Tesco Personal Finance Limited

Annual report

for the year ended 30 September 1999

Registered in Scotland No 173199

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for the year ended 30 September 1999

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Directors:	Rowley Stuart Ager – Chairman Norman Cardie McLuskie – Deputy Chairman William Scott Black Ian Hugh Chippendale Bernard Higgins Andrew Thomas Higginson Tim Mason John William Melbourn George Anthony Schofield Colin George Smith
Secretary:	Alan Ewing Mills
Registered Office:	42 St Andrew Square Edinburgh EH2 2YE
Telephone:	0131 556 8555
Registered Auditors:	PricewaterhouseCoopers Erskine House 68-73 Queen Street Edinburgh EH2 4NH
Bankers:	The Royal Bank of Scotland plc 36 St Andrew Square Edinburgh EH2 2YB

Directors' report
for the year ended 30 September 1999

Report of the Directors

The directors present their report for the year ended 30 September 1999.

Principal activities

The Company is engaged in the provision of banking and other financial services.

Review of business and future developments

During the year the Company further expanded its customer base through its principal products; personal loans, credit cards, savings accounts and travel and home insurance. The Company extended its range of financial products launching pet and motor insurance.

In the forthcoming year the Company intends to gain more customers through its existing products and by the introduction of other financial services.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The present directors are listed on page 1.

The following directorate changes took place during the year.

Appointments	Date
C G Smith	30 July 1999

Resignations	Date
J M Wemms	30 July 1999

Directors' report
for the year ended 30 September 1999 (continued)

Directors' Interests

No director had an interest in the shares of the Company.

The following directors were beneficially interested in the 25p ordinary shares of The Royal Bank of Scotland Group plc, the ultimate holding company.

	At 1 October 1998 (or date of appointment if later)	At 30 September 1999
N C McLuskie	85,234	86,832
W S Black	41,894	43,575
I H Chippendale	3,720	4,681
G A Schofield	14,331	3,537
B Higgins	-	2,175

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised by directors during the year to 30 September 1999 are included in the table below:-

		Options Granted		Options Exercised		
	At 1st October 1998 (or date of appointment if later)	Number	Price	Number	Price	At 30 September 1999
			£		£	
N C McLuskie	233,095	10,530 8,217 139	12.91 12.05 10.85	782	3.44	251,199
W S Black	112,206	5,345 622	12.05 10.85	2,005	3.44	116,168
I H Chippendale	146,961	16,590	12.05	100,000	5.35	63,551
B Higgins	28,300	28,016 1,693	12.05 10.85	-	-	58,009

Directors' report
for the year ended 30 September 1999 (continued)

Outstanding options under The Royal Bank of Scotland Group plc executive share option scheme are exercisable between now and 10 May 2008. The exercise of those options granted since 1996 is subject to a performance condition whereby options may not normally be exercised unless the growth in The Royal Bank of Scotland Group plc adjusted earnings per share has exceeded the growth in the Retail Prices Index over a three year period by an average of at least 2% per annum. This condition has been met for the years 1996, 1997 and 1998. This condition is reviewed annually.

No director had an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the year ended 30 September 1999. In addition, during that year, none of the directors held a beneficial interest in the loan capital of The Royal Bank of Scotland Group plc or in the share or loan capital of any of the other subsidiaries of The Royal Bank of Scotland Group plc, including the Company.

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures 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 Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that these financial statements comply with the aforementioned requirements.

Charitable and political donations

No donations were made by the Company during the year for political or charitable purposes.

Directors' report
for the year ended 30 September 1999 (continued)

Share Capital

During the year the authorised share capital was increased by the creation of 147,000,000 ordinary shares of 10p each. The following allotments of ordinary shares of 10p each were made during the year.

Date	No.	Allottee	Price per share
18 November 1998	6,500,000	Tesco Personal Finance Group Limited	£1
30 April 1999	20,000,000	Tesco Personal Finance Group Limited	£1
28 June 1999	20,000,000	Tesco Personal Finance Group Limited	£1
22 September 1999	20,000,000	Tesco Personal Finance Group Limited	£1

Total proceeds amount to £66,500,000.

Suppliers Payment Policy

The Company is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is the Company's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking by the Company to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract. The average duration of amounts owing to suppliers during the year was 21 days.

Year 2000

The Directors recognise the importance of the Year 2000 issue and the consequences it may have for the Company and its suppliers and customers.

The Company has a continuous programme of systems maintenance and development which includes addressing the problems posed by Year 2000 and the costs of addressing the Year 2000 issues are therefore absorbed in the ongoing IT development expenditure of the Company. In addition the Company relies heavily on the systems of its ultimate parents, The Royal Bank of Scotland Group plc and Tesco PLC, both of whom have Year 2000 project plans in place.

Directors' report
for the year ended 30 September 1999 (continued)

Auditors

A resolution to re-appoint PricewaterhouseCoopers and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the board

Alan Ewing Mills
Secretary
19 November 1999

Report of the auditors to the members of Tesco Personal Finance Limited

We have audited the financial statements on pages 8 to 25 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 and 12.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, which as described on page 4, includes preparing the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs at 30 September 1999 and of its loss and cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh
19 November 1999

Profit and loss account for the year ended 30 September 1999

	Note	1999 £'000	1998 £'000
Interest receivable:-			
Other interest receivable and similar income	4	**79,920**	43,694
Interest payable	5	**(48,387)**	(33,203)
Net interest income		**31,533**	10,491
Fees and commissions receivable		**20,854**	8,754
Fees and commissions payable		**(1,137)**	(336)
Dealing profits		**-**	20
Other operating income		**3,350**	4,226
Non-interest income		**23,067**	12,664
Total income		**54,600**	23,155
Administrative expenses:-			
Staff costs	7	**9,489**	17,634
Premises and equipment		**4,349**	3,180
Other administrative expenses	8	**37,484**	32,588
Depreciation and amortisation	9	**3,403**	3,091
Operating expenses		**54,725**	56,493
Loss before provision for bad and doubtful debts		**(125)**	(33,338)
Provision for bad and doubtful debts	13	**12,696**	3,461
Loss on ordinary activities before tax		**(12,821)**	(36,799)
Tax on loss on ordinary activities	10	**1,998**	9,866
Retained loss	24	**(10,823)**	(26,933)

All the above amounts relate to continuing operations.

Statement of total recognised gains and losses for the year ended 30 September 1999

	1999 **£'000**	1998 £'000
Loss attributable to ordinary shareholders	**(10,823)**	(26,933)
Prior year adjustment for change in accounting policy	-	1,673
Total recognised gains and losses	**(10,823)**	(25,260)

There is no difference between loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

Balance sheet
at 30 September 1999

	Note	1999 £'000	1998 £'000
Assets			
Treasury and eligible bank bills	11	**53,231**	39,384
Loans and advances to banks	12	**197,396**	495,618
Loans and advances to customers	13	**845,987**	259,189
Tangible fixed assets	15	**10,163**	12,165
Other assets	16	**31,700**	18,864
Prepayments and accrued income	17	**5,464**	2,426
Total assets		**1,143,941**	827,646
Liabilities			
Customer accounts	18	**977,071**	738,839
Other liabilities	19	**4,858**	9,243
Accruals and deferred income	20	**14,403**	7,632
Loan capital	21	**40,000**	20,000
Called up share capital	22	**15,150**	8,500
Share premium reserve	23	**136,350**	76,500
Profit and loss account	24	**(43,891)**	(33,068)
Equity shareholders' funds	25	**107,609**	51,932
Total liabilities		**1,143,941**	827,646
Memorandum items			
Other commitments	27	**391,295**	162,434

The financial statements on pages 8 to 25 were approved by the board of directors on 19 November 1999 and were signed on its behalf by:

Rowley Stuart Ager
Chairman

Norman Cardie McLuskie
Deputy Chairman

Notes to the financial statements for the year ended 30 September 1999

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and the Statements of Recommended Accounting Practice issued jointly by the British Bankers' Association and the Irish Bankers' Federation. A summary of the more important accounting policies which have been applied consistently, is set out below. The financial statements are prepared in accordance with Part VII, Chapter II of, and Schedule 9 to, the Companies Act 1985. The Company has taken advantage of the exemption from preparing cashflow statements conferred by Financial Reporting Statement No 1 (Revised) on the grounds that it is a wholly owned subsidiary.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in compliance with section 226 of, and schedule 9 to, the Companies Act 1985.

Tangible Fixed Assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Costs relating to technology projects deemed to having enduring benefit are capitalised and amortized over their expected useful economic lives.

Depreciation is calculated so as to write off the cost of tangible assets, less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Fixtures & fittings and plant & equipment	- 20% straight line
Computer equipment	- 20% straight line
Capitalised technology expenditure	- 25% straight line

Taxation

Provision is made for taxation at current rates on the taxable profits of the Company. Certain items of income and expenditure are accounted for in different periods for financial reporting purposes and for taxation purposes. Deferred taxation is provided on the liability method in respect of timing differences to the extent that they are likely to crystallise in the foreseeable future.

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

1 Principal accounting policies (continued)

Loans and advances

Loans and advances are valued at cost less any amounts written off and specific or general provisions.

Specific provisions are made against loans and advances held by the Company when, as a result of a detailed appraisal of the portfolio, it is considered that recovery is doubtful. A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified but are known from experience to be present in any portfolio of advances.

Loans and advances classified as bad debts are written off in part or in whole when there is no realistic prospect of recovery.

Derivative transactions

Derivative transactions comprise interest rate swaps for hedging purposes.

Derivative transactions are accounted for in accordance with the item or items being hedged. Consequently, profits or losses on hedges are recognised on a similar accounting basis as the profits or losses on the underlying item or items being hedged. Therefore they are recognised in the financial statements as adjustments to the profit or loss item or items being hedged. To the extent necessary to achieve a common timing of income recognition on the item or items being hedged, deferred realised gains and losses are included in the balance sheet under "Accruals and deferred income" and "Prepayments and accrued income".

Interest

Interest income is recognised on each loan using the earning rules appropriate to the type of loan agreement. Interest expense is recognised on an accruals basis.

Fees and commissions

Fees and commissions in relation to services provided by the Company are recognised when earned. Expenses payable are charged to the profit and loss immediately.

2 Holding Company

The Company's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in Scotland. Financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh. The Company's intermediate holding company is Tesco Personal Finance Group Limited whose financial statements can be obtained at the same address.

3 Segmental reporting

The Company's results are generated from the provision of banking and other financial services wholly within the United Kingdom.

4 Interest receivable

	1999 £'000	1998 £'000
Loans and advances to banks	**12,237**	1,088
Loans and advances to customers	**49,742**	2,246
Amounts receivable from group companies	**17,941**	40,360
	79,920	43,694

5 Interest payable

	1999 £'000	1998 £'000
Customer accounts	**43,777**	3,839
Subordinated loan	**1,081**	-
Amounts payable to group companies	**3,529**	29,364
	48,387	33,203

6 Directors' emoluments

During the period, two of the directors received emoluments paid by or recharged to the Company as detailed below:

	1999 £'000	1998 £'000
Aggregate emoluments	**20**	10

7 Employee information

The Company currently does not have any direct employees. Staff working for the Company have contracts with Tesco PLC or The Royal Bank of Scotland plc and their remuneration is recharged to the Company as appropriate.

The average monthly number of persons (excluding executive directors) seconded to the Company during the year was 414.

Staff costs recharged for the year are as follows:

	1999 £'000	1998 £'000
Wages and salaries	**7,190**	9,584
Social security costs	**426**	677
Other costs including temporary staff	**1,873**	7,373
	9,489	17,634

8 Other Expenses

An analysis of other expenses incurred by the Company is detailed below:

	1999 £'000	1998 £'000
Technology, consulting and outsourcing costs	**16,168**	16,071
Marketing, printing and stationery	**16,121**	11,670
Postage and other costs	**5,195**	4,847
	37,484	32,588

9 Loss on ordinary activities before taxation

	1999 £'000	1998 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation charge for period	**3,403**	3,091
Auditors' remuneration:-		
Audit services	**48**	43
Non-audit services	**77**	50

10 Tax on loss on ordinary activities

United Kingdom corporation tax at 30.5%:-

	1999 £'000	1998 £'000
Amount receivable from surrender of losses to other group companies	**1,998**	9,866

The Company has no deferred tax liability at the year end.

11 Treasury and eligible bank bills

	1999 £'000	1998 £'000
Other eligible bills	**53,231**	39,384
Fair value of eligible bills (based on current market value at the year end)	**53,477**	39,610

12 Loans and advances to banks

	1999 £'000	1998 £'000
Repayable on demand:		
Loans and advances to The Royal Bank of Scotland plc	**15,254**	10,504
Repayable three months or less:		
Loans and advances to The Royal Bank of Scotland plc	**137,000**	315,114
Loans and advances to other banks	**45,142**	170,000
	197,396	495,618

13 Loans and advances to customers

	1999 £'000	1998 £'000
On demand or at short notice	**2,240**	497
Remaining maturity:		
Three months or less	**311,081**	44,258
One year or less but over three months	**146,932**	43,055
Five years or less but over one year	**390,956**	174,344
Over five years	**9,572**	945
	860,781	263,099
Bad debt provision	**(14,794)**	(3,910)
	845,987	259,189

Provision for bad and doubtful debts

	1999 Specific £'000	1999 General £'000	1998 Specific £'000	1998 General £'000
At 1 October	**1,969**	**1,941**	70	379
Amounts written off	**(1,812)**	**-**	-	-
Charge to profit and loss account	**9,837**	**2,859**	1,899	1,562
Closing balance at 30 September	**9,994**	**4,800**	1,969	1,941

14 Interest in suspense

In certain cases, interest is not being applied where its recoverability is in doubt.

	1999 £'000	1998 £'000
Loans and advances on which interest is not being applied:		
- before specific provisions	**4,160**	998
- after specific provisions	**1,775**	115

15 Tangible Fixed Assets

	Plant & Equipment £'000	Fixtures & Fittings £'000	Computer Hardware £'000	Computer Software £'000	Total £'000
Cost					
At 1 October 1998	979	2,359	6,737	4,969	15,044
Additions	103	732	537	1,128	2,500
Disposals	(10)	(1,048)	(407)	21	(1,444)
As at 30 September 1999	**1,072**	**2,043**	**6,867**	**6,118**	**16,100**
Depreciation					
At 1 October 1998	183	449	998	1,249	2,879
Additions	199	510	1,326	1,367	3,402
Disposals	-	(264)	(83)	3	(344)
As at 30 September 1999	**382**	**695**	**2,241**	**2,619**	**5,937**
Net book value at 30 September 1999	**690**	**1,348**	**4,626**	**3,499**	**10,163**
Net book value at 30 September 1998	796	1,910	5,739	3,720	12,165

16 Other assets

	1999 £'000	1998 £'000
Amounts falling due within one year:		
Amounts recoverable from surrender of losses to group companies	**4,556**	4,263
Amounts payable by Tesco PLC	**-**	9,119
Amounts payable by The Royal Bank of Scotland plc	**13,991**	34
Amounts payable by other group companies	**13,153**	5,448
	31,700	18,864

Amounts payable by other group companies includes an interest free subordinated loan of £11,500,000 (1998: £5,000,000) made to Direct Line Group Limited.

17 Prepayments and accrued income

	1999 £'000	1998 £'000
Amounts falling due within one year:		
Amounts payable by Tesco PLC	**2,099**	148
Amounts payable by The Royal Bank of Scotland plc	**766**	843
Other prepayments and accrued income	**2,599**	1,435
	5.464	2,426

18 Customer accounts

	1999 £'000	1998 £'000
Repayable on demand	**977,071**	738,839

19 Other liabilities

	1999 £'000	1998 £'000
Trade creditors	**1,319**	1,916
Amounts owed to Tesco PLC	**726**	892
Amounts owed to The Royal Bank of Scotland plc	**569**	6,384
Other taxation and social security costs	**2,244**	51
	4,858	9,243

20 Accruals and deferred income

	1999 £'000	1998 £'000
Amounts owed to Tesco PLC	**852**	148
Amounts owed to The Royal Bank of Scotland plc	**1,002**	46
Other accruals and deferred income	**12,549**	7,438
	14,403	7,632

21 Loan capital

Dated loan capital has been contributed evenly by The Royal Bank of Scotland plc and Tesco PLC for the development and expansion of the Company and to strengthen its capital base.

	1999	1998
	£'000	£'000
Floating rate subordinated loan maturing 2008	**20,000**	20,000
Floating rate subordinated loan maturing 2009	**20,000**	-
Total	**40,000**	20,000

The loan capital is repayable, in whole or in part, at the option of the issuer, prior to maturity, on conditions governing the debt obligation.

22 Called up share capital

	1999	1998
	£'000	£'000
Authorised		
232,000,000 Ordinary shares of 10p each	**23,200**	8,500

	1999	1998
	£'000	£'000
Allotted, called up and fully paid		
151,500,000 Ordinary shares of 10p each	**15,150**	8,500

During the year the authorised share capital was increased by the creation of 147,000,000 ordinary shares of 10p each. The following allotments of ordinary shares of 10p each were made during the year.

Date	No.	Allottee	Price per share
18 November 1998	6,500,000	Tesco Personal Finance Group Limited	£1
30 April 1999	20,000,000	Tesco Personal Finance Group Limited	£1
28 June 1999	20,000,000	Tesco Personal Finance Group Limited	£1
22 September 1999	20,000,000	Tesco Personal Finance Group Limited	£1

Total proceeds amount to £66,500,000.

23 Share Premium Reserve

	1999 £'000	1998 £'000
Balance at 1 October 1998	**76,500**	9,000
Premium paid on shares issued during the year	**59,850**	67,500
Closing balance at 30 September 1999	**136,350**	76,500

24 Profit and loss account

	1999 £'000	1998 £'000
Balance at 1 October 1998	**(33,068)**	(6,135)
Retained loss for the year	**(10,823)**	(26,933)
Closing balance at 30 September 1999	**(43,891)**	(33,068)

25 Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
Opening shareholders' funds	**51,932**	3,865
Shares issued during the year	**66,500**	75,000
Loss for the year	**(10,823)**	(26,933)
Closing shareholders' funds	**107,609**	51,932

26 Derivatives and other Financial Instruments

Risk management

The Company is exposed to a number of risks through its normal operations, the most significant of which are credit risk, interest rate risk and liquidity risk. Responsibility for the control of risk within the Company is vested in the Risk Management Committee (RMC), a sub committee of the Board of Directors reporting directly to the Board. The RMC establishes the strategy, policies and procedures for managing risk within the Company. These policies are ratified by the Board.

26 Derivatives and other Financial Instruments (continued)

Objectives, policies and strategies

The Company's policy is not to undertake any trading activities. Consequently, it is the policy to use derivative instruments only to hedge risk on the Banking Book and not to trade speculatively for financial gain. The RMC reviews regularly the Company's exposure to interest rate risk and the policy is to use derivatives or other financial instruments to maintain this exposure within levels considered prudent. The objective is to reduce the effect of fluctuating interest rates on net interest income.

Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The Company lends surplus funds to the interbank market. Limits have been established for all counterparties based on their respective credit ratings. The limits and proposed counterparties are reviewed and approved by the RMC and Board.

The management of individual credit risk is devolved to the operational business unit. The RMC ensures that appropriate policies are established and adhered to.

Interest rate risk

Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, and unexpected changes in the slope and shape of the yield curves. Exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. The Company closely monitors interest rate movements, the interest rate and re-pricing maturity structure of its interest bearing assets and liabilities and the level of non interest bearing assets and liabilities. In order to reduce the effect of fluctuating interest rates on net interest income, interest rate risk is assessed and hedged via interest rate swaps or other derivatives transactions.

Interest rate sensitivity gap

The following table shows the contractual re-pricing terms for each category of asset and liability, together with management's estimate of the interest rate sensitivity gap for the Company as at 30 September 1999. This does not reflect the potential impact of early repayment or withdrawal. Transactions without defined contractual re-pricing terms are shown according to management's expectations. Major changes in position can be, and are, made promptly as market outlooks change. In addition, significant variations in interest rate sensitivity may exist within the re-pricing periods presented.

26 Derivatives and other Financial Instruments (continued)

Interest rate sensitivity gap (continued)

	Within 3 months	After 3 months, but within 6 months	After 6 months, but within 1 year	After 1 year, but within 5 year	After 5 years	Non - interest bearing funds	Total
	£m	£m	£m	£m	£m	£m	£m
Assets:							
Loans to banks	197.4	-	-	-	-	-	197.4
Loans to customers	219.5	50.0	94.4	384.3	9.4	88.4	846.0
Treasury and & other eligible bills	53.2	-	-	-	-	-	53.2
Other assets	-	-	-	-	-	47.3	47.3
Total Assets	***470.1***	***50.0***	***94.4***	***384.3***	***9.4***	***135.7***	***1,143.9***
Liabilities:							
Customer acounts	977.1	-	-	-	-	-	977.1
Other liabilities	-	-	-	-	-	19.2	19.2
Loan capital	40.0	-	-	-	-	-	40.0
Shareholders' funds	-	-	-	-	-	107.6	107.6
Total Liabilities	***1,017.1***	-	-	-	-	***126.8***	***1,143.9***
On balance sheet gap	(547.0)	50.0	94.4	384.3	9.4	8.9	-
Off-balance sheet items affecting interest rate sensitivity	564.3	(50.1)	(98.1)	(395.1)	(9.0)	(12.0)	-
Interest rate sensitivity gap	17.3	(0.1)	(3.7)	(10.8)	0.4	(3.1)	-
Cumulative interest rate sensitivity gap	17.3	17.2	13.5	2.7	3.1	0.0	-

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations as they fall due. The Company manages this by maintaining a portfolio of high quality liquid assets within the framework set by the supervising authority, the FSA. Monthly reports are made to the FSA covering liquidity.

Foreign currency

The Company had no exposure to foreign currency during the year.

26 Derivatives and other Financial Instruments (continued)

Non trading derivatives

The Company has established, during the year, non trading derivative positions internally through transactions with a fellow group company, The Royal Bank of Scotland plc.

At 30 September 1999, the Company had entered into several interest rate swaps, with the total notional principal amount of £766,867,000 (1998: £175,034,000) to hedge the risk associated with the products offered by the Company. Of these swaps £387,000,000 (1998: £175,034,000) expire between one and five years and £379,867,000 (1998: nil) expire between five and ten years. The net replacement cost of the contracts at 30 September 1999 was £2,574,503 (1998: £2,041,361) of which £283,705 (1998: £2,041,361) relates to contracts expiring between one and five years and £2,290,798 (1998: nil) expire between five and ten years. This is represented by assets with a fair value of £5,933,970 and liabilities of £3,359,467. Fair values represent the current market value of these instruments. The carrying value of these instruments in the balance sheet is £502,000 being the accrued interest at the balance sheet date.

The underlying principal amount reflects the value of the business transacted and not the underlying credit or market risks. Under current Bank of England Guidelines the credit equivalent amount for these transactions using the original exposure method is £7,137,307 (1998: £2,916,531).

The risk involved in derivatives include market and credit risk. Market risk is the risk of loss arising from adverse changes in value as a result of movements in market prices.

Trading derivatives

The Company had no trading derivatives during the year.

Deferred profits

At 30 September 1999, the Company had deferred profits amounting to £48,300 (1998: £102,300) which will be recognised within 12 months. Previously deferred profits of £54,000 were included in the profit and loss account for the year ended 30 September 1999.

Fair values of financial assets and liabilities

Fair values for financial assets and liabilities where there is a liquid and active market are shown - non trading derivatives (refer above), treasury and eligible bank bills (refer note 11).

27 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.

	1999 £'000	1998 £'000
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	**390,949**	156,455

There are annual commitments under non-cancellable operating leases in respect of land and buildings. These are disclosed as follows:-

	1999 £'000	1998 £'000
Operating leases which expire:		
Greater than 5 years	**346**	346

As at 30 September 1999 the Company had commitments under a licencing agreement as follows:

	1999 £'000	1998 £'000
Expiring within one year	-	2,599
Expiring between two and five years inclusive	-	3,034
	-	5,633

28 Arrangements with directors and officers

At 30 September 1999, the aggregate amounts outstanding under transactions, arrangements and agreements entered into by the Company in the normal course of business and at normal commercial terms with Directors and Officers of the Company were as follows:

	***No of* Persons**	**£'000**
Loans to Directors and Officers	**6**	**34**

The above information is presented in accordance with the requirements laid down in the Banking Act 1987.

29 Related party transactions

During the year the Company received interest and other income of £17,940,654 (1998: £35,768,578) from The Royal Bank of Scotland plc.

In addition, the Company incurred recharges from The Royal Bank of Scotland plc, and its subsidiaries, totalling £14,702,235 (1998: £17,010,632) for the provision of services.

Tesco PLC have charged the Company an amount totalling £8,951,982 (1998: £11,253,171) .

The Company received fees from Tesco PLC for the managing of certain financial products during the year of £3,217,184 (1998: £4,225,823).

The Company also increased the subordinated loan to Direct Line Group Limited to £11,500,000 (1998: £5,000,000) during the year. In addition, fees of £2,743,475 relating to insurance business underwritten by Direct Line were received during the year.

30 Controlling parties

The Royal Bank of Scotland Group plc and Tesco PLC hold an equal number of shares in the Company's immediate holding company, Tesco Personal Finance Group Limited.

The Royal Bank of Scotland Group plc are the ultimate controlling company due to its shareholding comprising 100% of the Tesco Personal Finance Group Limited A Ordinary shares.