

TESCO PERSONAL FINANCE PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 28 FEBRUARY 2009

COMPANY NUMBER 173199



TESCO PERSONAL FINANCE PLC

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TESCO PERSONAL FINANCE PLC

Directors and Advisers

Directors:

Andrew Higginson – Chairman
Iain Clink
Shaun Doherty
Adrian Hill
Paulette Rowe
Bernard Higgins
William Main
Graham Pimlott
Laura Wade-Gery
Raymond Pierce
Alison Horner

Secretary:

Jonathan Lloyd

Registered Office:

22 Haymarket Yards
Edinburgh
EH12 5BH

Auditors:

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4WH

Bankers:

The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh
EH2 2YB

TESCO PERSONAL FINANCE PLC

Directors' Report

The directors present their annual report and the audited financial statements for the 14 month period ended 28 February 2009.

Principal activities

The Company is engaged in the provision of banking, general insurance services and Automated Teller Machine (ATM) transactions.

Change of year end

Tesco Personal Finance Group Limited became a wholly owned subsidiary of Tesco plc following the purchase of the 50% shareholding owned by The Royal Bank of Scotland Group Plc on 19 December 2008. Following this transaction Tesco Personal Finance Group Limited and its subsidiaries, including Tesco Personal Finance plc changed its year end from 31 December to 28 February in line with Tesco plc. As a result these accounts cover the 14 month period 1 January 2008 to 28 February 2009. The comparative figures presented within these accounts are for the 12 month period ended 31 December 2007.

Results and dividends

The results for the period are set out on page 9.

Review of business and future developments

Business review

The directors are satisfied with the Company's performance in the period. The Company continues to trade successfully within a difficult retail financial services market. During the period the Company further expanded its customer base through its principal products: personal loans, credit cards, savings accounts and general insurance.

On 31 October 2008 the Group securitised a portion of its credit card portfolio and issued medium term notes which are listed on the London Stock Exchange.

In the forthcoming year the Group intends to grow its existing customer base and introduce additional financial products and services

An interim dividend of £80,000k was paid on 3 June 2008 (2007: £70,000k). A further dividend of £20,000k was paid on 19 December 2008 (2007: £50,000k) and an additional dividend of £4,000k was paid on 19 January 2009.

The directors do not anticipate any material change in either the type or level of activities of the Company. The directors consider the Company to be in a strong financial position and confirm that the Company has adequate resources to continue in business for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Financial Performance

The Company's financial performance is presented in the Income Statement on Page 9.

Total income grew by £104,085k and operating expenses rose by £88,072k. After impairment provisions of £153,519k the profit for the period was £159,447k, an annualised decrease of 24% over 2007, annualised profit before impairment provisions decreased by 10%.

The Company's cost: income ratio for the period was 52.0% (2007: 45.9%). The Company's net interest margin for 2008 was 3.7% (2007: 3.9%) and the bad debt asset ratio for the period was 3.5% (2007: 3.4%).

TESCO PERSONAL FINANCE PLC

Directors' Report (continued)

At the period end the Company's financial position showed total assets of £6,263,135k, a decrease of 23% over 2007, including income generating assets comprising investments of £258,500k and advances of £5,147,598k. The net book value of property, plant and equipment was £23,675k compared with £18,971k at the end of the previous period. The Company's risk asset ratio was 11.1% at the period end (2007: 12.1%).

Developments

A new management team has been introduced combining experienced management from Tesco plc and also from the banking industry following Tesco plc's acquisition of the 50% shareholding from The Royal Bank of Scotland Group. The Group has initiated a programme of work to migrate systems and customer support from The Royal Bank of Scotland Group infrastructure to Tesco Personal Finance infrastructure. This migration programme is expected to take up to 3 years during which time The Royal Bank of Scotland Group will continue to support the business through the ongoing provision of systems and infrastructure.

Directors

The present Directors and Secretary who have served throughout the period, except where noted below, are listed on page 1.

From 1 January 2008 to date the following changes have taken place:

Directors	Appointed	Resigned
William Main	30 January 2009	
Iain Clink	19 December 2008	31 July 2008
Shaun Doherty	19 December 2008	
Adrian Hill	19 December 2008	
Paulette Rowe	19 December 2008	
Bernard Higgins	29 August 2008	
Graham Pimlott	31 March 2008	
Raymond Pierce	24 April 2009	
Alison Horner	29 May 2009	
Robert Bulloch		19 December 2008
Gordon Pell		19 December 2008
Chris Sullivan		19 December 2008
Timothy Ashdown		23 July 2008
John Melbourn CBE		31 March 2008

Iain Clink resigned as a Director on 31 July 2008 and was reappointed as Director on 19 December 2008.

Secretary

Jonathan Lloyd	19 December 2008	
Alan Mills		19 December 2008

No director had an interest in the share capital of the Company.

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Directors' Report (continued)

Risk management

TPF has established a comprehensive risk framework to manage the risks arising across the Company's business. The risk framework is based around the following five primary risk types:

- Regulatory Risk
- Operational Risk
- Credit Risk
- Insurance Risk
- Treasury Risk (including market risk, interest rate risk, liquidity risk and foreign exchange risk)

The Company has established a comprehensive framework for managing these risks, which evolves as the Company's business activities change. The Company's approaches for managing each of these risks and its exposure thereto are detailed in note 33 within the financial statements. Risk management is delivered under a documented governance structure. The risk management framework is further supported by independent audit scrutiny over internal controls.

The Company is subject to significant legislative and regulatory oversight, namely supervision by the Financial Services Authority (FSA) and is required to satisfy certain capital adequacy and liquidity ratios.

Current market conditions

Current market conditions are challenging within the financial services industry. The impact of the global banking crisis and increased regulation has placed even greater emphasis on maintaining a strong capital and liquidity position.

Capital and liquidity

The Company's core Tier 1 capital ratio was 12% as at 28 February 2009. Looking forward, the Company has strong earnings potential to support planned business growth and the funding and liquidity position of the business has also improved as a result of the successful relaunch of a Tesco Personal Finance savings product. This is demonstrated by the doubling of balances from £2,500,000k in mid October 2008 to over £4,500,000k by the period end. Combined with securing medium-term wholesale funding, this has transformed the Company's liquidity position – providing high quality assets and net short-term wholesale cash of over £2,000,000k as at period-end.

Directors' indemnities

In terms of Section 236 of the Companies Act 2006 Mr A Higginson has been granted a Qualifying Third Party Indemnity Provision by Tesco plc and Ms L Wade-Gery a Qualifying Third Party Indemnity Provision by Tesco Stores Limited a subsidiary of Tesco plc.

Charitable and political donations

No donations were made by the Company during the period for political purposes (2007: £nil). The Company actively supports charity activity and made the following charitable donations in the period:

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Directors' Report (continued)

Charitable organisation	14 months to 28 Feb 2009 £	12 months to 31 Dec 2007 £
SCOPE	-	250
Fire Service Fund	-	300
Breast Cancer	670	740
Barnados Scotland	3,760	-
Project Africa	500	-
Marie Curie	45,201	-
Tartan Children's Charity	500	-
British Trust for Conservation Volunteers	1,056	-
	<u>51,687</u>	<u>1,290</u>

Supplier payment policy

In the period ended 28 February 2009, the Company continued to adhere to the following payment policy in respect of all suppliers. 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 include the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

Trade creditors of the Company for the period ended 28 February 2009 were equivalent to 28 days (2007: 24 days), based on the ratio of Company trade creditors at the end of the period to the amounts invoiced during the period by trade creditors.

Auditors

A resolution was passed by the Board on 20 March 2009 to appoint PricewaterhouseCoopers LLP as auditors.

Deloitte & Touche LLP resigned as auditors on 20 March 2009.

Statement of directors' responsibilities

The directors are required by the Companies Act 1985 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards. They are responsible for preparing financial statements that present fairly the financial position, financial performance, and cash flows of the Company. 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 the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

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 directors' report and 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.

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Directors' Report (continued)

Directors' statement as to disclosure of information to auditors

Each of the directors at the date of approval of this report confirms that:

- (1) so far as he/she is aware there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Approved by the Board of Directors and signed on behalf of the Board



Jonathan Lloyd

Secretary

10 June 2009

TESCO PERSONAL FINANCE PLC

Independent auditors' report to the members of Tesco Personal Finance plc

We have audited the financial statements of Tesco Personal Finance plc ("the company") for the period ended 28 February 2009 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion has been prepared for and only for company members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 circumstances of the company, 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.

TESCO PERSONAL FINANCE PLC

Independent auditors' report to the members of Tesco Personal Finance plc (continued)

Opinion

In our opinion:

- the company's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union of the state of the company's affairs as at 28 February 2009 and of its profit and cash flows for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh, United Kingdom
10 June 2009

TESCO PERSONAL FINANCE PLC

INCOME STATEMENT FOR THE PERIOD ENDED 28 FEBRUARY 2009

	Note	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Interest and similar income	3	587,232	496,559
Interest expense and similar charges	3	(450,568)	(361,600)
Net interest income		136,664	134,959
Fees and commissions income	4	536,616	403,175
Fees and commissions expense	4	(15,793)	(13,153)
Dividend income		24,591	22,252
(Losses)/gains from derivatives not in hedge accounting	6	(30,972)	-
Other operating income		1,548	1,336
Non-interest income		515,990	413,610
Total income		652,654	548,569
Administrative expenses	5	(331,134)	(246,296)
Depreciation and amortisation		(8,554)	(5,320)
Operating expenses		(339,688)	(251,616)
Operating profit before provisions for bad and doubtful debts		312,966	296,953
Provisions for bad and doubtful debts	13	(153,519)	(116,368)
Operating profit before tax	7	159,447	180,585
Tax on operating profit	9	(32,728)	(45,612)
Profit for the period		126,719	134,973
Profit attributable to:			
Ordinary shareholders		123,153	131,806
Holders of other equity instruments		3,566	3,167
		126,719	134,973

The notes on pages 13 to 54 form an integral part of these financial statements.

TESCO PERSONAL FINANCE PLC

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 28 FEBRUARY 2009

	Share capital	Share premium	Equity reserve	Retained earnings	Cash flow hedge reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2008	24,790	223,110	45,000	268,416	-	561,316
Changes in equity for the period ended 28 Feb 2009						
Profit for the period	-	-	-	126,719	-	126,719
Fair value gains in the period	-	-	-	-	446	446
Dividends to ordinary shareholders	-	-	-	(104,000)	-	(104,000)
Dividends to other equity holders	-	-	-	(3,566)	-	(3,566)
At 28 February 2009	<u>24,790</u>	<u>223,110</u>	<u>45,000</u>	<u>287,569</u>	<u>446</u>	<u>580,915</u>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital	Share premium	Equity reserve	Retained earnings	Cash flow hedge reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2007	24,790	223,110	45,000	256,610	-	549,510
Changes in equity for 2007						
Profit for the period	-	-	-	134,973	-	134,973
Fair value gains in the period	-	-	-	-	-	-
Dividends to ordinary shareholders	-	-	-	(120,000)	-	(120,000)
Dividends to other equity shareholders	-	-	-	(3,167)	-	(3,167)
At 31 December 2007	<u>24,790</u>	<u>223,110</u>	<u>45,000</u>	<u>268,416</u>	<u>-</u>	<u>561,316</u>

Note: The presentation of the Statement of Changes in Equity was revised in line with current year reporting.

TESCO PERSONAL FINANCE PLC

Balance Sheet

As at 28 February 2009

	Note	28 Feb 2009 £'000	31 Dec 2007 £'000
Assets			
Cash and balances with central banks	11	2,753	3,457
Loans and advances to banks	12	1,457,962	4,035,481
Loans and advances to customers	13	3,689,636	3,445,925
Financial assets classified as available for sale	14	587,902	-
Derivative financial instruments	15	1,541	-
Equity investments	16	258,500	258,500
Prepayments and accrued income	17	82,717	53,358
Other assets	18	141,546	309,803
Corporation tax asset		5,272	-
Deferred tax asset	19	11,631	14,032
Intangible assets	20	-	4,508
Property, plant and equipment	21	23,675	18,971
Total assets		6,263,135	8,144,035
Liabilities			
Deposits from banks	23	609,620	4,299,799
Customer accounts	24	4,547,316	2,771,466
Debt securities in issue	25	224,550	-
Derivative financial instruments	15	42,265	-
Accruals and deferred income	26	61,474	77,708
Corporation tax liability		-	22,771
Other liabilities	27	36,995	250,975
Subordinated liabilities	28	160,000	160,000
Total liabilities		5,682,220	7,582,719
Equity			
Called up share capital	29	24,790	24,790
Share premium account		223,110	223,110
Equity reserve	30	45,000	45,000
Retained earnings		287,569	268,416
Other reserves	31	446	-
Total equity		580,915	561,316
Total liabilities and equity		6,263,135	8,144,035
Memorandum items			
Other commitments	37	5,732,229	5,939,594

The notes on pages 13 to 54 form an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 10 June 2009 and were signed on its behalf by:


Andrew Hugginson
 Chairman

TESCO PERSONAL FINANCE PLC

CASH FLOW STATEMENT FOR THE PERIOD ENDED 28 FEBRUARY 2009

		28 Feb 2009 £'000	31 Dec 2007 £'000
Operating activities	Note		
Operating profit before taxation		159,447	180,585
Net cash inflow from trading activities	38	234,479	190,165
Changes in operating assets and liabilities	38	(2,259,668)	262,644
Net cash flows from operating activities before tax		(2,025,189)	452,809
Income taxes paid		(58,370)	(38,773)
Cash flow from operating activities		(2,083,559)	414,036
Investing activities			
Purchase of fixed assets		(11,682)	(10,553)
Cash flows from investing activities		(11,682)	(10,553)
Financing activities			
Increase in debt securities in issue		224,550	-
Increase in financial assets designated as available for sale		(587,902)	-
Decrease/ (increase) in balance at central banks		705	37
Decrease / (increase) in loans and advances to banks		428,920	10,000
Dividends paid		(107,566)	(123,167)
Interest on subordinated liabilities		(11,985)	(10,471)
Cash flows from financing activities		(53,278)	(123,601)
Net (decrease) / increase in cash and cash equivalents		(2,148,519)	279,882
Cash and cash equivalents 1 January		3,606,481	3,326,599
Cash and cash equivalents 28 February 2009 / 31 December 2007	12	1,457,962	3,606,481

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

1 Principal accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and endorsed by the European Union (EU).

Accounting convention

The Company is incorporated in the UK and registered in Scotland. The financial statements have been prepared on the historical cost basis as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit and loss. A summary of the Company's accounting policies is set out below.

Early adoption of standards

New standards become effective on the date specified by IFRS, but may allow companies to opt for an earlier adoption date. The Company has not early adopted any standards or interpretations during the period.

Future adoption of new IFRS accounting standards

The following standards, amendments to existing standards and interpretations are not yet effective;

- Amendment to IAS 1 Presentation of financial statements effective for annual periods beginning on or after 1 January 2009.
- Amendments to IAS 23 Borrowing costs, effective on or after 1 January 2009. This Standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset.
- IFRS 8 Operating Segments. IFRS 8 replaces IAS 14 'Segment Reporting' and requires disclosure of segmental details based on management reporting structures, and is mandatory for accounting periods starting on or after 1 January 2009. The Group believes the application of this standard will have no material impact on the financial statements.
- Amendment to IAS 27 'Consolidated and Separate Financial statements. This revision covers the treatment of partial acquisitions, step acquisitions, related costs and contingent consideration, effective for annual periods beginning on or after 1 July 2009.
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Eligible hedged items for annual periods on or after 1 January 2009.
- Amendment to IAS 32 'Financial Instruments: Presentation and IAS 1 'Presentation of Financial Statements, effective for annual periods on or after 1 January 2009 – Puttable Instruments and Instruments with Obligations arising on liquidation.
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and separate financial statements (Revised) – consolidated and separate financial statements, effective prospectively for business combinations with an effective date on or after 1 July 2009.*
- IFRIC 13 Customer Loyalty Programmes, effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.
- IFRIC 16 Hedges of a net investment in a foreign operation, effective for annual periods on or after 1 October 2009.*

* not yet endorsed by the European Union

Revenue recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

1 Principal accounting policies (continued)

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 terms of a financial instrument are considered when estimating future cash flows.

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

Insurance commission: the Company receives insurance commission arising from the sale of general insurance policies sold under the Tesco brand. The commission is variable and dependant upon the profitability of the underlying insurance policies.

Dividend Income

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

Plant, property and equipment

Items of plant, property and equipment are stated at cost less accumulated depreciation (see below) and impairment losses. Where an item of plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged through profit or loss on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Estimated useful lives for plant, property and equipment are;

Plant and Equipment	5 years
Fixture and Fittings	5 years
Computer Hardware	7 years

At each reporting date, the Company assesses whether there is any indication that its plant and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of the asset and the impairment loss if any.

Foreign currencies

The Company's financial statements are presented in sterling, which is the functional currency of the Company.

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into sterling at foreign exchange rates ruling at the dates the values were determined.

Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity. Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes, except in relation to overseas earnings where remittance is controlled by the Company.

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

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

1 Principal accounting policies (continued)

Financial assets and liabilities

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit and loss – This can be classified into the following two categories, assets designated at fair value through profit and loss at inception and also financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Loans and receivables – The Company's loans and advances to banks and customers with fixed or determinable repayments that are not quoted in an active market, are classified as loans and receivables except those that are classified as held for trading or designated as fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method (see revenue recognition note above) less any impairment losses.

Available-for-sale – Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed to the Group Income Statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expired.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in equity is recognised in profit and loss.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows have expired or where substantially all of the risks and rewards of ownership have been transferred.

Offsetting of financial instruments

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

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as loans and receivables 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 Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses

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Notes to the Financial Statements

1 Principal accounting policies (continued)

are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making 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 current observable data, to reflect the effects of current conditions not affecting the period of historical experience.

Impairment losses are recognised in profit or loss and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed 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.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognised as an asset until the financial asset they secure is foreclosed. When cash collateral is recognised, a liability is recognised for the same amount.

Derivative financial instruments and Hedge Accounting

The Company uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from operating, financing and investment activities. The Company does not hold or issue derivative financial instruments for trading purposes

Derivative financial instruments are recognised and stated at fair value. The fair value of derivative financial instruments is determined using discounted cash flows models. Where derivatives do not qualify for hedge accounting any gains or losses on remeasurement are immediately recognised in the Income Statement within non interest income. Where derivatives do qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

In order to qualify for hedge accounting, the Company is required to document from inception the relationship between the hedged item and the hedging instrument. The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge is expected to be highly effective on an ongoing basis. This effectiveness test is performed at each month end to ensure that the hedge remains highly effective.

Cash flow hedges

Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will ultimately affect the Income Statement. The Company currently applies cash flow hedge accounting for hedging the variability of cashflows generated from bonds that it has issued.

Provided the hedge is effective, changes in the fair value of the hedging instrument are initially recognised in a 'hedging reserve' in equity. They are transferred to the Income Statement within net interest income when the hedged transaction affects profit or loss. The ineffective portion of the change in the fair value of the hedging instrument is recognised directly in profit or loss within non interest income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs or the original hedged item affects the Income Statement. If a forecasted hedged transaction is

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

1 Principal accounting policies (continued)

no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Income Statement within net interest income.

Fair value hedges

Derivative financial instruments are classified as fair value hedges when they hedge the Company's exposure to changes in the fair value of a recognised asset or liability.

The Company currently applies fair value hedge accounting for hedging fixed interest rate risk which is inherent in the writing of fixed rate loans business. The hedge protects against fluctuations in fair value of the fixed rate loans as interest rates moves. The hedge achieves the desired risk management objective of a floating rate LIBOR based return by swapping the fixed rates receivable on loans for floating rates.

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the Income Statement within net interest income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Derivative financial instruments qualifying for fair value hedge accounting are interest rate swaps.

Derivatives not in hedge accounting relationships

The gain or loss relating to derivatives classified as trading is recognised in the Income Statement within non interest income.

Capital instruments

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

An instrument is classified as equity if it evidences a residual interest in the assets of the Company after the deduction of liabilities. The components of a compound financial instrument issued by the Company are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Investments in subsidiaries

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

In accordance with IAS 27, the Company applies an exemption to consolidate the subsidiaries within its financial statements. Consolidated financial statements are prepared by Tesco Personal Finance Group Limited.

Provision and contingent liabilities

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated.

Contingent liabilities have not been recognised within the financial statements.

Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

1 Principal accounting policies (continued)

Share Capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Dividends on shares

Dividends on shares are recognised in equity in the period they are approved by the Group's shareholders or paid.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and 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 other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Leases

If the lease agreement transfers the risks and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and is depreciated over the estimated useful life.

The lease obligations are recorded as borrowings.

If the lease does not transfer the risks and rewards of the asset, the lease is recorded as an operating lease.

Operating lease payments are charged to the Income Statement on a straight line basis unless a different systematic basis is more appropriate. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor in compensation is charged to the income statement in the period in which the termination is made. The Company has entered into an operating lease for land and buildings.

Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss using methods that best reflect the economic benefits over their estimated useful lives and is included in depreciation and amortisation. The estimated useful lives are as follows;

Computer software development	3 years
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Securitisation transactions

The Company enters into securitisation transactions in which it sells Medium Term Notes to a Special Purpose Entity (SPE) and issues securities backed by the cash flows from the securitised credit card receivables. Although none of the equity of the SPE is owned by the Company, the nature of these entities, which are in substance controlled by the Company, mean that the Company retains substantially all the risks and rewards of ownership of the securitised credit card receivables. As such the SPEs are consolidated on a line by line basis in the Company accounts. The securitised credit card receivables remain within Loans and Advances to Customers and the related inter company liability with the SPE is disclosed within other liabilities.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

2 Critical accounting estimates and judgements in applying accounting policies

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Company's principal accounting policies are set out above. United Kingdom company law and IFRS require the directors, in preparing the Company'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, International Accounting Standard ("IAS") 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires them to adopt policies that will result in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB Framework for the Preparation and Presentation of Financial Statements.

The judgements and assumptions involved in the Company'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 Company would affect its reported results.

(i) Loan impairment provisions

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

At 28 February 2009, gross loans and advances totalled £3,939,214k (2007: £3,630,320k) and loan impairment provisions amounted to £249,578k (2007 £184,395k).

The Company's loan impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience, credit scores 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, the unemployment level, payment behaviour and bankruptcy trends.

(ii) Fair value of derivatives at fair value through profit and loss

Fair values of interest rate swaps and forward foreign exchange contracts are calculated by discounted cash flow models using yield curves and forward curves that are based on observable market data.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

3 Net Interest Income

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Interest and similar income		
Loans and advances to customers	343,002	277,092
Interest income on deposits	195,577	219,467
Other	48,653	-
	<hr/>	<hr/>
	587,232	496,559
Interest expense and similar charges		
Loans and advances to customers	(149,478)	(129,895)
Subordinated liabilities to The Royal Bank of Scotland Group	(11,985)	(10,397)
Other amounts payable to The Royal Bank of Scotland Group plc and its subsidiaries	(288,055)	(221,308)
Fair value hedge ineffectiveness (note 15)	(1,050)	-
	<hr/>	<hr/>
	(450,568)	(361,600)
Net Interest Income	<hr/>	<hr/>
	136,664	134,959

4 Net fee and commission income

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Fee and commission income		
Banking fees and commission	271,891	215,541
General Insurance income	241,241	182,911
Other fees	23,484	4,723
	<hr/>	<hr/>
Total	536,616	403,175
Fee and commission expense		
Banking expenses	(13,329)	(13,153)
Other expenses	(2,464)	-
	<hr/>	<hr/>
Total	(15,793)	(13,153)

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

5 Administrative Expenses

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Staff Costs – see below	20,344	11,834
Premises and equipment	42,866	34,567
Outsourcing	92,061	81,812
Marketing	83,360	58,155
Early repayment expenses	38,335	-
Other administrative expenses	54,168	59,928
	<u>331,134</u>	<u>246,296</u>

Early repayment expenses of £38,335k relate to the cost of unwinding borrowings and placings with The Royal Bank of Scotland Group in October 2008. These costs represent the movement in interest rates on funds borrowed to hedge interest rate risk (when the Group was 50% owned by The Royal Bank of Scotland Group) from the date the borrowings were taken out until the date of unwind.

Unwinding these borrowings was a requirement of the share purchase agreement relating to change of ownership.

Staff working for Tesco Personal Finance Plc had contracts with The Royal Bank of Scotland plc up to 19 December 2008, after this date these contracts were transferred to Tesco Personal Finance plc

The average monthly number of persons (excluding executive directors) employed by the Company during the year was 180 (2007: 176).

Staff costs (including executive directors) for the period are as follows:

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Wages and salaries	13,062	8,598
Social security costs	1,799	957
Pension costs	1,342	1,192
Other costs including temporary staff	4,141	1,087
	<u>20,344</u>	<u>11,834</u>

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

6 (Losses)/gains from derivatives not in hedge relationships

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Fair value hedge adjustments; no hedge accounting applied pre 19 December 2008	(29,259)	-
Fair value hedge adjustments; net fair value change on financial instruments post 19 December 2008	(1,713)	-
	<u>(30,972)</u>	<u>-</u>

The £29,259k fair value loss was due to the decrease in swap rates between 28 October 2008, the date on which new hedge arrangements were put in place and 19 December 2008, the date on which hedge accounting was applied to these arrangements.

As at 28 February 2009 there were three swaps deemed ineffective resulting in a £1,713k fair value movement.

7 Operating profit before tax

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Operating profit before tax is stated after taking account of the following:		
Auditors' remuneration:		
Fees payable to the company's auditors for the audit of the company's annual accounts	248	69
The audit of the companies subsidiaries pursuant to legislation	<u>5</u>	<u>5</u>
Fees payable to the company's auditors for other services to the company		
Other attest services	<u>272</u>	<u>12</u>
Directors' emoluments (see note 8)	<u>1,876</u>	<u>296</u>

8 Directors' emoluments

The remuneration of the directors recharged to the Company during the period was as follows:

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Total emoluments received by directors	<u>1,876</u>	<u>296</u>
Number of directors to whom retirement benefits are accruing under defined benefit schemes	<u>1</u>	<u>1</u>

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

8 Directors' emoluments (continued)

Performance related bonuses are awarded on the basis of measuring annual performance against certain specified financial targets, which include both corporate performance objectives and key strategic objectives.

The total emoluments of the highest paid director were £804,000 (2007: £282,000). At 28 February 2009, the accrued pension, under a defined benefit scheme, for the highest paid director was £nil (2007: £30,707).

9 Tax on operating profit

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
UK corporation tax charge for the period	30,575	42,214
Tax under / (over) provided on profits for prior years	(248)	115
	<hr/>	<hr/>
Total current tax	30,327	42,329
Deferred tax (see note 19)	2,401	3,283
	<hr/>	<hr/>
	<u>32,728</u>	<u>45,612</u>

The UK standard rate of corporation tax for the period 1 January 2008 to 31 March 2008 was 30% and from 1 April 2008 is 28%, this has resulted in a blended tax rate for the period of 28.4% (2007: 30%).

The actual tax charge for the current period and the previous year differs from the standard rate for the reasons set out in the following reconciliation.

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Profit on ordinary activities before taxation	159,447	180,585
Tax on profit on ordinary activities at standard rate	45,283	54,176
Factors affecting charge for the period:		
Utilisation of group relief loss	(4,371)	(1,870)
Income not subject to tax	(6,986)	(6,676)
Expenses not deductible for tax purposes	63	510
Adjustment to prior years	(248)	115
Impact of change in deferred tax	-	304
Other tax adjustments	(1,013)	(947)
	<hr/>	<hr/>
Total tax	<u>32,728</u>	<u>45,612</u>

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

10 Distributions to equity holders

	14 months to 28 Feb 2009 £'000	12 months to 31 Dec 2007 £'000
Ordinary dividend paid	104,000	120,000
Interest paid on undated loan capital included within equity	3,566	3,167
	<u>107,566</u>	<u>123,167</u>

On 30 June 2008 an interim dividend of £0.32 (2007: £0.28) per ordinary share was paid.

On 19 December 2008 a further dividend of £0.16 (2007: £0.20) per ordinary share was paid. An additional dividend of £0.016 per ordinary share was paid on 19 January 2009 resulting in a total dividend payment of £104,000k (2007: £120,000k).

11 Cash and balances with central banks

	28 Feb 2009 £'000	31 Dec 2007 £'000
Bank of England reserve deposit	<u>2,753</u>	<u>3,457</u>

This amount represents the minimum funding requirement to be held with the Bank of England and is reviewed on a bi-annual basis.

12 Loans and advances to banks

	28 Feb 2009 £'000	31 Dec 2007 £'000
Loans and advances to banks:		
Remaining maturity:		
Three months or less	1,457,962	3,614,481
One year or less but over three months	-	33,000
Five years or less but over one year	-	182,000
Over five years	-	206,000
	<u>1,457,962</u>	<u>4,035,481</u>

Included within loans and advances to banks are cash and cash equivalents of £1,457,962k (2007: £3,606,481k) for loans and receivables to banks which had a maturity on original acquisition of less than three months.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

13 Loans and advances to customers

	28 Feb 2009 £'000	31 Dec 2007 £'000
Loans and advances:		
Remaining maturity:		
Repayable on demand or at short notice	1,174	1,551
Three months or less	2,178,909	2,026,341
One year or less but over three months	41,265	33,153
Five years or less but over one year	1,148,731	958,535
Over five years	559,554	610,740
Fair value hedge adjustment	9,581	-
	<hr/>	<hr/>
	3,939,214	3,630,320
Impairment provision for loans and advances	(249,578)	(184,395)
	<hr/>	<hr/>
	<u>3,689,636</u>	<u>3,445,925</u>
	<hr/>	<hr/>
Current (due within 12 months)	2,089,596	1,956,358
Non-current (due after 12 months)	1,600,040	1,489,567
	<hr/>	<hr/>
Total	<u>3,689,636</u>	<u>3,445,925</u>

As at the period end £1,468,430k of the credit card portfolio was securitised (2007: £nil)

Fair value hedge adjustments amounting to £9,581k (2007: £nil) relate to adjustments reflecting interest rate risk which offset the fair value movement on derivatives which have been designated against loans and advances to customers for the purposes of hedge accounting. See note 15 for the Income Statement impact.

The following table shows impairment provisions for loans and advances:

	28 Feb 2009 Total £'000	31 Dec 2007 Total £'000
At 1 January	184,395	166,307
Amounts written off	(88,387)	(102,105)
Recoveries of amounts previously written off	6,978	12,454
Charge to the income statement	153,519	116,368
Unwind of discount	(6,927)	(8,629)
	<hr/>	<hr/>
At 28 February	<u>249,578</u>	<u>184,395</u>

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

14 Financial assets classified as available for sale

	28 Feb 2009 £'000	31 Dec 2007 £'000
Treasury Bills	587,902	-

Treasury Bills are debt securities issued by The Commissioners of Her Majesty's Treasury.

15 Derivative Financial Instruments

Strategy in using derivative financial instruments

The Board has authorised the use of derivative financial instruments for the purpose of supporting the strategic and operational business activities of the Company and reducing the risk of loss arising from changes in interest and foreign exchange rates. All use of derivative instruments within the Company is to hedge risk exposure, and the Company takes no trading positions in derivatives.

(a) Fair value hedges

At 28 February 2009 the Company had a portfolio of micro hedge relationships in place with an aggregate notional principal of £1,173,000k.

The Company has the following risk management objective to create economically effective hedges;

Pay fixed rate interest rate swaps are transacted to hedge the interest rate risk inherent in writing fixed rate customer loans, protecting against fluctuations in the fair value of the loans due to movements in the benchmark LIBOR index. Each swap is defined as hedging one or more fixed rate loan.

The total fair value of derivatives held within fair value hedges at 28 February 2009 was a net liability of £36,784k (2007: £nil).

(b) Cash flow hedges

The Company designated one interest rate swap as a cash flow hedge and used this swap to hedge the variability in cash flows associated with floating rate borrowings.

The total fair value of derivatives included within cash flow hedges as at 28 February 2009 was a net asset of £446k (2007: £nil).

(c) Derivatives not in hedge relationships

The Company uses forward foreign exchange contracts to hedge the exchange rate risk of the initial funding of its Euro credit card business and eventual repayments by customers.

The Company has 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 2009 was a net liability of £4,386k (2007: £nil).

All derivative financial instruments are held for hedging purposes, although not all derivatives are designated as hedging instruments under the terms of IAS 39. The analysis below splits derivatives between those classified in hedge accounting relationships and those not in hedge accounting relationship

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

15 Derivative Financial Instruments (continued)

	Notional 28 Feb 2009 £'000	Asset Fair value 28 Feb 2009 £'000	Liability Fair Value 28 Feb 2009 £'000
Derivatives in accounting hedge relationships			
<i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	1,173,000	279	(37,063)
<i>Derivatives designated as cash flow hedges</i>			
Interest rate swaps	100,000	446	-
	<u>1,273,000</u>	<u>725</u>	<u>(37,063)</u>
Derivatives not in hedge accounting relationships			
<i>Interest rate derivatives</i>			
Interest rate swaps	460,000	-	(5,123)
<i>Currency derivatives</i>			
Forward foreign exchange contracts	28,554	816	(79)
	<u>488,554</u>	<u>816</u>	<u>(5,202)</u>
Total	<u>1,761,554</u>	<u>1,541</u>	<u>(42,265)</u>

Hedge accounting was adopted during the period and no prior year comparatives are applicable.

	Assets 28 Feb 2009 £'000	Assets 31 Dec 2007 £'000	Liabilities 28 Feb 2009 £'000	Liabilities 31 Dec 2007 £'000
Current	816	-	(5,202)	-
Non-current	725	-	(37,063)	-
Total	<u>1,541</u>	<u>-</u>	<u>(42,265)</u>	<u>-</u>

Derivatives whether designated in hedge accounting relationships or not, are regarded as current where they are expected to occur within one year. All other derivatives are regarded as non-current.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

15 Derivative Financial Instruments (continued)

Fair Value Hedge Ineffectiveness – Net Interest Income

	28 Feb 2009 £'000	31 Dec 2007 £'000
Fair value hedge adjustment	9,581	-
Fair value movement on derivatives within fair value hedge relationships	(10,631)	-
	<hr/>	<hr/>
Fair value hedge ineffectiveness	(1,050)	-

16 Equity investments

	28 Feb 2009 £'000	31 Dec 2007 £'000
Loan to the Royal Bank of Scotland Insurance Group Limited	258,500	258,500

During the year impairment charges of £nil (2007: £nil) were recognised on the loan.

The loan comprises an interest free subordinated loan of £258,500k made to the Royal Bank of Scotland Insurance Group Limited a wholly owned subsidiary of The Royal Bank of Scotland plc. This loan has been classed as an equity investment as there is no interest received and there is no fixed repayment date.

17 Prepayments and accrued income

	28 Feb 2009 £'000	31 Dec 2007 £'000
Amounts payable by Tesco plc	392	221
Amounts payable by The Royal Bank of Scotland Group	-	3,772
ATM accrued income	18,319	8,879
Amounts payable by other third parties	29,140	-
Other prepayments and accrued income	34,866	40,486
	<hr/>	<hr/>
	82,717	53,358

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

18 Other assets

	28 Feb 2009 £'000	31 Dec 2007 £'000
Amounts payable by The Royal Bank of Scotland plc	16,637	255,041
Amounts payable by Tesco plc	19,681	-
Principal receivables due from securitisation special purpose vehicle	53,070	-
Other	52,158	54,762
	<u>141,546</u>	<u>309,803</u>

19 Deferred taxation

The deferred tax asset can be analysed as follows:

	Accelerated capital allowances £'000	Other £'000	Total £'000
At 1 January 2008	1,668	12,364	14,032
Charged to the income statement	(838)	(1,563)	(2,401)
At 28 February 2009	<u>830</u>	<u>10,801</u>	<u>11,631</u>

The directors consider that there will be sufficient future profits to support recognition of the deferred tax asset.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

20 Intangible assets

	Computer Software Development £'000
Cost	
At 1 January 2008	6,092
Additions	820
Amounts written off	(6,912)
At 28 February 2009	-
Amortisation	
At 1 January 2008	1,584
Charged during the period	2,485
Amounts written off	(4,069)
At 28 February 2009	-
Net book value	
At 28 February 2009	-
At 31 December 2007	4,508

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

21 Property, plant and equipment

	Plant & Equipment £'000	Fixtures & Fittings £'000	Computer Hardware £'000	Computer Software £'000	Total £'000
Cost					
At 1 January 2008	1,631	3,868	49,426	11,822	66,747
Additions	4,493	-	6,369	-	10,862
Amounts written off	-	-	(242)	(11,822)	(12,064)
At 28 February 2009	6,124	3,868	55,553	-	65,545
Depreciation					
At 1 January 2008	1,231	3,082	31,993	11,470	47,776
Charged during the period	247	208	5,262	352	6,069
Amounts written off	-	-	(153)	(11,822)	(11,975)
At 28 February 2009	1,478	3,290	37,102	-	41,870
Net book value					
At 28 February 2009	4,646	578	18,451	-	23,675
At 31 December 2007	400	786	17,433	352	18,971

22 Investments in Group undertakings

Shares in group undertakings in the current and prior year relates to a 100% shareholding in TPF ATM Services Limited which is incorporated in Scotland, amounting to £2.

23 Deposits from banks

	28 Feb 2009 £'000	31 Dec 2007 £'000
Amortised cost:		
Remaining maturity:		
Three months or less	24,021	1,210,594
One year or less but over three months	-	958,000
Five years or less but over one year	585,599	526,865
Over five years	-	1,604,340
	609,620	4,299,799

On 19 December 2008 all amounts owing to The Royal Bank of Scotland plc were repaid.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

24 Customer accounts

	28 Feb 2009 £'000	31 Dec 2007 £'000
Repayable on demand:		
Amortised cost	4,547,316	2,771,466

The prior period has been restated following a reallocation of £35,869k from "Accruals and deferred income" (Note 26) for accrued customer interest.

25 Debt Securities in issue

	14 months 2009 £'000	12 months 2007 £'000
Bond Issue	224,550	-
	224,550	-

On 27 February 2009 the Company issued a nominal £225,000k (2007: £nil) 3 year floating rate bond guaranteed by the Commissioners of Her Majesty's Treasury.

26 Accruals and deferred income

	28 Feb 2009 £'000	31 Dec 2007 £'000
Amounts accrued to Tesco plc	6,779	13,430
Amounts accrued to The Royal Bank of Scotland plc	10,929	48,882
Other accruals and deferred income	43,766	15,396
	61,474	77,708

All amounts accrued are repayable within one year.

The prior period has been restated following a reallocation of £35,869k to "Customer accounts" (Note 24) for accrued customer interest.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

27 Other liabilities

Group	28 Feb 2009 £'000	31 Dec 2007 £'000
Amounts owed to Tesco plc	25,322	13,603
Amounts owed to The Royal Bank of Scotland plc	266	225,590
Other liabilities	11,407	11,782
	<u>36,995</u>	<u>250,975</u>

All amounts owed are repayable within one year.

28 Subordinated liabilities

	28 Feb 2009 £'000	31 Dec 2007 £'000
Amortised Cost:		
Floating rate subordinated loan maturing 2017	30,000	30,000
Floating rate subordinated loan maturing 2018	35,000	35,000
Floating rate subordinated loan maturing 2022	95,000	95,000
	<u>160,000</u>	<u>160,000</u>

Subordinated liabilities comprise loan capital issued to Tesco plc.

The fixed term loan capital is repayable, in whole or in part, at the option of the issuer, prior to maturity, on conditions governing the debt obligation. Interest payable is based on three month LIBOR plus a range of 60 to 160 points.

29 Called up share capital

	28 Feb 2009 £'000	31 Dec 2007 £'000
Authorised		
500,000,000 Ordinary shares of 10p each	<u>50,000</u>	<u>50,000</u>
	28 Feb 2009 £'000	31 Dec 2007 £'000
Allotted, called up and fully paid		
247,900,000 Ordinary shares of 10p each	<u>24,790</u>	<u>24,790</u>

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

30 Equity reserve

	28 Feb 2009 £'000	31 Dec 2007 £'000
Amortised cost:		
Equity reserve	<u>45,000</u>	<u>45,000</u>

The equity reserve comprises an undated floating rate subordinated loan which has no fixed maturity date and may not be repaid except under certain conditions such as the winding up of Tesco Personal Finance plc.

31 Cash flow hedge reserve

	28 Feb 2009 £'000	31 Dec 2007 £'000
Movements in the cash flow hedge were as follows:		
Fair value gains in the year	<u>446</u>	<u>-</u>

The effective portion of changes in the fair value derivative that are designated and qualify as cash flow hedges amount to £446k (2007: £nil)

32 Employee benefit liability

Tesco Personal Finance plc accounts for pension costs on a contributions basis in line with the requirements of IAS 19 and these contributions are made to the Tesco plc scheme 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 that the Sponsoring employer recognises the net defined benefit cost of a defined benefit scheme. The Sponsoring employer is Tesco plc and the principal pension plan is the Tesco Plc pension scheme. The scheme is a funded defined benefit scheme in the UK, the assets of which are administered by trustees. Tesco plc has recognised the appropriate net liability of the scheme. The valuation used has been based on a formal actuarial review performed as at 31 March 2008 using the projected cost method carried out by Watson Wyatt. The following disclosures relate to the Tesco plc pension scheme.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

32 Employee benefit liability (continued)

Principal assumptions

The valuations used for IAS 19 have been based on the most recent actuarial valuations and updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 28 February 2009. The major assumptions, on a weighted average basis, used by the actuaries were as follows:

	2009 %	2008 %	2007 %
Rate of increase in salaries	3.7	5.0	4.5
Rate of increase in pensions in payment*	3.1	3.5	3.0
Rate of increase in deferred pensions*	3.2	3.5	3.0
Rate of increase in career average benefits	3.2	3.5	3.0
Discount rate	6.5	6.4	5.2
Price inflation	3.2	3.5	3.0

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

The main financial assumption is the real discount rate, i.e. the excess of the discount rate over the rate of price inflation. If this assumption increased/decreased by 0.1%, the UK defined benefit obligation would decrease/increase by approximately £110,000k and the annual UK current service cost would decrease/increase by approximately £11,000k.

Rates of return on scheme assets

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

	2009		2008		2007	
	Long term rate of return	Market value	Long term rate of return	Market value	Long term rate of return	Market value
	%	£m	%	£m	%	£m
Equities	8.9	1,482	8.9	2,205	8.1	2,420
Bonds	5.5	1,080	5.7	901	5.2	812
Property	7.3	342	7.3	351	6.7	343
Other (alternative assets)	8.9	383	8.9	512	8.1	384
Cash	3.7	133	4.5	120	4.0	48
Total market value of assets		3,420		4,089		4,007

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

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

32 Employee benefit liability (continued)

Movements in pension deficit during the year

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

	2009 £m	2008 £m	2007 £m
Opening fair value of plan assets	4,089	4,007	3,448
Expected return	338	301	255
Actuarial gains and (losses)	(1,270)	(465)	82
Contributions by employer	376	340	321
Actual Member Contributions	8	7	7
Foreign Currency translation differences	11	9	(2)
Benefits paid	(132)	(112)	(104)
Acquisitions	0	2	0
Closing fair value of plan assets	3,420	4,089	4,007

Post-retirement benefits other than pensions

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

The liability in Tesco plc as at 28 February 2009 was £10,000k (2008 - £11,000k), which was determined in accordance with the advice of independent actuaries. £700k (2008 - £600k) has been charged to the Tesco plc Income Statement and £500k (2008 - £700k) of benefits were paid.

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

	2009 £m	2008 £m	2007 £m
Effect of 1.0% increase in assumed medical cost rate on			
Service and interest cost	0.1	0.1	0.1
Defined benefit obligation	1.6	1.6	1.3
Effect of 1.0% decrease in assumed medical cost rate on			
Service and interest cost	(0.1)	(0.1)	(0.1)
Defined benefit obligation	(1.3)	(1.3)	(1.3)

Expected Contributions

A formal actuarial valuation is carried out triennially for the scheme trustees by a professionally independent qualified actuary. The purpose of the valuation is to agree a funding plan to ensure that present and future contributions should be sufficient to meet future liabilities. The actuarial valuation of approved schemes, as at 31 March 2008 has been concluded and company contributions are increasing to 11.1% (2008 10.9%). On this basis Tesco plc expects to make contributions of approximately £410,000k to defined benefit pension schemes in the year ending 28 February 2010.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

33 Risk Management

Risk Management

Tesco Personal Finance Group ("TPF") has established a comprehensive risk framework to manage the risks arising across the business. The risk framework is based around the following five primary risk types:

- Regulatory Risk
- Operational Risk
- Credit Risk
- Insurance Risk
- Treasury Risk (including market risk, interest rate risk, liquidity risk and foreign exchange risk)

TPF has established clear risk policies, including limits, reporting lines and control procedures. This framework is designed to provide tight control and is reviewed regularly by both Executive and Board Committees.

Responsibility for the control of Regulatory Risk, Operational Risk, Credit Risk and Insurance Risk is vested in the Risk Management Committee (RMC); responsibility for the control of Treasury Risk (including Liquidity Risk, Interest Rate Risk in the Banking Book, Market Risk and Capital Management) rests with the Assets and Liabilities Committee. These committees establish the strategy, policies and procedures for managing the risks within their respective remits.

TPF has established an Audit Committee comprising executive and non-executive directors. This committee's remit includes the responsibility to review internal control systems including risk management and management's processes for ensuring the appropriateness and effectiveness of systems and controls.

Regulatory Risk

Regulatory risk relates to the risks caused by non-compliance with financial regulators requirements. Material breaches could result in censure, fines, reputational damage or other liability arising from such failures to comply. Although the Company's main regulator is the Financial Services Authority (FSA), there are a range of other regulators/ codes of best practice that oversee regulated financial services businesses in locations in which the Company operates.

TPF Regulatory Risk undertake an ongoing compliance monitoring programme approved by the Risk Management Committee; they ensure that the business adheres to regulatory rules and requirements, including TPF Risk Management Policies and the FSA Handbook; co-ordinate regulatory risk reporting and work closely with our business partners that provide outsourced services, particularly in the area of Anti-Money Laundering (AML)

TPF has a compliance guide which outlines all applicable compliance procedures including FSA requirements for example; AML, complaints, treating customers fairly, ICOB, significant influence approved persons.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, external events, fraud or inadequate internal control and procedures. The Company manages this risk across the business lifecycle from the new product risk assessment process to ensure that risks are understood and mitigated to an agreed level pre-launch; through systems and procedures to monitor transactions and positions; regular reviews of controls across key business processes and the escalation and analysis of incidents and any losses arising. Financial Crime processes are in the main delivered by our business partners to standards set and overseen by the Company.

Internal Audit undertake periodic reviews across the business under a programme agreed with the TPF Audit Committee.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

33 Risk Management (continued)

The Company also maintains contingency facilities to support operations in the event of disasters.

Credit risk

Credit risk is the risk of a counterparty defaulting on its obligations. Credit risk arises principally from the Company's lending activities but also from other transactions including inter banking lending.

TPF maintain a credit risk policy framework that defines standards for the management of credit risk throughout TPF covering inter alia, sanctioning, account management and collections and recoveries. Credit assessment is based on a series of credit scorecards, designed specifically for TPF. Approval for setting scorecard parameters and the process for dealing with exceptions rests with the Risk Management Committee (RMC).

Regular reporting is provided to the TPF RMC, Executive Committee and Board to ensure an appropriate level of management and oversight. This includes the receipt and review of regular monitoring information and key risk indicators from The Royal Bank of Scotland Group in respect of services outsourced under the Commercial Services Agreement.

In managing credit risk provisioning and impairment TPF apply International Financial Reporting Standards (IFRS), specifically International Accounting Standard 39: Financial Instruments (IAS 39) which requires that financial assets are assessed for impairment. TPF applies a collective impairment provisioning model that segments provisions into the latent (good) book and the bad book based upon the approved definition of default operated on both the credit card and loans portfolio. Key drivers of the provision model are subject to significant controls testing.

TPF have designed a framework for setting and managing inter bank lending limits to spread the exposures in this area; the approach has been approved by the TPF Risk Management Committee.

Further details of the Company's exposure to credit risk are provided in notes 35 and 36.

Insurance Risk

The Company is exposed to insurance risk indirectly through its profit sharing commission arrangement with The Royal Bank of Scotland Group plc. Insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations at the time of underwriting.

The frequency and severity of claims and the sources of uncertainty for the key classes that the Company is exposed to are as follows:

a) Motor insurance contracts

Claims experience is variable, due to a wide range of factors, but the principal ones are age, sex and driving experience, type and nature of vehicle, use of vehicle and area. There are many sources of uncertainty that will affect the Company's experience under motor insurance including operational risk, reserving risk, premium rates not matching claims inflation rates, the weather, the social, economic and legislative environment and reinsurance failure risk.

b) Property insurance contracts

The major causes of claims for property insurance are theft, flood, escape of water, fire, storm, subsidence and various types of accidental damage. The major source of uncertainty is the volatility of weather.

Under the profit sharing commission arrangement referred to above, the insurance contracts entered into by customers of the Group are underwritten by a subsidiary of The Royal Bank of Scotland Group plc. In addition to the insurance risk highlighted above, the profit sharing commission receivable by the Group is therefore exposed to credit, regulatory and operational risk within The Royal Bank of Scotland Group plc. The services provided by The Royal Bank of Scotland Group plc in relation to insurance are closely monitored and the related risks are managed through the risk framework used across the Group.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

33 Risk Management (continued)

Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices and other rates, prices, volatilities, correlations or other market conditions, such as liquidity, will have an adverse impact on the Company's financial condition or results. The Company does not under take traded market risk and its principal exposure is to interest rate risk in the banking book.

Interest Rate Risk

It is the Company's Interest Rate Risk policy objective to minimise the sensitivity of net interest income to changes in interest rates. The Company looks to manage its exposure to interest rate risk across the whole balance sheet using interest rate swaps. It uses two methodologies to monitor the underlying interest rate risk, the first is a Value-at-Risk (VaR) framework. VaR is a market value measure. It is a measure of potential losses arising from volatility in interest rates. In order to assess the potential volatility in interest rates it takes account of actual volatility experienced over the preceding 500 trading days. The Company measures the potential loss over a one day horizon. It expresses that potential loss to a 95% level of confidence. The Company operates to a limit using the VaR framework of £100k.

The second method measures potential short-term exposure by assessing the % movement in forecast net interest income over a 12 month period to a specified movement in market interest rates. The model applies an instantaneous 1.0% parallel rate movement to the yield curve and calculates the impact that this would have on forecast net interest income. This impact is managed to within a 1.5% limit.

Both methodologies are managed against the internally set limits approved by ALCO.

	28 Feb 2009 £'000	31 Dec 2007 £'000
Interest Rate VaR	<u>96</u>	<u>66</u>

The table below summarises the contractual interest rate sensitivity gap for the Company as at 28 February 2009. 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.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

33 Risk Management (continued)

2009	Within 3 months	After 3 months, but within 6 months	After 6 months, but within 1 year	After 1 year, but within 5 years	After 5 years	Non – interest bearing funds	Total
	£m	£m	£m	£m	£m	£m	£m
Assets:							
Loans & advances to banks	1,461	-	-	-	-	-	1,461
Loans & advances to customers	1,291	222	474	842	57	803	3,689
Other assets	-	-	-	-	-	1,113	1,113
Total assets	2,752	222	474	842	57	1,916	6,263
Liabilities and equity:							
Customer accounts	4,547	-	-	-	-	-	4,547
Deposits by banks	24	-	-	586	-	-	610
Other liabilities	-	-	-	170	-	195	365
Subordinated liabilities	160	-	-	-	-	-	160
Shareholders' equity	45	-	-	-	-	536	581
Total liabilities and equity	4,776	-	-	756	-	731	6,263
On balance sheet interest rate sensitivity gap	(2,024)	222	474	86	57	1,185	-
Off balance sheet items	694	849	(270)	(1,239)	(34)	-	-
Cumulative interest rate sensitivity gap	(1,330)	1,071	204	(1,153)	23	1,185	-

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

33 Risk Management (continued)

2007	Within 3 months	After 3 months, but within 6 months	After 6 months, but within 1 year	After 1 year, but within 5 years	After 5 years	Non – interest bearing funds	Total
	£m	£m	£m	£m	£m	£m	£m
Assets:							
Loans & advances to banks	3,618	15	18	182	202	-	4,035
Loans & advances to customers	775	805	363	830	108	565	3,446
Other assets	-	-	-	-	-	663	663
Total assets	4,393	820	381	1,012	310	1,228	8,144
Liabilities and equity:							
Customer accounts	2,771	-	-	-	-	-	2,771
Deposits by banks	1,394	1,023	418	1,301	164	-	4,300
Other liabilities	-	-	-	-	-	352	352
Subordinated liabilities	160	-	-	-	-	-	160
Shareholders' equity	45	-	-	-	-	516	561
Total liabilities and equity	4,370	1,023	418	1,301	164	868	8,144
Interest rate sensitivity gap	23	(203)	(37)	(289)	146	360	-

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations as they fall due. The Company has a defined liquidity risk policy and contingency funding plan, the Company's policy is prudent and in excess of the minimum requirements set out by the FSA. The Company maintains a specific liquid asset portfolio of high quality marketable assets, currently UK Government issued or guaranteed debt, and its adequacy is monitored daily. The Company also has a large pool of surplus cash resources that are invested in short term bank deposits as well as the ability to call on its £250m committed facility from The Royal Bank of Scotland Group. The Company's lending activities are predominately funded by retail customer deposits.

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

33 Risk Management (continued)

Contractual Maturity of financial liabilities

Details of contractual maturities for liabilities form an important source of information for the management of liquidity risk. In order to more accurately reflect the expected behaviour of the Group's liabilities measurement and modelling of each is constructed. This forms the foundation of the liquidity controls.

The following table shows cash flows payable up to a period of 20 years on an undiscounted basis. These differ from balance sheet values due to the effects of discounting on certain balance sheet items and due to the inclusion of contractual future interest flows.

Derivatives designated in a hedging relationship are included according to their contractual maturity.

28 Feb 2009	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years	Total
	£m	£m	£m	£m	£m	£m	£m
Deposits by banks	24	586	-	-	-	-	610
Bank and other borrowings	-	-	225	-	-	-	225
Interest payment on borrowings	3	11	31	15	34	30	124
Customer accounts	4,547	-	-	-	-	-	4,547
Other liabilities	37	-	-	-	-	-	37
Accruals & deferred income	-	62	-	-	-	-	62
Subordinated liabilities	-	-	-	-	65	95	160
Net settled derivative contracts	1	19	23	2	-	-	45
	4,612	678	279	17	99	125	5,810

31 Dec 2007	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years	Total
	£m	£m	£m	£m	£m	£m	£m
Deposits by banks	1,211	958	235	291	1,604	-	4,299
Bank and other borrowings	-	-	-	-	-	-	-
Interest payment on borrowings	-	-	-	-	-	-	-
Customer accounts	2,771	-	-	-	-	-	2,771
Other liabilities	274	-	-	-	-	-	274
Accruals & deferred income	79	-	-	-	-	-	79
Subordinated liabilities	30	35	-	-	95	-	160
Net settled derivative contracts	-	-	-	-	-	-	-
	4,365	993	235	291	1,699	-	7,583

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

33 Risk Management (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the sterling value of net income from asset and liabilities that are denominated in foreign currency changes as a consequence of changes to foreign exchange rates. The Company has a euro denominated credit card portfolio which is subject to limited foreign exchange risk as the majority of this risk has been eliminated through the use of a series of foreign exchange swaps.

34 Financial Instruments

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

28 Feb 2009	Loans and receivables £m	Other (amortised cost) £m	Derivatives used for hedging £m	Available for Sale	Non financial assets/ liabilities £m	Total £m
Assets:						
Cash and balances at central banks	3	-	-	-	-	3
Loans & advances to banks	1,457	-	-	-	-	1,457
Loans & advances to customers	3,689	-	-	-	-	3,689
Equity investments	259	-	-	-	-	259
Intangible assets	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	24	24
Other assets	158	-	-	588	-	746
Prepayments and accrued income	-	-	-	-	83	83
Derivative Financial Instruments	-	-	2	-	-	2
	<u>5,566</u>	<u>-</u>	<u>2</u>	<u>588</u>	<u>107</u>	<u>6,263</u>
Liabilities and equity:						
Deposits by banks	-	610	-	-	-	610
Customer accounts	-	4,547	-	-	-	4,547
Other liabilities	-	36	-	-	-	36
Debt securities in issue	-	-	225	-	-	225
Accruals and deferred income	-	-	-	-	62	62
Subordinated liabilities	-	160	-	-	-	160
Derivative financial instruments	-	-	42	-	-	42
	<u>-</u>	<u>5,298</u>	<u>267</u>	<u>-</u>	<u>117</u>	<u>5,682</u>
Equity						<u>581</u>
						<u>6,263</u>

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

34 Financial Instruments (continued)

31 Dec 2007	Loans and receivables	Other (amortised cost)	Non financial assets/liabilities	Total
	£m	£m	£m	£m
Assets:				
Cash and balances at central banks	3	-	-	3
Loans & advances to banks	4,035	-	-	4,035
Loans & advances to customers	3,446	-	-	3,446
Equity investments	259	-	-	259
Intangible assets	-	-	5	5
Property, plant and equipment	-	-	19	19
Other assets	324	-	-	324
Prepayments and accrued income	-	-	53	53
Derivative financial instruments	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	8,067	-	77	8,144
Liabilities and equity:				
Deposits by banks	-	4,299	-	4,299
Customer accounts	-	2,771	-	2,771
Other liabilities	-	274	-	274
Debt securities in issue	-	-	-	-
Accruals and deferred income	-	-	79	79
Subordinated liabilities	-	160	-	160
Derivative financial instruments	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	7,505	78	7,583
Equity				<hr/>
				561
				<hr/>
				8,144

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

34 Financial Instruments (continued)

Fair values

The following table shows the carrying values and where different the fair values of financial instruments on the Company's balance sheet

	28 Feb 2009		31 Dec 2007	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash and cash equivalents	3	3	-	-
Loans and advances to banks				
Loans and receivables	1,461	1,461	4,039	4,041
Loans and advances to customers				
Loans and receivables	3,690	3,690	3,445	3,445
Equity investment				
Loans and receivable	259	259	259	259
Derivative Financial Assets				
Fair value through profit and loss	0.7	0.7	-	-
Fair value through profit and loss	0.8	0.8	-	-
Financial liabilities				
Long-term borrowings:				
Amortised Cost	225	225	-	-
Deposits by banks				
Amortised cost	610	610	4,300	4,303
Deposits by customers				
Amortised cost	4,547	4,547	2,771	2,771
Derivative and other financial liabilities				
Fair value through profit and loss	42	42	-	-
Subordinated debt				
Amortised cost	160	160	160	160

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

35 Asset Quality

Internal reporting and oversight of risk assets is principally differentiated by credit ratings. Internal ratings are used to assess the credit quality of borrowers. Customers are assigned credit ratings, based on various credit grading models that reflect the probability of default.

Expressed as an annual probability of default, the upper and lower boundaries and the midpoint for each of the asset quality grades are as follows:

Asset Quality Grade	Annual probability of default			S&P equivalent
	Minimum %	Midpoint %	Maximum %	
AQ1	0.00	0.10	0.20	AAA to BBB-
AQ2	0.21	0.40	0.60	BB+ to BB
AQ3	0.61	1.05	1.50	BB- to BB+
AQ4	1.51	3.25	5.00	B+ to B
AQ5	5.01	52.50	100.00	B and below

28 Feb 2009	AQ1	AQ2	AQ3	AQ4	AQ5	Accruing past due	Non-accrual	Impairment provision	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets:									
Cash and balances at central banks	3	-	-	-	-	-	-	-	3
Loans & advances to banks	1,457	-	-	-	-	-	-	-	1,457
Loans & advances to customers	384	713	904	950	615	82	292	(250)	3,690
Equity Investments	259	-	-	-	-	-	-	-	259
	<u>2,103</u>	<u>713</u>	<u>904</u>	<u>950</u>	<u>615</u>	<u>82</u>	<u>292</u>	<u>(250)</u>	<u>5,409</u>
Commitments	<u>3,103</u>	<u>1,451</u>	<u>744</u>	<u>305</u>	<u>129</u>	-	-	-	<u>5,732</u>
Total off balance sheet	<u>3,103</u>	<u>1,451</u>	<u>744</u>	<u>305</u>	<u>129</u>	-	-	-	<u>5,732</u>

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

35 Asset Quality (continued)

31 Dec 2007	AQ1	AQ2	AQ3	AQ4	AQ5	Accruing past due	Non- accrual	Impairment provision	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets:									
Cash and balances at central banks	3	-	-	-	-	-	-	-	3
Loans & advances to banks	4,047	-	-	-	-	-	-	-	4,047
Loans & advances to customers	89	785	916	926	594	75	245	(184)	3,446
Equity Investments	259	-	-	-	-	-	-	-	259
	<u>4,398</u>	<u>785</u>	<u>916</u>	<u>926</u>	<u>594</u>	<u>75</u>	<u>245</u>	<u>(184)</u>	<u>7,755</u>
Commitments	1,533	2,785	1,109	378	135	-	-	-	5,940
Total off balance sheet	<u>1,533</u>	<u>2,785</u>	<u>1,109</u>	<u>378</u>	<u>135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,940</u>

36 Past due and impaired financial assets

At 28 February 2009, the Company's non-accrual loans amounted to £292,000k (2007: £245,000k). Loan impairment provisions of £249,578k (2007: £184,395k) were held against these loans.

	28 Feb 2009 £'000	31 Dec 2007 £'000
Gross income not recognised but which would have been recognised under the original terms of non-accrual loans	<u>24,736</u>	<u>19,622</u>

The following assets were past due at the balance sheet date but not considered impaired:

28 Feb 2009	Past due 1-29 days	Past due 30-59 days	Past due 60-89 days	Past due more than 90 days	Total
	£m	£m	£m	£m	£m
Loans & advances to customers	58	15	9	-	82
	<u>58</u>	<u>15</u>	<u>9</u>	<u>-</u>	<u>82</u>

TESCO PERSONAL FINANCE PLC

Notes to the Financial Statements

36 Past due and impaired financial assets (continued)

31 Dec 2007	Past due 1-29 days	Past due 30-59 days	Past due 60-89 days	Past due more than 90 days	Total
	£m	£m	£m	£m	£m
Loans & advances to customers	41	20	14	-	75
	<u>41</u>	<u>20</u>	<u>14</u>	<u>-</u>	<u>75</u>

There are no loans that have been renegotiated in the past 14 months that would otherwise have been past due or impaired.

37 Commitments

(a) Loan 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.

	28 Feb 2009 £'000	31 Dec 2007 £'000
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than one year	<u>5,732,229</u>	<u>5,939,594</u>

Under a loan commitment the Company agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, providing all conditions in the loan facility are satisfied or waived.

(b) Capital commitments

At 28 February the Company had capital commitments of £5,645k (2007: £nil) in respect of building and fit-out purchases. The Company's management is confident that future net revenues and funding will be sufficient to cover this commitment.

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38 Cash inflow from operating activities

	28 Feb 2009 £'000	31 Dec 2007 £'000
Operating profit before taxation	159,447	180,585
Depreciation and amortisation	8,554	5,320
Fixed asset and intangible write off	2,932	-
Interest on subordinated liabilities	11,985	10,471
(Increase) in prepayments and accrued income	(29,359)	(19,312)
Increase/(decrease) in accruals and deferred income	(16,234)	(4,987)
Provision for bad and doubtful debts	153,519	116,368
Amounts written off	(88,387)	(98,280)
Loss from derivatives not in hedge accounting	30,972	-
Fair value hedge ineffectiveness	1,050	-
Net cash inflow from trading activities	234,479	190,165
Net increase / (decrease) in deposits with banks	(3,690,179)	36,394
Net increase/(decrease) in customer accounts	1,775,850	(154,725)
Net increase/(decrease) in advances to customers	(299,616)	338,638
Net (increase)/decrease in other assets	168,257	(194,090)
Net increase/(decrease) in other liabilities	(213,980)	236,427
Changes in operating assets and liabilities	(2,259,668)	262,644

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39 Capital resources

The following table analyses the Company's regulatory capital resources at 28 February 2009:

	28 Feb 2009 £'000	31 Dec 2007 £'000
Movement in tier 1 capital		
At 1 January	490,790	485,855
Profit attributable to shareholders	131,456	124,935
Ordinary dividends	(100,000)	(120,000)
Intangible assets	(1,012)	-
At 28 February/31 December	521,234	490,790
Composition of regulatory capital		
Tier 1 capital:		
Shareholders funds and minority interests	521,234	490,790
	521,234	490,790
Tier 2 capital:		
Qualifying subordinated debt	205,000	205,000
Other interests in tier 2 capital	18,465	50,572
	223,465	255,572
Supervisory deductions:		
Other deductions	(258,500)	(258,500)
Total regulatory capital	486,199	487,862

It is the Company'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 Company has regard to the supervisory requirements of the Financial Services Authority ("FSA"). The FSA uses Risk Asset Ratio ("RAR") as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the RAR should be not less than 8% with a tier 1 component of not less than 4%. The Company has complied with the FSA's capital requirements throughout the year.

Capital Management

The Company manages its capital resources to meet the regulatory requirements established by its regulator the FSA. Capital adequacy is monitored on an ongoing basis by the Company's Executive Management and Board, based on the regulations established by the FSA. The required Capital information is filed with the FSA on quarterly basis.

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40 Related party transactions

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

(a) Transactions involving directors and other key management personnel

For the purposes of IAS 24 "Related Party Disclosures", key management comprise directors of the company and members of the Group Executive Management Committee. The captions in the Company's primary financial statements include the following amounts attributable, in aggregate to key management personnel.

	28 Feb 2009 £'000	31 Dec 2007 £'000
Loans and advances to customers	15	19
Customer accounts	412	67

(b) Remuneration of key management personnel

The amount of remuneration recharged to the Company in relation to the directors and other key management personnel is set out below in aggregate. Further information about the remuneration of directors is provided in note 8.

	28 Feb 2009 £'000	31 Dec 2007 £'000
Short-term employee benefits	2,698	1,080
Retirement benefits	119	126
	2,817	1,206

(c) Trading transactions

During the year, group companies entered into the following transactions with related parties who are not members of the Company:

	28 Feb 2009 The Royal Bank of Scotland plc £'000	28 Feb 2009 Tesco plc £'000	31 Dec 2007 The Royal Bank of Scotland plc £'000	31 Dec 2007 Tesco plc £'000
Interest received and other income	519,919	1,678	399,622	1,335
Interest paid	(210,819)	(8,178)	(215,701)	(6,923)
Provision of services	(85,203)	(59,247)	(61,102)	(37,873)

The amounts owed by and owed to members of The Royal Bank of Scotland plc and Tesco plc are disclosed in earlier notes.

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Notes to the Financial Statements

40 Related party transactions (continued)

(d) Ultimate parent undertaking

The Company's ultimate parent company 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, Chesunt, Hertfordshire EN8 9SL.

41 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 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.

42 Contingent Liabilities

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme is the UK statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it.

The FSCS has borrowed from HM Treasury to fund these compensation costs associated with institutions that failed in 2008 and will receive receipts from asset sales, surplus cash flow and other recoveries from these institutions in the future.

The FSCS meets its obligations by raising management expense levies. These include amounts to cover the interest on its borrowings and compensation levies on the industry. Each deposit-taking institution contributes in proportion to its share of total protected deposits.

In 2008 the Company has accrued £3,405k in respect of its current obligation to meet expenses levies.

If the FSCS does not receive sufficient funds from the failed institutions to repay HM Treasury in full it will raise compensation levies. At this time it is not possible to estimate the amount or timing of any shortfall resulting from the cash flows received from the failed institutions and, accordingly, no provision for compensation levies, which could be significant, has been made in these financial statements.

43 Share based payment disclosure

The Tesco Personal Finance plc charge for the period recognised in respect of share-based payments is £534k (2007: £nil), which is made up of share option schemes and share bonus payments. Of this amount £483k (2007: £nil) will be equity settled and £51k (2007: £nil) cash settled.

a) Share option schemes

Tesco Personal Finance plc had two option schemes in operation during the year, all of which are equity-settled schemes using Tesco plc shares:

- i) The Performance Share Plan (2004) was adopted by Tesco plc on 5 July 2004 and amended 29 June 2007. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options granted before 29 June 2007 are normally exercisable between three and ten years from the date of grant for nil consideration. The exercise of options will normally be conditional on the achievement of specified performance targets related to the return on capital employed over a three year period.

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43 Share based payments (continued)

- ii) The Discretionary Share Option Plan (2004) was adopted by plc 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 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 on the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three year period. There will be no discounted options under this scheme.

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

For the period ended 28 February 2009	Approved share option schemes Options	Approved share option schemes WAEP (pence)	Unapproved share options scheme Options	Unapproved share options scheme WAEP (pence)
Outstanding at 31 December 2007	-	0.00	-	0.00
Granted	7,025	427.00	39,813	427.00
Forfeited	-	0.00	-	0.00
Exercised	-	0.00	-	0.00
Outstanding as at 28 February 2009	7,025	427.00	39,813	427.00
Exercisable as at 28 February 2009	0	0.00	0	0.00
Exercise price range (pence)		0		0
Weighted average remaining contractual life (years)		0.00		0.00

Prior year comparatives are nil as the scheme was introduced for Tesco Personal Finance plc on 19 December 2008 and no share options were exercised throughout the period.

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.

	2009 Executive Share Option Schemes
Expected Dividend Yield (%)	3.3%
Expected Volatility (%)	25%
Risk free interest rate (%)	4.4%
Expected life of option	6
Weighted average fair value of options granted (pence)	94.18
Probability of forfeiture (%)	0%
Share price	427.00
Weighted average exercise price (pence)	427.00

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Notes to the Financial Statements

43 Share based payments (continued)

Prior year comparatives are nil as the scheme was introduced for Tesco Personal Finance plc on 19 December 2008.

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, Tesco plc Board consider 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) Eligible UK employees are able to participate in Shares in Success, an all-employee profit sharing scheme. Each year, Tesco plc shares are awarded as a percentage of earnings up to a statutory maximum of £3,000.

Senior management also participate in performance-related bonus schemes. The amount paid to employees is based on a percentage of salary and is paid partly in cash and partly in Tesco plc shares. Bonuses are awarded to eligible employees who have completed a required service period and depend on the achievement of corporate targets. The accrued cash element of the bonus at the Balance Sheet date is £51k (2007: £nil).

Selected senior management participate in the senior management Performance Share Plan. Awards made under this plan will normally vest three years after the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed over a three year performance period.

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 and weighted average fair value (WAFV) of share bonuses awarded during the period were:

	2009 Shares number	2009 WAFV (pence)	2007 Shares number	2007 WAFV (pence)
Performance Share Plan	94,646	353.76	-	-