TESCO PERSONAL FINANCE PLC

PRELIMINARY RESULTS

FOR THE YEAR ENDED 29 FEBRUARY 2012

COMPANY NUMBER SC173199

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BUSINESS AND FINANCIAL REVIEW

In the Business and Financial Review and Financial Statements, unless specified otherwise, the 'Company' means Tesco Personal Finance plc and the 'Group' means the Company and its subsidiaries and associated undertaking included in the consolidated financial statements.

Tesco Personal Finance Plc is a wholly owned subsidiary of Tesco Personal Finance Group Limited, the share capital of which is wholly owned by Tesco Plc. A reconciliation of the results contained within this preliminary report to the Tesco Bank results presented in the Tesco Plc preliminary results 2011/12 can be found on the Tesco Plc internet page http://www.tescoplc.com/media/239001/rns.pdf.

PRINCIPAL ACTIVITIES

The Group is engaged in the provision of banking and general insurance services. The Group operates using the trading name of Tesco Bank. The Group is primarily focused on providing financial services and products to personal customers in the UK and the Republic of Ireland. The Company owns 49.9% of Tesco Underwriting Limited, an authorised insurance company.

FINANCIAL PERFORMANCE

Headlines:

- Profit before tax is £159.6m, up by 28.3% (2011: £124.3m).
- Underlying profit before tax[1] is up 30.7% to £227.0m (2011: £173.6m).
- Total income is up by 19.3% to £702.3m (2011: £588.4m).
    - Net interest income is down 5.1% at £259.0m (2011: £273.0m) in the year predominantly due to a 5.5% fall in loans and advances to customers to £4.4bn (2011: £4.7bn). This is primarily due to the decision to reduce marketing activity during the migration of savings and loans customers to the Group's operational platforms.
    - Non interest income is 40.5% higher at £443.2m (2011: £315.4m). This reflects continuing growth in commission generated from the Group's insurance portfolio and strong credit card fee income as spend on cards has continued to increase.
    - Non interest income includes an incremental charge of £57.4m (2011: release of £50.0m) which has been made for potential customer redress relating to payment protection insurance (PPI). Non interest income in the prior year also included a £99.3m charge in relation to legacy motor insurance claims.
- Operating expenses grew by 29.9% to £423.5m (2011: £325.9m). This is driven by the full year impact of the change to the new insurance operating model combined with the establishment of the Group's standalone platforms and processes.
- Impairment losses are down by 5.2% to £124.5m (2011: £131.4m) reflecting reduced default levels in both cards and loans
- The share of profit of associate of £5.3m (2011: loss of £6.8m) reflects the share of the profits in Tesco Underwriting Limited following its successful first full year of trading – the loss in 2011 was due to initial start up costs.

[1] Underlying profit before tax is stated after adjusting for movements in the provision for customer redress, legacy insurance reserve movements in the prior year and a non-recurring fee payable to a supplier on the successful migration of the Motor and Home Insurance business. A full reconciliation to statutory profit before tax is provided on page 4.

BUSINESS AND FINANCIAL REVIEW (continued)

BUSINESS OVERVIEW

Against a challenging economic backdrop, the Group has continued to make significant progress in the year to 29 February 2012 with growth in income and profit and substantial progress with the establishment of its standalone operations. Profit before tax is up to £159.6m (2011: £124.3m), a rise of 28.3%. Underlying profit is up 30.7% to £227.0m (2011: £173.6m).

The insurance business performed strongly with the customer service centres in Glasgow and Newcastle now fully established. The majority of Home and Motor Insurance business was underwritten by Tesco Underwriting Limited in the year, following the successful migration of customers from Royal Bank of Scotland (RBS) Insurance platforms which completed as planned in November 2011.

The Group's general insurance products also include Pet, Travel and Motor Rescue cover. New distribution arrangements have been put in place for these products with a variety of providers and in all cases the migration to the new arrangements has completed successfully.

In credit cards, total spend on cards regularly exceeds £1.0bn a month. Credit card balances have remained broadly stable. The number of active card holders has increased to 2.3m (2011: 2.1m). Personal loan balances fell by 11.4% to £1.9bn (2011: £2.2bn) on the back of the decision to reduce marketing activity during the loans and savings migration. In retail savings customer deposits have grown from £5.1bn to £5.4bn. Since the launch in October 2010, customers have placed £1.5bn on deposit with the Group through the Fixed Rate Saver products.

As indicated in the prior year, operationally the Group continues to see significant change as it moves towards its new operational platforms. The migration of savings and loans customers to the Group's own platform in June 2011 was successful, despite some initial technical issues, where some customers were unable to access online accounts for a short period. These issues were fully resolved during the year and by the fourth quarter the platform was operating within the volumes predicted. As highlighted in August 2011, a decision was taken to defer the credit cards migration until 2012. The Group continues to make good progress towards successful migration in the first half of 2012/13.

An additional £57.4m was added to the provision in respect of PPI in August 2011 as a consequence of the Group announcing its intention to begin a programme of proactive customer contact. This programme will invite customers who think they were mis-sold PPI during a specific time period to seek reimbursement from the Group. This programme has entered an initial pilot phase to ensure that documentation and operational processes are fit for purpose. The full programme of activity is expected to commence in the first half of 2012/13.

BUSINESS DEVELOPMENT

In terms of future developments, subject to regulatory approval, Tesco Bank mortgages will be launched during 2012. The operational and commercial plans to support this launch are at an advanced stage and the Group believes it is well placed to service Tesco loyal customers attractively in this market. The Group is continuing to design and develop a current account offering however does not expect to enter this market in 2012/13. Other than these developments, the Directors do not anticipate any material change in either the type or level of activities of the Group in the next financial year.

The parent company, Tesco Personal Finance Group Limited, increased its investment in the Group by £251.5m (2011: £445.5m) during the year, of which £140.0m (2011: £nil) was subordinated debt and £111.5m (2011: £455.5m) was proceeds from an issue of share capital, increasing total equity to £1,190.0m at the balance sheet date.

Interim dividends in respect of ordinary share capital of £8.2m (2011: £12.2m) were paid to the parent company in June and September 2011, and a final dividend of £100.0m (2011: £150.0m) was paid in February 2012.

BUSINESS AND FINANCIAL REVIEW (continued)

GOING CONCERN

The Group has strengthened its capital position during the year and has made steady growth in diversifying its funding base through the Fixed Rate Saver products. The majority of the Group's balance sheet continues to be funded by retail deposits. The Directors have made a formal assessment of going concern, taking into account both current performance and the Group's outlook, including consideration of projections for the Group's capital and funding position. As a result of this assessment the Directors consider the Group to be in a satisfactory financial position and confirm that the Group has adequate resources to continue in business in the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

CONSOLIDATED INCOME STATEMENT

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

	2012 £'000	2011 £'000	%
Net interest income	259,046	273,033	(5.1%)
Non interest income	443,237	315,394	40.5%
Total income	702,283	588,427	19.3%
Operating expenses	(423,490)	(325,910)	(29.9%)
Impairment	(124,511)	(131,356)	5.2%
Share of profit / (loss) of associate	5,269	(6,821)	177.2%
Profit before tax	159,551	124,340	28.3%

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

	2012	2011
Net interest margin [1]	3.9%	4.6%
Cost: income ratio [2]	60.3%	55.4%
Bad debt asset ratio [3]	2.4%	2.7%

1 Net interest margin is calculated by dividing net interest income by average interest bearing assets (loans and advances to customers).
2 The cost: income ratio is calculated by dividing operating expenses by total income.
3 The bad debt asset ratio is calculated by dividing the impairment loss by the average balance of loans and advances to customers.

BUSINESS AND FINANCIAL REVIEW (continued)

The table below reconciles statutory profit to underlying profit.

	2012 £'000	2011 £'000	%
Profit before tax	159,551	124,340	28.3%
Material adjustments:			
PPI Provision	57,400	(50,000)	-
Legacy insurance reserve adjustment	-	99,347	-
Insurance migration fee	10,000	-	-
Underlying profit before tax	226,951	173,687	30.7%

Net Interest Income

Net interest income has fallen by 5.1% to £259.0m (2011: £273.0m). Net loans fell by 11.4% to £1.9bn (2011: £2.2bn), reflecting a reduction in loan balances primarily due to the management of marketing activity during the period in which the savings and loans operation was migrated to the Group's platform. The loan interest margin has remained stable year on year. The quality of the credit cards portfolio remains high, with strong growth in both the number of active cards and the total spend on cards (refer also to non interest income below). Whilst credit card balances have remained broadly flat, a higher proportion of customers are paying in full each month resulting in a slight reduction in net interest margin. The combination of these factors, together with the higher level of liquidity held by the Group in the year, has resulted in the reported reduction in the net interest margin.

Non Interest Income

Non interest income has increased by 40.5% to £443.2m (2011: £315.4m). Active credit card numbers have grown by 8.0% in the year and spend on cards has increased by 11%. ATM transaction volumes continued to increase in the year, up by 9.4% to over 372 million.

As detailed in the Interim report for Tesco Personal Finance plc at 31 August 2011, the Group recognised an incremental £57.4m provision to cover claims arising from potential mis-selling of PPI policies. Following a review of the provision at the year end, no further adjustment has been made.

For the year ended 29 February 2012, the results include a full year of the new insurance operating model whereby the gross commission received is booked via fees and commissions and the direct operational and marketing costs are included in operating expenses. Under the previous arrangement with RBS the operational and marketing costs were largely borne by RBS and the net fees and commissions passed across to the Group. The impact of this new model has therefore been to increase direct operating expenses by £55.0m with a related increase in the level of commission income received. Insurance performance has been strong with gross written motor premiums up by 27% and profit margins benefitting from the effect of market wide price increases on motor insurance.

Operating Expenses

Operating expenses grew by £97.6m (29.9%) to £423.5m (2011: £325.9m). Direct product costs have increased by £65.0m; largely reflecting the change in the insurance operating model. The balance of the increase in the cost base reflects the establishment of the Group's new operational platforms with depreciation and amortisation charges increasing by £25.2m in the year.

BUSINESS AND FINANCIAL REVIEW (continued)

Impairment

The impairment charge for bad debts on loans and advances has fallen by 5.2% to £124.5m (2011: £131.4m). The level of customer defaults continues to reduce due to improved credit control, stricter underwriting criteria and the Group's ability to attract good quality customers. The Group's bad debt to asset ratio has marginally decreased to 2.4% (2011: 2.7%).

BALANCE SHEET

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

	2012 £'000	2011 £'000
Loans and advances to customers	4,423,582	4,679,184
Total assets	7,605,143	6,991,562
Deposits from customers	5,389,787	5,077,464
Net Assets	1,190,026	1,049,992

Loans and Advances to Customers

Loans and advances to customers have fallen by 5.5% in the year to £4.4bn (2011: £4.7bn). This is predominantly due to the decision to reduce marketing activity during the migration to the Group's savings and loans operational platform.

Deposits from Customers

Deposits from customers grew by 6.2% to £5.4bn at 29 February 2012 (2011: £5.1bn) with the Fixed Rate Saver products having attracted savings of £1.5bn (2011: £0.4bn) since launch in October 2010.

Total Assets

Total assets increased by 8.8% to £7.6bn at 29 February 2012 (2011: £7.0bn). This reflects the increase in the Group's funding with increases to both capital and customer deposits which in turn have increased the Group's liquid asset portfolio and have funded the ongoing investment in the Group's operational platforms.

Capital and Liquidity Ratios

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

	2012 £'000	2011 £'000
Tier 1 capital ratio [1]	15.3%	15.9%
Risk asset ratio [2]	16.0%	13.6%
Net stable funding ratio [3]	120.7%	112.3%

1 The tier 1 capital ratio is calculated by dividing total tier 1 capital at the end of the year by total risk weighted assets.
2 The risk asset ratio is calculated by dividing total regulatory capital by total risk weighted assets.
3 The net stable funding ratio is calculated by dividing long term funding (over one year maturity) by loans and advances to customers and other illiquid assets.

BUSINESS AND FINANCIAL REVIEW (continued)

The Group's capital position has strengthened during the year. This has resulted in an improved risk asset ratio of 16.0% (2011: 13.6%). The core tier 1 ratio remains strong at 15.3% at 29 February 2012 (2011: 15.9%).

The net stable funding ratio, a key measure of the Group's liquidity position, has strengthened to 120.7% (2011: 112.3%). This is in excess of the Group's internal target and reflects the planned management of the Group's liquidity position in the run up to the Group's launch of mortgages in the next financial year.

The Group received capital injections totalling £251.5m (2011: £445.5m) from Tesco Personal Finance Group Limited during the course of the year. This funded planned expenditure on systems developments and infrastructure together with a strengthening of the Group's capital position.

The Group maintains a liquid asset portfolio of high quality investment securities of more than £1.6bn (2011: £1.2bn) which offer a high degree of liquidity.

The Group has diversified its funding base further during the year with the issue of an eight year inflation linked retail bond in December 2011 raising £60.0m, as well as continuing to grow the fixed rate savings book.

Risks and Uncertainties

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

The key risks and uncertainties faced by the Group are set out below. Greater detail on these risks and uncertainties will be set out in the Tesco Personal Finance plc Directors' Report and Financial Statements for the year ended 29 February 2012, the publication of which will be announced in due course. The key risks and uncertainties at the year end are consistent with those at 28 February 2011.

Transformation Risk
The Transformation Programme is a significant change programme designed to develop platforms and processes to enable the Group to conduct banking and insurance business independently of RBS.

In addition, the Group has well developed plans for launching mortgages, subject to FSA approval.

Credit Risk - External environment
The downside risks to the UK economy remain high, including fragile consumer confidence, a squeezing of real incomes, increasing unemployment and some consumers increasing borrowing and switching to variable rate mortgages.

On the wider economic front subdued UK growth, continued fiscal austerity and the continuing Euro zone debt crisis will impact confidence.

Legal and Regulatory Compliance Risk
Legal and Regulatory Compliance Risk is the risk of a range of consequences arising as a result of non-compliance with the laws and regulations affecting the Group's governance, prudential arrangements, business activities, risk management and its conduct with customers.

There remains significant regulatory focus in relation to "Conduct Risk" or "Treating Customers Fairly". Specifically there has been continued industry-wide focus on provision of redress in relation to past sales of PPI.

BUSINESS AND FINANCIAL REVIEW (continued)

Insurance Risk
The Group defines insurance risk as the risk we accept through our insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of our control.

The Group is exposed to insurance risks through its historic distribution arrangement with RBS, which is expected to terminate in quarter four of 2012, and through its ownership of 49.9% of Tesco Underwriting Limited (TU).

Liquidity and Funding Risk
Liquidity risk is defined as the risk that the Group is unable to meet its obligations as they fall due or can do so only at excessive cost. Funding risk is defined as the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

External market conditions continue to exhibit signs of stress (with wholesale funding markets constrained) and significant competition for retail deposits.

Operational Risk
Operational Risk is the potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error or from external events.

Outsourcing Risk
A significant amount of services and processes are provided by third party service providers and a key operational risk is the failure of an outsourced service provider.

People Risk
Increased market demand for specialist personnel may result in increased costs of recruitment and retention and reduced organisational effectiveness if there is an insufficient number of skilled staff.

Market Risk
Market risk is defined as the risk that the value of the Group’s earnings and economic value will vary due to changes in value in financial market prices; this includes interest rates, foreign exchange rates, credit spreads and equities.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 29 FEBRUARY 2012

	Note	2012 £'000	2011 £'000
Interest and similar income	3	425,647	420,161
Interest expense and similar charges	3	(166,601)	(147,128)
Net interest income		**259,046**	**273,033**
Fees and commissions income	4	517,920	285,731
Fees and commissions expense	4	(22,530)	(20,291)
Provision for customer redress	9	(57,400)	50,000
Net fees and commissions income		**437,990**	**315,440**
Gains/(losses) on financial assets		498	(610)
Realised gain on investment securities		4,749	564
		5,247	**(46)**
Total income		**702,283**	**588,427**
Administrative expenses		(378,945)	(306,519)
Depreciation and amortisation		(44,545)	(19,391)
Operating expenses		**(423,490)**	**(325,910)**
Impairment		(124,511)	(131,356)
Share of profit/(loss) of associate		5,269	(6,821)
		(119,242)	**(138,177)**
Profit before tax		**159,551**	**124,340**
Income tax expense	5	(39,561)	(37,794)
Profit for the year attributable to owners of the parent		**119,990**	**86,546**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 29 FEBRUARY 2012

	2012 £'000	2011 £'000
Profit for the year	**119,990**	**86,546**
Net gains on available for sale investment securities		
Unrealised net gains during the period, before tax	9,473	2,243
Cash flow hedges		
Net gains arising on hedges recognised in other comprehensive income, before tax	276	1,099
Income tax relating to components of other comprehensive income	(2,495)	(938)
Share of other comprehensive income of associate	3,205	-
Total comprehensive income for the year attributable to owners of the parent	**130,449**	**88,950**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 29 FEBRUARY 2012

	Note	2012 £'000	2011 £'000
Assets			
Cash and balances with central banks		455,809	136,848
Loans and advances to banks		93,132	403,598
Loans and advances to customers	7	4,423,582	4,679,184
Derivative financial instruments		19,522	16,378
Investment securities:			
- Available for sale		1,302,731	849,831
- Loans and receivables		292,931	292,931
Prepayments and accrued income		43,360	79,491
Other assets		454,815	142,668
Investment in associate		72,459	63,985
Intangible assets		336,995	215,275
Property, plant and equipment		109,807	111,373
Total assets		**7,605,143**	**6,991,562**
Liabilities			
Deposits from banks		77,706	36,200
Deposits from customers		5,389,787	5,077,464
Debt securities in issue	8	197,849	350,031
Derivative financial instruments		71,186	37,369
Provisions for liabilities and charges	9	78,341	39,477
Accruals and deferred income		132,370	185,151
Current income tax liability		2,969	2,789
Other liabilities		106,139	18,067
Deferred income tax liability		28,770	5,022
Subordinated liabilities		330,000	190,000
Total liabilities		**6,415,117**	**5,941,570**
Equity			
Shareholders' funds:			
- Share capital	10	103,490	92,340
- Share premium account	10	931,410	831,060
- Retained earnings		90,244	79,341
- Other reserves		19,882	2,251
Subordinated notes		45,000	45,000
Total equity		**1,190,026**	**1,049,992**
Total liabilities and equity		**7,605,143**	**6,991,562**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 29 FEBRUARY 2012

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Sub-ordinated notes £'000	Other reserves £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 March 2011	**92,340**	**831,060**	**79,341**	**45,000**	**2,251**	**1,049,992**	**-**	**1,049,992**
Comprehensive income								
Profit for the year	-	-	119,990	-	-	119,990	-	119,990
Net gains on available for sale investment securities	-	-	-	-	7,053	7,053	-	7,053
Net gains on cash flow hedges	-	-	-	-	201	201	-	201
Share of other comprehensive income of associate	-	-	-	-	3,205	3,205	-	3,205
Total comprehensive income	**-**	**-**	**119,990**	**-**	**10,459**	**130,449**	**-**	**130,449**
Transactions with owners								
Shares issued in the year	11,150	100,350	-	-	-	111,500	-	111,500
Dividends to ordinary shareholders	-	-	(108,150)	-	-	(108,150)	-	(108,150)
Dividends to holders of other equity	-	-	(937)	-	-	(937)	-	(937)
Share based payments	-	-	-	-	7,172	7,172	-	7,172
Total transactions with owners	**11,150**	**100,350**	**(109,087)**	**-**	**7,172**	**9,585**	**-**	**9,585**
Balance at 29 February 2012	**103,490**	**931,410**	**90,244**	**45,000**	**19,882**	**1,190,026**	**-**	**1,190,026**

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Sub-ordinated notes £'000	Other reserves £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 March 2010	**47,790**	**430,110**	**155,799**	**45,000**	**(153)**	**678,546**	**2,005**	**680,551**
Comprehensive income								
Profit for the year	-	-	86,546	-	-	86,546	-	86,546
Net gains on available for sale investment securities	-	-	-	-	1,615	1,615	-	1,615
Net gains on cash flow hedges	-	-	-	-	789	789	-	789
Total comprehensive income	**-**	**-**	**86,546**	**-**	**2,404**	**88,950**	**-**	**88,950**
Transactions with owners								
Shares issued in the period	44,550	400,950	-	-	-	445,500		445,500
Dividends to ordinary shareholders	-	-	(162,150)	-	-	(162,150)		(162,150)
Dividends to holders of other equity	-	-	(854)	-	-	(854)	(2,005)	(2,859)
Total transactions with owners	**44,550**	**400,950**	**(163,004)**	**-**	**-**	**282,496**	**(2,005)**	**280,491**
Balance at 28 February 2011	**92,340**	**831,060**	**79,341**	**45,000**	**2,251**	**1,049,992**	**-**	**1,049,992**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 29 FEBRUARY 2012

	Note	2012 £'000	2011 £'000
Operating activities			
Profit before taxation		159,551	124,340
Adjusted for:			
Non cash items included in operating profit before taxation	12	239,036	100,981
Changes in operating assets and liabilities	12	230,329	163,781
Income tax paid		(18,128)	(5,275)
Cash flows generated from operating activities		**610,788**	**383,827**
Investing activities			
Purchase of non-current assets		(165,431)	(206,586)
Purchase of available for sale investment securities		(729,368)	(424,357)
Sale of available for sale investment securities		183,072	165,756
Loan to associate		-	(34,431)
Investment in associate		-	(68,851)
Cash flows used in investing activities		**(711,727)**	**(568,469)**
Financing activities			
Proceeds from issue of debt securities		59,587	125,559
Proceeds from issue of subordinated liabilities		140,000	-
Redemption of own debt securities		(225,000)	-
Proceeds from issue of share capital		111,500	445,500
Dividends paid to ordinary share holders		(108,150)	(162,150)
Dividends paid to non controlling interest		-	(2,005)
Dividends paid to holders of other equity		(673)	(714)
Interest paid on subordinated liabilities		(3,712)	(2,783)
Cash flows (used in)/generated from financing activities		**(26,448)**	**403,407**
Net (decrease)/increase in cash and cash equivalents		(127,387)	218,765
Cash and cash equivalents at the beginning of the year		706,263	487,498
Cash and cash equivalents at the end of the year	11	**578,876**	**706,263**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The unaudited preliminary consolidated financial information for the year ended 29 February 2012 was approved by the Directors on 16 April 2012.

1 BASIS OF PREPARATION

This unaudited preliminary consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, International Financial Reporting Standards (IFRS) and the IFRS Interpretation Committee (IFRIC) interpretations as endorsed by the European Union (EU). The accounting policies applied are consistent with those described in the financial statements of the Company for the year ended 28 February 2011. The auditors have not yet signed their audit report, however, they have confirmed that they are not aware of any matter that may give rise to a modification to it.

This preliminary consolidated financial information does not constitute statutory consolidated financial statements for the year ended 29 February 2012 or the year ended 28 February 2011 as defined in section 434 of the Companies Act 2006. The financial statements for the year ended 28 February 2011 were approved by the Board of Directors on 25 May 2011 and have been filed with the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The financial statements for 2012 will be filed with the Registrar in due course.

At 31 August 2011 the Company concluded that it was no longer appropriate to take the exemption available under IAS 27 'Consolidated and separate financial statements' and the Companies Act 2006 from preparing group accounts. Accordingly, these preliminary financial statements have been prepared on a consolidated basis for the Company and its associate and subsidiaries (the Group).

Going concern

The Group has strengthened its capital position during the year and has made steady growth in diversifying its funding base through the Fixed Rate Saver products. The majority of the Group's balance sheet continues to be funded by retail deposits. The Directors have made a formal assessment of going concern, taking into account both current performance and the Group's outlook, including consideration of projections for the Group's capital and funding position. As a result of this assessment the Directors consider the Group to be in a satisfactory financial position and confirm that the Group has adequate resources to continue in business in the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Adoption of new International Financial Reporting Standards

The following standards, amendments and interpretations, which became effective in 2011, are relevant to the Group:

i) Amendment to IAS 24, 'Related Party Transactions'. The amendment changes the definition of a related party and modifies certain related-party disclosure requirements for government-related entities. This has no impact on the Group.

ii) Improvements to IFRSs (2010) – These improvements contain numerous amendments to IFRS that the IASB consider non-urgent but necessary. This has no material impact on accounting policies.

2 SEGMENTAL REPORTING

The Group's reporting segments are determined based on the Group's internal reporting to the Chief Executive and the Board of Directors, who are responsible for allocating resources to the segments and the assessment of the performance of the segments. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SEGMENTAL REPORTING (continued)

The Group has two main operating segments:
- Retail banking - incorporating loans, credit cards, savings accounts, ATMs and transactional services; and
- Insurance - incorporating motor, home, pet, travel and other insurance products.

There are no transactions between the operating segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation. Tax balances are reflected in the adjustments column in part b) of this note

a) Segment results of operations

	Retail banking £'000	Insurance £'000	Central costs £'000	Total £'000
2012				
Total income *	468,300	233,983	-	702,283
Profit/(loss) before tax **	164,937	161,104	(166,490)	159,551
Total assets ***	6,887,607	717,536	-	7,605,143
2011				
Total income ****	573,252	15,175	-	588,427
Profit/(loss) before tax **	287,185	(24,038)	(138,807)	124,340
Total assets ***	6,517,636	473,926	-	6,991,562

* Total income is net of a charge of £57.4m (2011: release of £50.0m) in relation to the provision for customer redress.

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

*** The investment of £72,459,000 (2011: £63,985,000) in Tesco Underwriting Limited, an associate company accounted for using the equity method, is shown within the total assets of the Insurance segment.

**** The insurance commission income included within total income for the prior year is stated after a fourth quarter reduction of £99,347,000 in relation to legacy Motor Insurance claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SEGMENTAL REPORTING (continued)

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

	Total management reporting £'000	Consolidation and adjustments £'000	Total consolidated £'000
2012			
Total income	702,283	-	702,283
Profit before tax	159,551	-	159,551
Total assets	7,605,143	-	7,605,143
2011			
Total income	588,427	-	588,427
Profit before tax	124,340	-	124,340
Total assets	6,991,562	-	6,991,562

3 NET INTEREST INCOME

	2012 £'000	2011 £'000
Interest and similar income		
Loans and advances to customers	392,805	386,318
Loans and advances to banks	4,090	9,835
Fair value hedge ineffectiveness	4,825	11,359
Interest on investment securities	23,773	11,983
Other income	154	666
	425,647	**420,161**
Interest expense and similar charges		
Deposits from customers	(112,536)	(99,849)
Deposits from banks	(28,650)	(32,727)
Interest rate swap expenses	(20,954)	(11,359)
Subordinated liabilities	(4,461)	(3,193)
	(166,601)	**(147,128)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 NET FEES AND COMMISSIONS INCOME

	2012 £'000	2011 £'000
Fees and commissions income		
Banking fees and commission	279,850	259,784
Insurance commission *	232,473	15,175
Other income	5,597	10,772
	517,920	**285,731**
Fees and commissions expense		
Banking expenses	(20,770)	(17,230)
Other expenses	(1,760)	(3,061)
	(22,530)	**(20,291)**

* The Insurance commission income included within Total Income for the prior year is stated after a fourth quarter reduction of £99,347,000 in relation to legacy Motor Insurance claims.

5 TAXATION

A number of changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. The Finance Act 2011 included legislation to reduce the main rate of corporation tax from 27% to 26% from 1 April 2011 and to 25% from 1 April 2012. The proposed reduction from 27% to 25% was substantively enacted at the balance sheet date. In the March 2012 UK Budget Statement it was announced that the rate would be reduced further from 25% to 24% from 1 April 2012 and proposals to reduce the rate by 1% per annum to 22% by 1 April 2014. These further changes had not been enacted at the balance sheet date and therefore, are not reflected in this preliminary consolidated financial information.

6 DISTRIBUTIONS TO EQUITY HOLDERS

	2012 £'000	2011 £'000
Ordinary dividend paid	108,150	162,150
Interest paid on subordinated notes included within equity	937	854
	109,087	**163,004**

On 30 June 2011 an interim dividend of £0.0036 per ordinary share was paid. On 30 September 2011 a further interim dividend of £0.0045 per ordinary share was paid. On 28 February 2012 a final dividend of £0.0966 per ordinary share was paid, resulting in a total dividend payment for the year of £108,150,000.

In the prior year, an interim dividend of £0.0172 per ordinary share was paid on 30 September 2010, followed by a further dividend of £0.1624 per ordinary share paid on 25 February 2011. This resulted in a total dividend payment for the prior year of £162,150,000.

Interest payable on the subordinated notes included within equity is based on three month LIBOR plus 120 basis points.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 LOANS AND ADVANCES TO CUSTOMERS

	2012 £'000	2011 £'000
Unsecured lending	4,583,113	4,845,499
Fair value hedge adjustment	25,100	15,506
Gross loans and advances to customers	**4,608,213**	**4,861,005**
Less: allowance for impairment	(184,631)	(181,821)
Net loans and advances to customers	**4,423,582**	**4,679,184**
Current	2,513,782	2,535,140
Non-current	1,909,800	2,144,044

As at the year end, £1,224,655,000 of the credit card portfolio has had legal interest assigned to a special purpose entity for use as collateral in securitisation transactions (2011: £1,355,995,000). As a result of the early repayment in May 2011 there are no securitisation notes in issue as at 29 February 2012 (2011: £1,165,500,000).

Fair value hedge adjustments amounting to £25,100,000 (2011: £15,506,000) are in respect of fixed rate loans. These adjustments reflect movements in interest rates from the date the loans were issued to the balance sheet date. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

The following table shows impairment provisions for loans and advances:

	2012 £'000	2011 £'000
At beginning of year	181,821	313,991
Amounts written off	(120,187)	(268,252)
Recoveries of amounts previously written off	7,811	8,636
Charge to the consolidated income statement	119,028	130,942
Unwind of discount	(3,842)	(3,496)
At end of year	**184,631**	**181,821**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 DEBT SECURITIES IN ISSUE

	2012 £'000	2011 £'000
Floating rate bond maturing in 2012	-	224,472
Fixed rate retail bond maturing in 2018	138,412	125,559
RPI bond maturing in 2019	59,437	-
	197,849	**350,031**
Current	-	224,472
Non-Current	197,849	125,559

On 27 February 2009 the Group issued a nominal £225,000,000 3 year floating rate bond guaranteed by the Commissioners of Her Majesty's Treasury. Interest payable was based on three month LIBOR plus 50 basis points. The full amount of this bond was repaid on 27 February 2012.

On 24 February 2011 the Group issued a nominal £125,000,000 7.5 year fixed rate retail bond which is listed on the London Stock Exchange. Interest is payable at a fixed rate of 5.2%.

On 16 December 2011 the Group issued a nominal £60,000,000 8 year inflation linked retail bond which is listed on the London Stock Exchange. Interest is payable at a fixed rate of 1.0%, with the principal adjusted for RPI inflation every six months.

9 PROVISIONS FOR LIABILITIES AND CHARGES

	PPI Provision £'000	Insurance Provision £'000	Total £'000
2012			
At beginning of year	39,477	-	**39,477**
Charged to the consolidated income statement	57,400	3,795	**61,195**
Utilised during the year	(22,331)	-	**(22,331)**
At end of year	**74,546**	**3,795**	**78,341**

	PPI Provision £'000	Insurance Provision £'000	Total £'000
2011			
At beginning of year	100,000	-	100,000
Utilised during the year	(10,523)	-	(10,523)
Unused amounts released to the income statement	(50,000)	-	(50,000)
At end of year	**39,477**	**-**	**39,477**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

PPI PROVISION

Of the total provision balance at 29 February 2012, £74,546,000 (2011: £39,477,000) relates to a provision for customer redress in respect of potential customer complaints arising from historic sales of Payment Protection Insurance (PPI). The provision is likely to be utilised over several years, although the timing of utilisation is uncertain. Hence the balance is classified as current at year end.

The British Bankers Association initiated a judicial review on 24 January 2011 in relation to the regulation of PPI sales practices. The Group did not participate in this action and continued to deal with customer complaints in line with the Financial Services Authority (FSA) requirements throughout the duration of the legal proceedings undertaken by the other banks involved.

During the first half of the year, the Group undertook a review of historic sales practices in place over the period in which PPI was sold to customers. During the year, the Group announced its intention to begin a programme of proactive customer contact, inviting customers who think they were mis-sold PPI during a specific time period to seek reimbursement from the Group. This programme has entered an initial pilot phase. The principal purpose of the pilot was to test operational processes in order to ensure that they were fit for purpose and could cope with the volume associated with a full programme of customer contact. Following the decision to proactively contact customers the provision was increased by £57,400,000 in the first half of the year.

The Group will continue to handle claims and redress customers in accordance with PS 10/12. This will include ongoing analysis of historical claims experience in accordance with the guidance.

INSURANCE PROVISION

The insurance provision of £3,795,000 at 29 February 2012 (2011: £nil) relates to a provision for insurance policy cancellation by customers. This balance is classified as current at year end as all insurance policies expire in a maximum of one year.

10 SHARE CAPITAL AND SHARE PREMIUM

	2012 Number	2011 Number
Authorised		
Ordinary shares of 10p each	Unlimited	Unlimited

	2012 £'000	2011 £'000
Allotted, called up and fully paid		
1,034,900,000 (2011: 923,400,000) Ordinary shares of 10p each	103,490	92,340

	2012 £'000	2011 £'000
Share Premium Account	931,410	831,060

During the year the Company issued 111,500,000 (2011: 445,500,000) ordinary shares to the parent company, Tesco Personal Finance Group Limited, for total consideration of £111,500,000 (2011: £445,500,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 CASH AND CASH EQUIVALENTS

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

	2012 £'000	2011 £'000
Cash and balances with central banks*	450,721	132,608
Loans and advances to banks	93,132	403,598
Certificates of deposit	35,023	170,057
	578,876	**706,263**

* Mandatory reserve deposits held within the Bank of England are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have a maturity of less than three months.

12 CASH INFLOW FROM OPERATING ACTIVITIES

	2012 £'000	2011 £'000
Loan impairment charges	119,028	130,942
Depreciation and amortisation	44,545	19,391
Profit on disposal of investment securities	(4,749)	(564)
Provision for customer redress	57,400	(50,000)
Impairment loss on amounts due from insurance business	5,483	414
Share of (profit)/loss of associate	(5,269)	6,821
Insurance policy cancellation provision	3,795	-
Equity settled share based payments	7,172	-
Interest on subordinated liabilities	4,461	3,193
Fair value movements	7,170	(9,216)
Non cash items included in operating profit before taxation	**239,036**	**100,981**
Net movement in mandatory balances with central banks	(848)	(910)
Net movement in loans and advances to customers	146,168	(525,167)
Net movement in prepayments and accrued income	36,131	(17,919)
Net movement in other assets	(317,630)	(66,497)
Net movement in deposits from banks	41,506	6,344
Net movement in deposits from customers	312,323	717,346
Net movement in accruals and deferred income	(53,063)	52,552
Provisions utilised	(22,331)	(10,523)
Net movement in other liabilities	88,073	8,555
Changes in operating assets and liabilities	**230,329**	**163,781**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 CONTINGENT LIABILITIES

The Financial Services Compensation Scheme
The Financial Services Compensation Scheme (FSCS) is the UK statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS has borrowed from HM Treasury to fund these compensation costs associated with institutions that failed in 2008 and will receive receipts from asset sales, surplus cash flow and other recoveries from these institutions in the future. The initial borrowings from HM Treasury are on an interest only basis and, as from 1 April 2012, this has increased from 12 month LIBOR plus 30 basis points to 12 month LIBOR plus 100 basis points. The FSCS meets its obligations by raising management expense levies which will be capped based on limits advised by the FSA. 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. As at 29 February 2012 the Group has accrued £5,449,000 (2011: £3,384,000) in respect of its current obligation to meet expenses levies, based on indicative costs published by the FSCS.

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 preliminary financial statements.

14 RELATED PARTY TRANSACTIONS

During the financial year there were no related party transactions requiring disclosure that were materially different to those reported in the Financial Statements for the year ended 28 February 2011, with the exception of the point below.

For the year ended 29 February 2012 the Group generated the majority of its insurance commission from the sale and service of Motor and Home Insurance policies underwritten by Tesco Underwriting Limited, an associated company and therefore related party. Customer premiums on such sales are collected directly by the Group and the net premium is remitted to Tesco Underwriting Limited.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The accounting policies applied are consistent with those described in the financial statements for the year ended 28 February 2011, apart from those arising from the adoption of new International Financial Reporting Standards and Interpretations. In preparing the consolidated financial information, the Directors have also made reasonable and prudent judgements and estimates and prepared the consolidated financial information on the going concern basis. The consolidated financial information and management report contained herein give a true and fair view of the assets, liabilities, financial position and profit of the Group. The Directors of Tesco Personal Finance plc as at the date of this announcement are as set out below.

The Board
Directors
Graham Pimlott*– Chairman
Peter Bole
Iain Clink
Shaun Doherty
Bernard Higgins
Adrian Hill*
Ricky Hunkin
Raymond Pierce*
John Reed*
***** Indicates independent Non Executive Director

Company Secretary
Jonathan Lloyd