TESCO PERSONAL FINANCE PLC

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 AUGUST 2013

COMPANY NUMBER SC173199

CONTENTS

BUSINESS AND FINANCIAL REVIEW

In the Business and Financial Review and Financial Statements, unless specified otherwise, the 'Company' means Tesco Personal Finance plc and the 'Group' means the Company and its subsidiaries and associated undertaking included in the interim 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. The Group operates using the trading name of Tesco Bank. A reconciliation of the results contained within this interim report to the Tesco Bank results presented in the Tesco plc Interim Results 2013/14 can be found on the Tesco plc internet page http://www.tescoplc.com/media/758991/rns.pdf.

Principal Activities

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

Financial Performance

The Group has continued to make good progress in the first half, particularly in the Banking business, with customer lending showing strong year on year growth.

Headlines

- Profit before tax is £104.7m (August 2012: £105.3m).

- Adjusting for prior year commission income relating to the now terminated legacy insurance distribution agreement with Direct Line Group (DLG) and gains on financial instruments, movements on derivatives and hedge accounting, underlying profit before tax is 15.4% higher at £98.8m (August 2012: £85.6m).

- Operating expenses have decreased by 0.9% to £231.9m (August 2012: £233.9m).

- Impairment of loans and advances has fallen 34.6% to £28.0m (August 2012: £42.8m). Credit quality remains strong, reflected in improved customer default experience and improved cash recoveries on previously impaired loans.

- Customer assets grew 15.5% in the period to £6.4bn (February 2013: £5.6bn) driven by strong customer propositions and greater operational flexibility following completion of the migration programme last year. Customer deposits of £5.2bn have reduced since the year end (February 2013: £6.0bn) as growth has been supported by the Bank of England's Funding for Lending Scheme (FLS).

- The consolidated statement of financial position is consistent with the year end with capital and liquidity ratios comfortably exceeding internal and regulatory requirements. The risk asset ratio at 31 August 2013 is 17.0% (February 2013: 19.1%) and net stable funding ratio is 112.5% (February 2013: 120.6%).

- During the period the Group converted £140.0m of dated subordinated debt into equity, further strengthening the tier 1 capital ratio.

- The Group successfully launched its credit card securitisation in April 2013, which has been used to access the Bank of England's FLS.

BUSINESS AND FINANCIAL REVIEW

Business Overview and Business Development

Banking

The Banking trading environment continues to be highly competitive across the main product categories with further reductions to customer interest rates on both lending and deposit products. Against this backdrop, the Group has continued to develop its products and services and continued to offer competitive rates which has resulted in further growth in customer numbers (2.7% since the year end).

The Group has increased lending over the period with strong growth since the year end in personal loans (10.7%) and credit cards (16.0%). The mortgage product which launched in August 2012 continues to make good progress with balances growing to £456.8m at 31 August 2013.

Customer lending is primarily funded by customer deposits and the period has seen good balance growth in ISA products which were launched in November 2012. In addition, as indicated at the year end, the Group has drawn on the Bank of England's FLS as part of its overall funding plan. This funding provides the Group with additional, good value term funding to support new lending to customers via credit cards, personal loans and the new mortgage business.

Retail sales on credit cards have averaged £1.2bn each month, 6.0% higher than the same period in the previous year.

The Group is continuing to make good progress contacting customers who were historically sold Payment Protection Insurance (PPI). Proactive efforts to contact personal loan PPI customers, identified by the Group as having been subject to sales processes that had the potential to be non compliant, were completed in the period. A similar process of contacting relevant credit card PPI customers commenced in June 2013 and the Group expects to complete this activity in the second half of the year. This will continue to be closely monitored in the second half of the year.

Refer note 11 for further detail in relation to the Group's provision for PPI and other customer redress.

Insurance

The Group's Insurance business provides a wide range of general insurance and selected life insurance products to over 2.2 million customers in the UK and the Republic of Ireland.

The motor insurance market continues to see significant turbulence with heightened regulatory change and sustained downward price pressure. This has resulted in a fall in motor customers of 5.4% since the year end. Working with its associate undertaking, Tesco Underwriting Limited (TU), the Group has taken a disciplined approach to pricing and underwriting, actively managing the risk profile within TU and focusing the best prices on ClubCard customers.

The Group has worked to ensure its insurance products are available to more Tesco customers with greater availability through price comparison websites and the introduction of a new Telematics product. The expectation is that the Group will start to see the benefit of these initiatives in the second half of the year.

Home insurance has been relaunched, offering customers the ability to better select the level of cover that is right for them. There has been a good response with new business growing 40.1% year on year. Profit contribution from the Insurance business has declined year on year, principally as a result of the now terminated legacy distribution arrangement with DLG that contributed £17.1m in the prior half year.

BUSINESS AND FINANCIAL REVIEW

Review of performance

The Group's financial performance is presented in the Consolidated Income Statement on page 8. A summary is presented below.

6 Months ended 31 August	2013 £m	2012* £m	%
Net interest income	163.0	139.0	17.3%
Non interest income	198.4	235.6	(15.8%)
Total income	**361.4**	**374.6**	**(3.5%)**
Operating expenses	(231.9)	(233.9)	0.9%
Impairment	(28.0)	(42.8)	34.6%
Share of profit of associate	3.2	7.4	(56.8%)
Profit before tax	**104.7**	**105.3**	**(0.6%)**
Customer redress provision	-	30.0	-
Non recurring credit	-	(30.0)	-
Gains on financial instruments, movements on derivatives and hedge accounting	(5.9)	(2.6)	-
Legacy insurance commission	-	(17.1)	-
Underlying profit before tax	**98.8**	**85.6**	**15.4%**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

6 Months ended 31 August	2013	2012
Net interest margin [1]	4.2%	4.2%*
Cost: income ratio [2]	64.2%	62.4%
Bad debt asset ratio [3]	0.9%	1.8%

1 Net interest margin is calculated by dividing net interest income by average interest bearing assets.
2 The cost: income ratio is calculated by dividing operating expenses by total income.
3 The bad debt asset ratio is calculated by dividing the impairment loss by the average balance of loans and advances to customers.
* Refer Note 1, 'Accounting Policies' for details of reclassifications.

Net interest income has increased by 17.3% to £163.0m (August 2012: £139.0m) due to the growth in customer lending of 34.2% to £6.4bn (August 2012: £4.8bn).

Net interest margin has remained at 4.2% (August 2012: 4.2%). Whilst there has been some increased competition impacting asset pricing, total margin has benefited from lower funding costs.

Non interest income has decreased by 15.8% to £198.4m (August 2012: £235.6m) reflecting the run off of legacy insurance income and the competitive nature in the insurance markets, particularly in Motor.

Impairment charges on loans and advances have fallen by 34.6% to £28.0m (August 2012: £42.8m). Default levels have continued to fall for both cards and loans and cash recovered on previously

BUSINESS AND FINANCIAL REVIEW

impaired balances has exceeded expectations. The bad debt asset ratio has improved from 1.8% as at 31 August 2012 to 0.9%.

The Group's Consolidated Statement of Financial Position is presented on page 10. Selected extracts are presented below.

	31 August 2013 £m	28 February 2013 £m	31 August 2012* £m
Loans and advances to customers	**6,436.5**	5,570.4	4,796.5
Total assets	**8,701.9**	8,431.2	7,933.5
Deposits from banks	**1,054.2**	15.2	5.1
Deposits from customers	**5,217.8**	6,003.5	5,435.9

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

Loans and advances to customers are up 15.5% since year end from £5,570.4m at 28 February 2013 to £6,436.5m at 31 August 2013 and 34.2% on the 31 August 2012 position of £4,796.5m. The Group has seen growth in both credit cards and personal loans balances and additionally has attracted £456.8m of mortgage balances at 31 August 2013.

Deposits from banks have increased to £1,054.2m as a result of Treasury Bills drawn under the Group's participation in the FLS being used as collateral in repurchase agreements.

Deposits from customers have reduced to £5,217.8m (February 2013: £6,003.5m). This reduction was planned and is intended to be temporary reflecting the Group's decision to access good value term funding through the FLS. The Group's customer deposit base remains the primary source of funding.

Capital and Liquidity Ratios

	31 August 2013	28 February 2013	31 August 2012*
Tier 1 capital ratio [1]	13.9%	12.8%	15.4%
Risk asset ratio [2]	17.0%	19.1%	16.9%
Net stable funding ratio [3]	112.5%	120.6%	124.1%

1 The tier 1 capital ratio is calculated by dividing total tier 1 capital at the end of the period by total risk weighted assets.
2 The risk asset ratio is calculated by dividing total regulatory capital by total risk weighted assets.
3 The net stable funding ratio is calculated by dividing long term funding (over one year maturity) by loans and advances to customers and other liquid assets.
* Refer Note 1, 'Accounting Policies' for details of reclassifications.

The Group's capital position has remained strong during the period.

The Group converted £140.0m of dated subordinated debt with Tesco Personal Finance Group Limited to equity during the period, strengthening the tier 1 capital ratio.

At 31 August 2013, the risk asset ratio was 17.0% (February 2013: 19.1%), the decline a result of the strong lending growth.

The net stable funding ratio, a key measure of the Group's liquidity position, has reduced to 112.5% at 31 August 2013 (February 2013: 120.6%) following the successful launch of mortgages, for which the Group held excess liquidity. The Group's liquidity level remains strong and is well above the internal

BUSINESS AND FINANCIAL REVIEW

and regulatory requirements. The Group maintains a liquid asset portfolio of high quality securities of £1.3bn (February 2013: £1.9bn).

Risks and Uncertainties

The Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. The Board agrees the strategy for the Group, approves the Group's risk appetite, as well as specific high level policies and the delegated authorities, and monitors the risk profile of the Group.

The key risks and uncertainties faced by the Group remain unchanged from those found in the Tesco Personal Finance plc Directors' Report and Financial Statements for the year ended 28 February 2013 (pages 9 to 12).

It is anticipated these will continue to be the key risks and uncertainties that the Group will face for the remaining six months of the current financial year.

Set out below are details of the most significant risks and uncertainties faced by the Group:

Credit Risk - External Environment
Credit risk (external environment) is the risk that all UK Retail Banks are potentially exposed to as a consequence of any changes to macro economic conditions.

Consequently the Group's lending is exposed to general UK economic conditions and market trends. The downside risks to the UK economy remain significant, including fragile consumer confidence, a squeezing of real incomes and any renewed growth in unemployment.

Whilst there are early signs of growth, the UK economy remains subdued and this may impact customers' ability to sustain debt servicing, potentially leading to a higher impairment charge across the industry.

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

In July 2013, the European Commission announced proposed changes to regulation of interchange fees on credit cards. The final regulation and timing of implementation remains uncertain. However, the Group will monitor the progress of the draft regulation to understand the implications for the cards products.

In common with the rest of the financial services industry, regulatory focus continues in relation to 'Conduct Risk' and 'Treating Customers Fairly', including requiring redress programmes where issues have been found, such as PPI.

Insurance Risk
Insurance risk is the risk accepted through 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 the Group's control.

The Group is exposed to insurance risks through its 49.9% ownership of TU.

Liquidity and Funding Risk
Liquidity risk is the risk that the Group does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources 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.

BUSINESS AND FINANCIAL REVIEW

Operational Risk
Operational risk is the risk of loss caused by human error, ineffective or inadequately designed processes, system failure or improper conduct (including criminal activity).

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

The Group has no trading book and a low appetite for market risk. TU has investments that include relatively short dated gilts and corporate bonds controlled by its investment policy. These assets involve a degree of interest rate and credit spread risk.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2013

	Note	6 months ended 31 August 2013 £m	6 months ended 31 August 2012* £m
Interest and similar income	3	247.2	228.0
Interest expense and similar charges	3	(84.2)	(89.0)
Net interest income		**163.0**	**139.0**
Fees and commissions income	4	206.3	236.8
Fees and commissions expense	4	(14.9)	(11.4)
Provision for customer redress	11	-	(30.0)
Other income	5	-	30.0
Net fees and commissions income		**191.4**	**225.4**
Gains on financial instruments, movements on derivatives and hedge accounting		5.9	2.6
Realised gain on investment securities		1.1	7.6
Non-trading income		**7.0**	**10.2**
Total income		**361.4**	**374.6**
Administrative expenses		(196.7)	(204.4)
Depreciation and amortisation		(35.2)	(29.5)
Operating expenses		**(231.9)**	**(233.9)**
Impairment		(28.0)	(42.8)
Operating profit		**101.5**	**97.9**
Share of profit of associate		3.2	7.4
Profit before tax		**104.7**	**105.3**
Income tax expense	6	(23.6)	(23.1)
Profit for the period attributable to owners of the parent		**81.1**	**82.2**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2013

	6 months ended 31 August 2013 £m	6 months ended 31 August 2012 £m
Profit for the period	**81.1**	**82.2**
Items that may be reclassified subsequently to profit or loss		
Unrealised net losses during the period on available for sale investment securities before tax	(0.3)	(5.8)
Net gains arising on cash flow hedges before tax	1.1	-
Tax relating to items that may be reclassified	(0.1)	1.7
Share of other comprehensive (expense)/income of associate	(6.0)	6.1
Total items that may be reclassified subsequently to profit or loss	**(5.3)**	**2.0**
Total comprehensive income for the period attributable to owners of the parent	**75.8**	**84.2**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 AUGUST 2013

	Note	31 August 2013 £m	28 February 2013 (audited) £m	31 August 2012* £m
Assets				
Cash and balances with central banks		483.9	919.8	1,000.1
Loans and advances to banks		-	-	150.4
Loans and advances to customers	9	6,436.5	5,570.4	4,796.5
Derivative financial instruments		30.4	33.5	36.4
Investment securities:				
- Available for sale		809.7	958.7	834.9
- Loans and receivables		41.6	41.6	300.1
Prepayments and accrued income		38.7	33.9	47.2
Current income tax asset		6.8	36.1	-
Other assets		260.5	250.2	194.8
Investment in associate		92.6	95.3	100.3
Intangible assets		404.5	397.4	374.2
Property, plant and equipment		96.7	94.3	98.6
Total assets		**8,701.9**	**8,431.2**	**7,933.5**
Liabilities				
Deposits from banks		1,054.2	15.2	5.1
Deposits from customers		5,217.8	6,003.5	5,435.9
Debt securities in issue	10	396.7	406.7	409.1
Derivative financial instruments		45.2	63.5	68.9
Provisions for liabilities and charges	11	63.6	102.0	82.7
Accruals and deferred income		114.7	123.7	137.7
Current income tax liability		-	-	12.5
Other liabilities		139.3	116.5	105.0
Deferred income tax liability		37.3	43.4	26.7
Subordinated liabilities		190.0	330.0	330.0
Total liabilities		**7,258.8**	**7,204.5**	**6,613.6**
Equity and reserves attributable to owners of the parent				
Share capital	12	122.0	108.0	108.0
Share premium account	12	1,097.9	971.9	971.9
Retained earnings		168.4	87.9	171.9
Subordinated notes		45.0	45.0	45.0
Other reserves		9.8	13.9	23.1
Total equity		1,443.1	**1,226.7**	**1,319.9**
Total liabilities and equity		**8,701.9**	**8,431.2**	**7,933.5**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2013

	Share capital £m	Share premium £m	Retained earnings £m	Subordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2013	**108.0**	**971.9**	**87.9**	**45.0**	**13.9**	**1,226.7**
Comprehensive income/(expense)						
Profit for the period	-	-	81.1	-	-	81.1
Net losses on available for sale investment securities	-	-	-	-	(0.2)	(0.2)
Net gains on cash flow hedges	-	-	-	-	0.9	0.9
Share of other comprehensive expense of associate	-	-	-	-	(6.0)	(6.0)
Total comprehensive income/(expense)	**-**	**-**	**81.1**	**-**	**(5.3)**	**75.8**
Transactions with owners						
Shares issued in the period	14.0	126.0	-	-	-	140.0
Dividends to holders of other equity	-	-	(0.6)	-	-	(0.6)
Share based payments	-	-	-	-	1.2	1.2
Total transactions with owners	**14.0**	**126.0**	**(0.6)**	**-**	**1.2**	**140.6**
Balance at 31 August 2013	**122.0**	**1,097.9**	**168.4**	**45.0**	**9.8**	**1,443.1**
Balance at 1 March 2012	**103.5**	**931.4**	**90.2**	**45.0**	**19.9**	**1,190.0**
Comprehensive income						
Profit for the period	-	-	82.2	-	-	82.2
Net losses on available for sale investment securities	-	-	-	-	(4.1)	(4.1)
Share of other comprehensive income of associate	-	-	-	-	6.1	6.1
Total comprehensive income	**-**	**-**	**82.2**	**-**	**2.0**	**84.2**
Transactions with owners						
Shares issued in the period	4.5	40.5	-	-	-	45.0
Dividends to holders of other equity	-	-	(0.5)	-	-	(0.5)
Share based payments	-	-	-	-	1.2	1.2
Total transactions with owners	**4.5**	**40.5**	**(0.5)**	**-**	**1.2**	**45.7**
Balance at 31 August 2012	**108.0**	**971.9**	**171.9**	**45.0**	**23.1**	**1,319.9**

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2013

	Note	6 months ended 31 August 2013 £m	6 months ended 31 August 2012* £m
Operating activities			
Profit before tax		104.7	105.3
Adjusted for:			
Non-cash items included in profit before tax		75.9	86.3
Changes in operating assets and liabilities		(690.9)	(180.0)
Income tax paid		-	(14.0)
Cash flows used in operating activities		**(510.3)**	**(2.4)**
Investing activities			
Purchase of non-current assets		(55.1)	(79.6)
Purchase of available for sale investment securities		(147.2)	(30.9)
Sale of available for sale investment securities		137.4	461.8
Loan to associate		-	(7.2)
Investment in associate		-	(14.3)
Cash flows (used in)/generated from investing activities		**(64.9)**	**329.8**
Financing activities			
Proceeds from issue of debt securities		-	198.4
Proceeds from issue of share capital	12	-	45.0
Dividends paid to holders of other equity	7	(0.6)	(0.5)
Interest paid on subordinated liabilities		(3.7)	(4.0)
Cash flows (used in)/generated from financing activities		**(4.3)**	**238.9**
Net (decrease)/increase in cash and cash equivalents		(579.5)	566.3
Cash and cash equivalents at the beginning of the period		1,054.5	578.9
Cash and cash equivalents at the end of the period	13	**475.0**	**1,145.2**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The interim consolidated financial statements for the six months ended 31 August 2013 were approved by the Directors on 30 September 2013.

NOTE 1 Basis of preparation

These interim consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) (previously the Financial Services Authority) and with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as endorsed by the European Union. The accounting policies applied are consistent with those described in the consolidated financial statements of the Group for the year ended 28 February 2013. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the Group for the year ended 28 February 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the IFRS Interpretations Committee interpretations as endorsed by the European Union.

In preparing these interim consolidated financial statements, the estimates, judgements and assumptions involved in the Group's accounting policies were the same as those that applied to the consolidated financial statements for the year ended 28 February 2013, with the exception of those described below.

These interim consolidated financial statements have been reviewed, not audited, and do not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The consolidated financial statements for the year ended 28 February 2013 were approved by the Board of Directors on 1 May 2013 and have been filed with the Registrar of Companies. The report of the auditors on those 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.

Going concern
The Directors have made an 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 these interim consolidated financial statements.

Loans and advances to customers reclassification
During the year to 28 February 2013 the Group identified that the insurance instalment debtors, previously included within other assets, would be more appropriately classified as loans and advances to customers.

The impact of this change in the prior half year is a reduction in other assets of £260.9m and a corresponding increase in loans and advances to customers.

This reclassification does not have any effect on the Group's net asset position.

Interest income reclassification
As a result of the above reclassification, the income recognised from insurance instalment debtors has been reclassified from fees and commissions income to interest income.

The impact of this change in the prior half year is a reduction in fees and commissions income of £23.1m and a related increase in interest income of an equal amount.

The impact of the reclassification has also been reflected within the net interest margin.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 Basis of preparation (continued)

Capital resources restatement
During the year to 28 February 2013 the Group revised the capital disclosure of the holding in its insurance regulated associate (Tesco Underwriting Limited). This change reduced the tier 1 capital ratio in the previous half year to 15.4% from 16.8%. There is no change in the comparative risk asset ratio.

Adoption of new and amended International Financial Reporting Standards

During the period to 31 August 2013, the Group has adopted the following new accounting standards and amendments to standards:

- IFRS 13 *Fair value measurement*

IFRS 13 sets out a single IFRS framework for defining and measuring fair value. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The application of IFRS 13 has not significantly impacted the fair value measurement of any financial assets or liabilities held by the Group. IFRS 13 also requires additional disclosures at the interim period which have been incorporated into IAS 34. These disclosures are given in note 14.

IFRS 13 has been applied prospectively.

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

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

The amendment to IAS 1 has been applied retrospectively.

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

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

These disclosures will be made in the Group's financial statements for the year ended 28 February 2014.

- Annual Improvements 2009-2011 (Annual Improvements).

The Annual Improvements process covers amendments to IFRS that the IASB consider non-urgent but necessary. The only part of the 2009-2011 Annual Improvements which has impacted the Group is the amendment to the segmental disclosure requirements in IAS 34. This requires disclosure of total liabilities for each operating segment when the amounts are regularly provided to the chief operating decision maker. This information has been disclosed in note 2.

The amendment to IAS 34 for segmental disclosures has been applied retrospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2 Segmental reporting

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

The Group has two main operating segments:

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

There 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.

There are no significant seasonal fluctuations that affect the Group's results.

a) Segment results of operations

Six months ended 31 August 2013	**Banking £m**	**Insurance £m**	**Central costs* £m**	**Total £m**
Total income	275.8	85.6	-	361.4
Profit/(loss) before tax	163.3	49.3	(107.9)	104.7
Total assets (excluding taxation) ***	8,348.8	346.3	-	8,695.1
Total liabilities (excluding taxation)	7,189.9	31.6	-	7,221.5

Six months ended 31 August 2012**	**Banking £m**	**Insurance £m**	**Central costs £m**	**Total £m**
Total income	263.1	111.5	-	374.6
Profit/(loss) before tax	119.5	71.9	(86.1)	105.3
Total assets (excluding taxation) ***	7,189.0	744.5	-	7,933.5
Total liabilities (excluding taxation)	6,540.9	33.5	-	6,574.4

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

** Refer Note 1, 'Accounting Policies' for details of reclassifications.

*** The investment of £92.6m (28 February 2013: £95.3m) in Tesco Underwriting Limited, an associate company accounted for using the equity method, is shown within the total assets of the insurance segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2 Segmental reporting (continued)

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

Six months ended 31 August 2013	Total management reporting £m	Consolidation and adjustments £m	Total £m
Total income	361.4	-	361.4
Profit before tax	104.7	-	104.7
Total assets	8,695.1	6.8	8,701.9
Total liabilities	7,221.5	37.3	7,258.8
Six months ended 31 August 2012			
Total income	374.6	-	374.6
Profit before tax	105.3	-	105.3
Total assets	7,933.5	-	7,933.5
Total liabilities	6,574.4	39.2	6,613.6

NOTE 3 Net interest income

	6 months ended 31 August 2013 £m	6 months ended 31 August 2012* £m
Interest and similar income		
Loans and advances to customers	238.0	212.2
Loans and advances to banks	2.0	2.1
Fair value hedge ineffectiveness	-	1.7
Interest on investment securities	7.2	12.0
	247.2	**228.0**
Interest expense and similar charges		
Deposits from customers	(60.5)	(64.8)
Deposits from banks	(10.1)	(4.6)
Interest rate swap expenses	(10.6)	(15.5)
Subordinated liabilities	(3.0)	(4.1)
	(84.2)	**(89.0)**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4 Net fees and commissions income

	6 months ended 31 August 2013 £m	6 months ended 31 August 2012* £m
Fees and commissions income		
Banking fees and commission	133.0	142.8
Insurance income	66.9	89.0
Other fees and commissions income	6.4	5.0
	206.3	**236.8**
Fees and commissions expense		
Banking expenses	(14.9)	(11.4)
	(14.9)	**(11.4)**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

NOTE 5 Other income

In the period to 31 August 2012, other income consisted of a non recurring credit of £30.0m following settlement of a dispute with a former business partner.

NOTE 6 Income tax expense

The Finance Act 2012 included legislation to reduce the main rate of corporation tax from 26% to 24% from 1 April 2012 and to 23% from 1 April 2013. In the December 2012 Budget Statement it was announced that the rate would be reduced from 23% to 21% from 1 April 2014 and in the March 2013 Budget statement it was announced that the rate would be further reduced to 20% by 1 April 2015. These further rate reductions were substantively enacted by the interim reporting date at 31 August 2013 and are therefore included in these interim consolidated financial statements.

The tax charge in the Group Income Statement is based on management's best estimate of the full year effective tax rate based on expected full year profits to 28 February 2014.

NOTE 7 Distributions to equity holders

	6 months ended 31 August 2013 £m	6 months ended 31 August 2012 £m
Interest paid on subordinated notes included within equity	**0.6**	0.5

There were no dividends paid in the period to 31 August 2013 (August 2012: £nil).

Interest payable on the subordinated notes included within equity is based on three month LIBOR plus 120 basis points (2012: 120 basis points).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 8 Capital expenditure and commitments

In the 6 months ended 31 August 2013 there were additions to property, plant and equipment and intangible assets of £46.5m (August 2012: £55.5m). There were disposals of property, plant and equipment and intangible assets of £40,000 (August 2012: £nil). Commitments for capital expenditure contracted for but not provided at 31 August 2013 were £0.5m (February 2013: £0.5m) on property, plant and equipment and £9.8m (February 2013: £1.1m) on intangible assets.

At 31 August 2013, the Group had undrawn credit card commitments totalling £9,145.2m (February 2013: £7,916.7m), mortgage offers made were £67.4m (February 2013: £78.5m) and other commitments of £5.8m (February 2013: £6.0m).

During the period to 31 August 2013 a change was made to a methodology by which the Group measures undrawn credit card commitments to exclude both the credit limits on cancelled cards and any overpayments made by customers. The impact of this change in the prior year is a reduction in undrawn credit card commitments of £489.6m.

NOTE 9 Loans and advances to customers

	31 August 2013 £m	28 February 2013 £m	31 August 2012* £m
Secured mortgage lending	456.8	258.0	-
Unsecured lending	6,128.5	5,461.2	4,951.6
Fair value hedge adjustment	7.4	23.4	29.5
Gross loans and advances to customers	**6,592.7**	**5,742.6**	**4,981.1**
Less: allowance for impairment	(156.2)	(172.2)	(184.6)
Net loans and advances to customers	**6,436.5**	**5,570.4**	**4,796.5**
Current	3,547.3	3,100.1	2,767.9
Non-current	2,889.2	2,470.3	2,028.6

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

The Group has prepositioned a portion of its unsecured lending balances with the Bank of England for the purposes of accessing contingent liquidity via the discount window facility and to facilitate the Group's participation in the Funding for Lending Scheme (FLS). An amount of £327.0m of unsecured personal loans had been pledged to the FLS and at the period end this had collateralised £50.0m of FLS drawings.

As at the period end, £2,564.4m of the credit card portfolio had its beneficial interest assigned to a special purpose entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions (February 2013: £1,188.4m). On 26 April 2013 the Group purchased £1,750.0m of credit card backed bonds issued by Delamare Cards MTN Issuer plc. Of this, £1,600.0m has been pledged with the Bank of England collateralising a further £1,094.0m of FLS drawings.

Fair value hedge adjustments amounting to £7.4m (February 2013: £23.4m) are in respect of fixed rate loans. These adjustments reflect movements in interest rates from the date the loans were issued to the reporting date. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9 Loans and advances to customers (continued)

The following table shows impairment provisions for loans and advances:

	6 months to 31 August 2013 £m	6 months to 28 February 2013 £m	6 months to 31 August 2012 £m
At beginning of period	172.2	184.6	184.6
Amounts written off	(47.1)	(45.5)	(48.1)
Recoveries of amounts written off	8.5	0.1	10.7
Charge to the income statement – six months to 31 August	24.8	-	38.5
Charge to the income statement – six months to 28 February	-	34.7	-
Unwind of discount	(2.2)	(1.7)	(1.1)
At end of period	**156.2**	**172.2**	**184.6**

NOTE 10 Debt securities in issue

There were no issuances or repayments of debt securities during the six months to 31 August 2013.

During the 6 months to 31 August 2012, the Company issued a nominal £200.0m 8.5 year fixed rate retail bond which is listed on the London Stock Exchange. Interest is payable at a fixed rate of 5%.

NOTE 11 Provisions for liabilities and charges

	Customer Redress Provision £m	Insurance Provision £m	Total £m
6 months to 31 August 2013			
At beginning of period	97.7	4.3	102.0
Charged to the income statement	-	-	-
Utilised during the period	(38.3)	(0.1)	(38.4)
At end of period	**59.4**	**4.2**	**63.6**
6 months to 28 February 2013			
At beginning of period	78.1	4.6	82.7
Charged to the income statement	85.0	(0.3)	84.8
Utilised during the period	(65.4)	-	(65.5)
At end of period	**97.7**	**4.3**	**102.0**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11 Provisions for liabilities and charges (continued)

	Customer Redress Provision £m	Insurance Provision £m	Total £m
6 months to 31 August 2012			
At beginning of period	74.5	3.8	78.3
Charged to the income statement	30.0	0.8	30.8
Utilised during the period	(26.4)	-	(26.4)
At end of period	**78.1**	**4.6**	**82.7**

CUSTOMER REDRESS PROVISION – PAYMENT PROTECTION INSURANCE

Of the total provision balance at 31 August 2013, £34.6m (February 2013: £72.7m) relates to a provision for customer redress in respect of potential complaints arising from historic sales of Payment Protection Insurance (PPI). This balance is classified as current at the period end.

The Group handles claims and customer redress in accordance with provisions of the regulatory policy statement PS 10/12. The estimated liability for redress is calculated based on the total premiums paid by the customer plus interest inherent in the product and an additional interest of 8.0% per annum.

During the period, the Group continued its programme of proactive customer communication whereby personal loan customers sold PPI during a specific time period were invited to make contact in order to discuss potential redress. As a result an overall population of approximately 41,000 customers have been proactively mailed. A similar proactive customer contact programme commenced in June 2013 for a population of approximately 62,000 credit card customers. At the reporting date 5,200 credit card customers had been mailed in an initial pilot with a further 4,500 having previously received redress having contacted the Group independently. It is anticipated that the remaining customer mailing will be completed by 30 November 2013.

A number of significant uncertainties exist in relation to the eventual level of redress costs the Group might incur, in particular the volume of complaints arising from customers not subject to proactive contact. The Group will continue to monitor and assess the continued appropriateness of the assumptions used and judgements made in light of actual experience and other relevant information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 11 Provisions for liabilities and charges (continued)

The table below details, for each key assumption, actual data to 31 August 2013, forecast assumptions used in assessing the PPI provision adequacy and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

			Sensitivity	
Assumption	**Cumulative actual**	**Future expected**	**Change in assumption**	**Consequential change in provision £m**
Customer initiated complaints settled	43,700	4,600	+/- 1,000 complaints	+/- 1.8
Proactive Mailing	46,200	45,500	+/- 1,000 mail shots	+/- 0.4
Proactive redress rate[1]	53.0%	60.2%	+/- 1%	+/- 0.6
Average redress per valid claim (proactive loans)[2]	£1,438	£1,450	+/- £100	+/- 0.2
Average redress per valid claim (proactive cards)	£508	£642	+/- £100	+/- 2.9

CUSTOMER REDRESS PROVISION – CREDIT CARD PROTECTION

Of the total provision balance at 31 August 2013, £24.8m (February 2013: £25.0m) relates to a provision for customer redress in respect of potential complaints arising from historic sales of certain products to credit card customers. As at 31 August 2013 no amounts had been paid in respect of these historic sales (February 2013: £nil). The level of provision is based on a number of assumptions including the number and value of cases in which compensation will be paid. In arriving at those assumptions management have exercised their judgement based on experience of other redress programmes. The level of the provision allows for the repayment of charges paid by the customer together with simple interest of 8.0% per annum.

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

INSURANCE PROVISION

The insurance provision of £4.2m at 31 August 2013 (February 2013: £4.3m) relates to a provision for insurance policy cancellation by customers. This balance is classified as current at the period end as all insurance policies expire in a maximum of one year.

NOTE 12 Share capital and share premium account

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

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

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

2 Average redress paid per valid settled claim.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 12 Share capital and share premium account (continued)

	31 August 2013 Number	28 February 2013 Number	31 August 2012 Number
Authorised			
Ordinary shares of 10p each	**Unlimited**	Unlimited	Unlimited

	31 August 2013 £m	28 February 2013 £m	31 August 2012 £m
Allotted, called up and fully paid			
1,219,900,000 (February 2013: 1,079,900,000) Ordinary shares of 10p each	**122.0**	108.0	108.0

	31 August 2013 £m	28 February 2013 £m	31 August 2012 £m
Share Premium Account	**1,097.9**	971.9	971.9

NOTE 13 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:

	31 August 2013 £m	31 August 2012 £m
Loans and advances to banks	-	150.4
Cash and balances with central banks *	475.0	994.8
	475.0	1,145.2

* Mandatory reserve deposits held within the Bank of England of £8.9m (August 2012: £5.3m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have a maturity of less than three months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 14 Fair values

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

	31 August 2013		28 February 2013	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets:				
Loans and advances to customers	6,436.5	6,438.3	5,570.4	5,592.8
Investment securities – loans and receivables	41.6	45.0	41.6	41.6
	6,478.1	**6,483.3**	**5,612.0**	**5,634.4**
Financial liabilities:				
Deposits from customers	5,217.8	5,201.1	6,003.5	5,996.9
Debt securities in issue	396.7	407.7	406.7	408.2
Subordinated liabilities	190.0	202.7	330.0	383.3
	5,804.5	**5,811.5**	**6,740.2**	**6,788.4**

The only financial assets and liabilities which are carried at fair value on the Statement of Financial Position are available for sale investment securities and derivative financial assets and liabilities. The valuation techniques and inputs used to derive fair values at 31 August 2013 are described below.

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

The table below classifies all financial instruments held at fair value according to the method used to establish the fair value.

As at 31 August 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets classified as available for sale	809.7	-	-	809.7
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	22.3	-	22.3
Cross currency swaps	-	3.0	-	3.0
Index-linked swaps	-	4.8	-	4.8
Forward foreign currency contracts	-	0.3	-	0.3
Total assets	**809.7**	**30.4**	**-**	**840.1**
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	(43.7)	-	(43.7)
Cross currency swaps	-	(1.4)	-	(1.4)
Forward foreign currency contracts	-	(0.1)	-	(0.1)
Total liabilities	**-**	**(45.2)**	**-**	**(45.2)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 14 Fair values (continued)

As at 28 February 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets classified as available for sale	808.2	150.5	-	958.7
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	26.0	-	26.0
Cross currency swaps	-	1.9	-	1.9
Index-linked swaps	-	5.6	-	5.6
Forward foreign currency contracts	-	-	-	-
Total assets	**808.2**	**184.0**	**-**	**992.2**
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	(59.3)	-	(59.3)
Cross currency swaps	-	(3.0)	-	(3.0)
Forward foreign currency contracts	-	(1.2)	-	(1.2)
Total liabilities	**-**	**(63.5)**	**-**	**(63.5)**

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

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

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

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

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

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

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

During the period to 31 August 2013 there were no transfers between Level 1 and Level 2 (28 February 2013: £430.9m).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 15 Capital resources

The following table analyses the Company's regulatory capital resources (being the regulated entity):

	6 months to 31 August 2013 £m	6 months to 28 February 2013 £m	6 months to 31 August 2012* £m
Movement in tier 1 capital:			
At the beginning of the period	687.2	743.0	661.1
Ordinary shares issued	140.0	-	45.0
Profit attributable to shareholders	18.1	74.4	83.6
Other reserves	1.3	(1.9)	1.2
Ordinary dividends	-	(105.0)	-
Intangible assets	(7.1)	(23.3)	(37.2)
50% of material holdings	-	-	(10.7)
At the end of the period	**839.5**	**687.2**	**743.0**

	31 August 2013 £m	28 February 2013 £m	31 August 2012* £m
Tier 1 capital:			
Shareholders' equity (accounting capital)	1,436.4	1,217.5	1,305.8
Subordinated notes	(45.0)	(45.0)	(45.0)
Retained earnings	(77.1)	(18.1)	(74.4)
Unrealised gains on available for sale investment securities	(5.5)	(5.8)	(5.4)
Unrealised gains on cash flow hedge reserve	(1.0)	(0.1)	-
	1,307.8	**1,148.5**	**1,181.0**
Regulatory deductions:			
Intangible assets	(404.5)	(397.5)	(374.2)
50% of material holdings	(63.8)	(63.8)	(63.8)
	(468.3)	(461.3)	(438.0)
Core tier 1 capital	**839.5**	**687.2**	**743.0**
Tier 2 capital:			
Undated subordinated notes	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	182.3	326.5	329.3
Collectively assessed impairment provisions	23.9	25.1	20.7
	251.2	396.6	395.0
Regulatory deductions:			
50% of material holdings	(63.8)	(63.8)	(63.8)
	(63.8)	(63.8)	(63.8)
Core tier 2 capital	**187.4**	**332.8**	**331.2**
Other capital deductions	-	-	(258.5)
Total regulatory capital	**1,026.9**	**1,020.0**	**815.7**
Total risk weighted assets (unaudited)	**6,036.4**	**5,353.3**	**4,816.8**

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 15 Capital resources (continued)

	31 August 2013 £m	28 February 2013 £m	31 August 2012* £m
Tier 1 ratio	13.9%	12.8%	15.4%
Risk asset ratio (unaudited)	17.0%	19.1%	16.9%

* Refer Note 1, 'Accounting Policies' for details of reclassifications.

The table below shows a reconciliation between the share holders' equity of the Group to the share holders' equity of the Company:

	6 months to 31 August 2013 £m	6 months to 28 February 2013 £m	6 months to 31 August 2012 £m
Tesco Personal Finance plc (Group) share holders' equity	1,443.1	1,226.7	1,319.9
Share of associate's retained earnings	(10.9)	(7.7)	(4.8)
Subsidiaries' retained earnings	(0.2)	0.1	-
Share of associate's available for sale reserve	4.4	(1.6)	(9.3)
Tesco Personal Finance plc (Company) share holders' equity	**1,436.4**	1,217.5	1,305.8

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the Prudential Regulation Authority (PRA). The Group maintainted regulatory capital resources in excess of its capital requirements throughout the period.

Capital Management

Regulatory capital is reported monthly to the Asset and Liability Management Committee (ALCO) and the Board. Capital adequacy is monitored daily by the Treasury department.

Internal Capital Adequacy Assessment Process

The Group undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which is an internal assessment of its capital needs. The ICAAP is performed periodically and is supplemented by a program of capital and liquidity stress testing. The ICAAP and stress testing scenarios are presented to the Board and the Executive Committee for challenge and approval.

The outcome of the ICAAP covers all material risks to determine the capital requirement over a twelve month horizon and includes stressed scenarios over a three to five year period. Where capital is deemed as not being able to mitigate a particular risk, such as liquidity risk, alternative management actions are identified and described in the ICAAP document.

The Board approved ICAAP is submitted to the regulator on a regular basis, which forms the basis of the Individual Capital Guidance set by the PRA.

Sources of Funding

The Group's strategic liability mix emphasises retail funding. To enhance overall funding stability and diversity, the Group places emphasis on maximising and preserving its customer deposits and other customer-based funding sources. The Group monitors deposit rates and levels and significant trends and changes are reported to its management team via the ALCO.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 15 Capital resources (continued)

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

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

Primary funding sources	**31 August 2013 £m**	**28 February 2013 £m**	**31 August 2012 £m**
On balance sheet			
Deposits from banks	1,054.2	15.2	5.1
Deposits from customers	5,217.8	6,003.5	5,435.9
Subordinated liabilities	190.0	330.0	330.0
Debt securities in issue	396.7	406.7	409.1
Subordinated notes	45.0	45.0	45.0
Total on balance sheet funding	**6,903.7**	**6,800.4**	**6,225.1**
Off balance sheet			
Treasury bills drawn under FLS (net of repurchase agreements)*	444.0	-	-
Total off balance sheet funding	**444.0**	**-**	**-**

* FLS drawdowns of £1,144.0m (February 2013: £nil) are shown net of Treasury bills used as collateral in repurchase agreements (£700.0m, February 2013: £nil).

NOTE 16 Contingent liabilities

The Financial Services Compensation Scheme

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

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

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

Each deposit-taking institution contributes in proportion to its share of total protected deposits. As at 31 August 2013 the Group has accrued £2.1m (February 2013: £6.8m) in respect of its current obligation to meet expenses levies, based on indicative costs published by the FSCS.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 Related party transactions

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

NOTE 18 Ultimate parent undertaking

The Group's ultimate parent undertaking and controlling party is Tesco plc which is incorporated in England.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that to the best of their knowledge these interim consolidated financial statements have been prepared in accordance with IAS 34 as endorsed by the European Union.

The interim consolidated financial statements and management report contained herein includes a fair review of the information required by DTR 4.2.7, namely:

- an indication of important events that have occurred during the first six months and their impact on the interim consolidated set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

The Directors of Tesco Personal Finance plc as at the date of this announcement are as set out below.

By order of the Board,

Peter Bole
Director
30 September 2013

The Board of Directors

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

INDEPENDENT REVIEW REPORT TO TESCO PERSONAL FINANCE PLC

Introduction
We have been engaged by the Company to review the interim consolidated financial statements in the half-yearly financial report for the six months ended 31 August 2013, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The set of condensed consolidated financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in producing this report, 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.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 August 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
30 September 2013
Edinburgh