to 427.00**
Weighted average remaining contractual life (years)	-	**0.42**	-	**4.65**	-	**4.06**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42 Share Based Payments (continued)

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

Share options were exercised on a regular basis throughout the financial year. The average Tesco PLC share price during the year ended 28 February 2015 was 244.08p (2014: 351.00p).

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

	2015 Savings-related share option scheme	**2015 Executive Share Option Schemes**	2014 Savings-related share option scheme	2014 Executive Share Option Schemes
Expected Dividend Yield (%)	2.4%	-	4.6%	-
Expected Volatility (%)	22 – 24%	-	21 – 23%	-
Risk free interest rate (%)	0.9 – 1.3%	-	1.2 – 1.8%	-
Expected life of option (years)	3 or 5	-	3 or 5	-
Weighted average fair value of options granted (pence)	35.08	-	47.07	-
Probability of forfeiture (%)	14 – 16%	-	14 – 16%	-
Share price (pence)	187.00	-	362.00	-
Weighted average exercise price (pence)	150.00	-	322.00	-

42 Share Based Payments (continued)

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

b) Share Bonus Schemes

Eligible UK colleagues are able to participate in Shares In Success, an all-employee profit-sharing scheme. Each year shares may be awarded to colleagues as a percentage of earnings, up to a statutory maximum of £3,600 per annum in 2014/15.

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

Selected 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:

	2015 Shares number	2015 WAFV (pence)	2014 Shares number	2014 WAFV (pence)
Shares in Success	459,973	307.15	365,167	383.55
Group Bonus Plan	1,335,719	285.50	-	-
Performance Share Plan	977,670	282.57	1,800,959	359.58