TESCO PERSONAL FINANCE PLC

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 AUGUST 2014

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 joint venture included in the condensed consolidated interim 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 2014/15 can be found on the Tesco PLC internet page http://www.tescoplc.com/media/456378/rns.pdf.

Business model

The Group is primarily focused on providing financial services and products to personal customers in the UK and the Republic of Ireland.

The Company owns 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company.

Headlines

- Adjusting for non trading items[1], underlying profit before tax is 18.4% higher at £117.0m (August 2013: £98.8m).

- Income, adjusted for non trading items[1], has increased by 10.7% to £393.7m (August 2013: £355.5m) due to strong lending growth.

- Operating expenses have increased by 5.8% to £245.3m (August 2013: £231.9m).

- Credit quality remains good and default rates remain stable. The impairment charges have increased to £34.2m (August 2013: £28.0m) in line with historic book growth (refer note 5).

- Profit before tax is down by 23.6% to £80.0m (August 2013: £104.7m). Profit has been impacted by an additional charge for Payment Protection Insurance (PPI) of £27.0m (refer note 11).

- Total customer account numbers have grown to 7.2m at the half year (August 2013: 6.8m), an increase of 5.9%.

- Customer assets have grown by 8.8% since the year end to £7.5bn (February 2014: £6.9bn), driven by competitive customer propositions. This growth has been supported by customer deposits, which have increased by 9.0% to £6.6bn since the year end (February 2014: £6.1bn).

- Capital and liquidity ratios continue to exceed requirements. The risk asset ratio at 31 August 2014 is 17.1% (February 2014: 17.7%) and the net stable funding ratio is 115.7% (February 2014: 116.5%).

- The Group successfully completed an external credit card securitisation of £500m in June 2014 which was used, in part, to reduce Funding for Lending Scheme (FLS) borrowings, with the balance supporting customer lending.

[1] Non trading items consist of customer redress provisions of £27.0m (August 2013: £nil) and losses on financial instruments, movements on derivatives and hedge accounting of £10.0m (August 2013: gains of £5.9m).

BUSINESS AND FINANCIAL REVIEW

Business Overview and Business Development

In the first half of 2014 the Group has continued to make progress in being the bank for Tesco customers, rewarding their loyalty and earning their trust.

The focus on providing transparent products at consistently good prices reached a major milestone in June 2014 with the launch of the Group's Personal Current Account (PCA). The product has been well received by customers and the industry alike and was awarded 5 stars by MoneyFacts and Defaqto. In conjunction with the PCA, the Group also launched its mobile banking app, helping customers to bank with us in a convenient and secure way. The introduction of the PCA represents a significant investment by the Group and, following the launch of the product in June, the full effect of this investment is expected to broadly offset underlying profit growth for the full year.

The Group's commitment to offering attractive products and good service for customers has resulted in the achievement of our highest ever net promoter score – a key measure of customer satisfaction. Furthermore, in July 2014, the UK Institute of Customer Service ranked Tesco Bank within the top 20 organisations for customer service in the UK. The Group also won the main award for Best Overall Direct Provider at the 'Your Money' Awards while its Mortgage proposition won Best Direct Mortgage Provider 2014 (Moneynet) and Best Direct Lender 2014 (What Mortgage Awards).

The colleague and community pillars of our strategy have continued to make good progress. The Group's commitment to its core values; no one tries harder for customers; we treat everyone how they like to be treated; and we use our scale for good, resulted in Tesco Bank being awarded the 2014 Company Culture Award (Scottish Business Awards). Furthermore, our colleagues raised over £100,000 for our charity partners and volunteered over 2,500 hours to their local communities.

Banking

The Banking business continues to focus on enhancing the product range, ensuring the products are competitive and improving the customer journey.

The Group has delivered 13.9% year on year growth in customer numbers across the primary Banking products (Cards, Loans, Mortgages, Current Accounts and Savings) despite the backdrop of an increasingly competitive trading environment.

Lending has continued to grow since the year end with personal loans 5.4% higher and credit card balances increasing 3.4%. The mortgage product continues to make good progress with balances growing to £1,027.1m at 31 August 2014 (February 2014: £696.5m).

Customer lending is primarily funded by customer deposits with balance growth of 9.0% since year end, taking total deposits to £6,631.7m. The Group continues to utilise the Bank of England's FLS whilst the wholesale funding position has been further diversified with the issue of £500.0m of securities backed by credit card assets.

Retail sales on credit cards have averaged £1.2bn each month, 3.0% higher than the same period in the previous year with strong sales growth also seen in Money Services, particularly Travel Money and Gift Cards (16.5% and 14.5% respectively).

Insurance

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

Despite strong price led competition in the Motor and Home markets, new business sales have performed well with Motor, including the Telematics product, growing 21.7% since August 2013 and Home growing 6.6%. As a result total in force policies on the primary products (Motor, Home and Pet) have grown 1.8% in the same period.

BUSINESS AND FINANCIAL REVIEW (continued)

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	2014 £m	2013 £m	% change
Net interest income	192.5	163.0	18.1
Underlying non interest income	201.2	192.5	4.5
Total underlying income	**393.7**	**355.5**	**10.7**
Operating expenses	(245.3)	(231.9)	(5.8)
Impairment on loans and advances to customers	(34.2)	(28.0)	(22.1)
Share of profit of joint venture	2.8	3.2	(12.5)
Underlying profit before tax	**117.0**	**98.8**	**18.4**
Non trading items[1]			
Customer redress provision	(27.0)	-	-
(Losses)/Gains on financial instruments, movements on derivatives and hedge accounting	(10.0)	5.9	-
Profit before tax	**80.0**	**104.7**	**(23.6)**

6 Months ended 31 August	2014	2013
Net interest margin [2]	4.4%	4.2%
Underlying cost: income ratio [3]	62.3%	65.2%
Cost: income ratio [4]	68.8%	64.2%
Bad debt: Asset ratio [5]	0.9%	0.9%

1 Non trading items consist of an additional PPI provision of £27.0m (August 2013: £nil) and losses on financial instruments, movements on derivatives and hedge accounting of £10.0m (August 2013: Gain of £5.9m). These are presented within total income on page 8.

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

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

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

5 The bad debt: asset ratio is calculated by dividing the impairment loss by the average balance of loans and advances to customers.

Net interest income has increased by 18.1% to £192.5m (August 2013: £163.0m) due to the growth in customer lending of 17.0% to £7.5bn (August 2013: £6.4bn), and improved net interest margin.

Net interest margin has increased to 4.4% (August 2013: 4.2%). Whilst there has been increased competition impacting asset pricing and growth in the lower margin Mortgage book, total margin benefited from lower funding costs, in part a result of our continued participation in FLS.

Underlying non-interest income has grown 4.5% due to the increased Retail sales on credit cards (3% year on year) and the stronger Motor Insurance sales.

BUSINESS AND FINANCIAL REVIEW (continued)

Impairment charges on loans and advances have increased by 22.1% to £34.2m (August 2013: £28.0m). Credit quality remains good with the increase in impairment charges reflecting historic book growth. The bad debt asset ratio remains in line with prior year at 0.9% (August 2013: 0.9%).

The Group's consolidated statement of financial position is presented on page 10. Selected extracts are presented below.

	31 August 2014 £m	28 February 2014 £m	31 August 2013 £m
Loans and advances to customers	7,528.2	6,922.0	6,436.5
Total assets	10,064.3	9,247.7	8,701.9
Deposits from banks	368.3	779.8	1,054.2
Deposits from customers	6,631.7	6,082.4	5,217.8
Net assets	1,450.3	1,381.4	1,443.1

Loans and advances to customers have increased 8.8% since year end, to £7,528.2m at 31 August 2014. The Group has seen growth in both credit cards and personal loans balances and additionally has attracted over £1bn of mortgage balances at 31 August 2014.

Deposits from banks have decreased to £368.3m (February 2014: £779.8m) due to a reduction in FLS borrowings, partly refinanced by the £500.0m external Credit Card Securitisation issuance in June 2014.

Deposits from customers have increased to £6,631.7m (February 2014: £6,082.4m).

BUSINESS AND FINANCIAL REVIEW (continued)

Capital and Liquidity Ratios

	31 August 2014	28 February 2014	31 August 2013
Tier 1 capital ratio [1, 2]	13.5%	14.0%	15.2%
Risk asset ratio [3]	17.1%	17.7%	18.3%
Net stable funding ratio [4]	115.7%	116.5%	112.5%
Loan to deposit ratio [5]	113.5%	113.8%	123.4%

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 Since 31 August 2013 the method by which the tier 1 capital and risk asset ratios is calculated has been amended to reflect profits earned up to that date. This presents capital resources on a consistent basis with the current year presentation. This has resulted in an amendment to the August 2013 Tier 1 capital ratio which has increased by 1.3% to 15.2%. In line with the Capital Requirements Regulation, which was applicable from 1 January 2014, the current year ratios also reflect a deduction for foreseeable dividends. Refer to note 15 for further detail.

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

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

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

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

The risk asset ratio remains above internal targets at 17.1% (February 2014: 17.7%) and leaves the Group well placed to support future growth.

The net stable funding ratio, a key measure of the Group's liquidity position, has slightly reduced to 115.7% at 31 August 2014 (February 2014: 116.5%).

The Group's liquidity level remains strong and is well above requirements. The Group maintains a liquid asset portfolio of high quality securities of £1.7bn (February 2014: £1.4bn).

Principal Risks and Uncertainties

The Board has overall responsibility for determining the Group's risk strategy and related risk appetite. The Statement of Risk Appetite determines the type and extent of risks that are acceptable to the Group in achieving the successful delivery of its strategic business objectives. The Board is also responsible for overall corporate governance which includes ensuring that there is a robust and effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business.

The principal risks and uncertainties faced by the Group remain unchanged from those set out in the Tesco Personal Finance plc Annual Report and Financial Statements for the year ended 28 February 2014 (pages 8 to 10), other than as referenced under Business Risk below.

It is anticipated that these will continue to be the principal 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 principal risks and uncertainties faced by the Group:

- **Credit Risk**
  Credit risk is the risk that a borrower or counterparty fails to repay the interest or capital on a loan or other financial instrument.

- **Operational Risk**
  Operational risk is the risk of potential error, loss, harm or failure caused by ineffective or inadequately designed processes, system failure, human error or from external events.

BUSINESS AND FINANCIAL REVIEW (continued)

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

- **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.

- **Insurance Risk**
  Insurance risk is the risk accepted through the provision of 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.

- **Legal and Regulatory Compliance Risk**
  Legal and regulatory compliance risk is the risk of consequences arising as a result of the failure to comply with relevant laws and regulatory requirements as defined by external regulators.

- **Conduct Risk**
  There remains significant regulatory focus in relation to Conduct risk and the fair treatment of customers. Specifically there has been continued industry-wide focus on provision for customer redress.

- **Business Risk**
  Draft regulation has been published by the European Commission that seeks to impose caps on interchange fees for credit and debit cards. Transaction fees on debit and credit cards represent a significant part of the Group's revenues so any reduction in interchange fees may have a material effect on these. The Group is actively engaged in developing plans to respond to the impacts of such a change.

  The Scottish Government held a referendum in September 2014 on the issue of Scottish independence from the UK. The prospect of Scottish independence raised additional risks for the Group in the form of changes to the Regulatory and Legal framework in which it operates. The vote to remain within the United Kingdom has reduced the risks to which the business is exposed. The Group will continue to monitor and assess the impact of policy developments and any change in the legal and regulatory landscape in which it operates.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2014

	Note	6 months ended 31 August 2014 £m	6 months ended 31 August 2013 £m
Interest and similar income	3	268.0	247.2
Interest expense and similar charges	3	(75.5)	(84.2)
Net interest income		**192.5**	**163.0**
Fees and commissions income	4	216.2	206.3
Fees and commissions expense	4	(15.1)	(14.9)
Provision for customer redress	11	(27.0)	-
Net fees and commissions income		**174.1**	**191.4**
(Losses)/gains on financial instruments, movements on derivatives and hedge accounting		(10.0)	5.9
Realised gain on investment securities		0.1	1.1
Other (expense)/income		**(9.9)**	**7.0**
Total income		**356.7**	**361.4**
Administrative expenses		(207.5)	(196.7)
Depreciation and amortisation		(37.8)	(35.2)
Operating expenses		**(245.3)**	**(231.9)**
Impairment on loans and advances to customers	5	(34.2)	(28.0)
Operating profit		**77.2**	**101.5**
Share of profit of joint venture		2.8	3.2
Profit before tax		**80.0**	**104.7**
Income tax expense	6	(16.3)	(23.6)
Profit for the period attributable to owners of the parent		**63.7**	**81.1**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2014

	6 months ended 31 August 2014 £m	6 months ended 31 August 2013 £m
Profit for the period	**63.7**	**81.1**
Items that may be reclassified subsequently to the income statement		
Unrealised net gains/(losses) on available for sale investment securities before tax	1.6	(0.3)
Net gains arising on cash flow hedges before tax	0.1	1.1
Tax relating to items that may be reclassified	(0.4)	(0.1)
Share of other comprehensive income/(expense) of joint venture	2.3	(6.0)
Total items that may be reclassified subsequently to income statement	**3.6**	**(5.3)**
Total comprehensive income for the period attributable to owners of the parent	**67.3**	**75.8**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 AUGUST 2014

	Note	31 August 2014 £m	28 February 2014 (audited) £m	31 August 2013 £m
Assets				
Cash and balances with central banks		673.3	494.0	483.9
Loans and advances to customers	9	7,528.2	6,922.0	6,436.5
Derivative financial instruments		31.9	36.6	30.4
Investment securities:				
- Available for sale		962.5	850.3	809.7
- Loans and receivables		34.1	34.1	41.6
Prepayments and accrued income		88.2	27.1	38.7
Current income tax asset		-	0.8	6.8
Other assets		155.0	285.0	260.5
Investment in joint venture		82.4	77.3	92.6
Intangible assets		417.2	427.7	404.5
Property, plant and equipment		91.5	92.8	96.7
Total assets		**10,064.3**	**9,247.7**	**8,701.9**
Liabilities				
Deposits from banks		368.3	779.8	1,054.2
Deposits from customers		6,631.7	6,082.4	5,217.8
Debt securities in issue	10	894.4	394.8	396.7
Derivative financial instruments		57.3	41.8	45.2
Provisions for liabilities and charges	11	113.3	105.5	63.6
Accruals and deferred income		165.4	127.1	114.7
Current income tax liability		16.3	-	-
Other liabilities		158.4	125.6	139.3
Deferred income tax liability		18.9	19.3	37.3
Subordinated liabilities		190.0	190.0	190.0
Total liabilities		**8,614.0**	**7,866.3**	**7,258.8**
Equity and reserves attributable to owners of the parent				
Share capital	12	122.0	122.0	122.0
Share premium account	12	1,097.9	1,097.9	1,097.9
Retained earnings		168.2	105.1	168.4
Other reserves		17.2	11.4	9.8
Subordinated notes		45.0	45.0	45.0
Total equity		**1,450.3**	**1,381.4**	**1,443.1**
Total liabilities and equity		**10,064.3**	**9,247.7**	**8,701.9**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2014

	Share capital	Share premium	Retained earnings	Subordinated notes	Other reserves	Total equity
	£m	£m	£m	£m	£m	£m
Balance at 1 March 2014	**122.0**	**1,097.9**	**105.1**	**45.0**	**11.4**	**1,381.4**
Comprehensive income						
Profit for the period	-	-	63.7	-	-	63.7
Net gains on available for sale investment securities	-	-	-	-	1.2	1.2
Net gains on cash flow hedges	-	-	-	-	0.1	0.1
Share of other comprehensive income of joint venture	-	-	-	-	2.3	2.3
Total comprehensive income	**-**	**-**	**63.7**	**-**	**3.6**	**67.3**
Transactions with owners						
Dividends to holders of other equity	-	-	(0.6)	-	-	(0.6)
Share based payments	-	-	-	-	2.2	2.2
Total transactions with owners	**-**	**-**	**(0.6)**	**-**	**2.2**	**1.6**
Balance at 31 August 2014	**122.0**	**1,097.9**	**168.2**	**45.0**	**17.2**	**1,450.3**
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 joint venture	-	-	-	-	(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**

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2014

	Note	6 months ended 31 August 2014 £m	6 months ended 31 August 2013 £m
Operating activities			
Profit before tax		80.0	104.7
Adjusted for:			
Non-cash items included in operating profit before tax		121.4	75.9
Changes in operating assets and liabilities		(517.0)	(690.9)
Cash flows used in operating activities		**(315.6)**	**(510.3)**
Investing activities			
Purchase of non-current assets		(41.5)	(55.1)
Purchase of available for sale investment securities		(143.8)	(147.2)
Sale of available for sale investment securities		48.6	137.4
Deposit with parent		145.0	-
Cash flows generated from/(used in) investing activities		**8.3**	**(64.9)**
Financing activities			
Proceeds from issue of debt securities	10	498.0	-
Dividends paid to holders of other equity	7	(0.5)	(0.6)
Interest paid on subordinated liabilities		(1.6)	(3.7)
Cash flows generated from/(used in) financing activities		**495.9**	**(4.3)**
Net increase/(decrease) in cash and cash equivalents		188.6	(579.5)
Cash and cash equivalents at the beginning of the period		484.6	1,054.5
Cash and cash equivalents at the end of the period	14	**673.2**	**475.0**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The condensed consolidated interim financial statements for the six months ended 31 August 2014 were approved by the Directors on 22 October 2014.

1 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) 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 2014, except as described below. The condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements of the Group for the year ended 28 February 2014, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the IFRS Interpretations Committee interpretations (IFRIC) as endorsed by the European Union.

In preparing these condensed consolidated interim financial statements, the estimates, judgements and assumptions involved in the Group's accounting policies were the same as those which applied to the consolidated financial statements for the year ended 28 February 2014.

These condensed consolidated interim 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 2014 were approved by the Board of Directors on 8 May 2014 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 Group has made steady progress in diversifying its funding base through growth in savings products and the completion of the first externally issued securities backed by credit card assets which has allowed the Group to reduce its use of the Bank of England's FLS. In addition, the Group can access central bank facilities as part of contingency funding. 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 for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

Adoption of new and amended International Financial Reporting Standards

During the period to 31 August 2014, the Group has adopted the following new accounting standards and amendments to standards which became effective with relevant EU endorsement for annual periods beginning on or after 1 January 2014:

- IFRS 10, 'Consolidated financial statements'

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

- IFRS 11, 'Joint arrangements'

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

1 Basis of preparation (continued)

IFRS 11 has been applied retrospectively.

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

IFRS 12 contains amended disclosure requirements for all forms of interest in other entities. These amended disclosures will be made in the Group's financial statements for the year ended 28 February 2015.

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

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

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

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

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

This amendment clarifies the transition guidance contained in IFRS 10, IFRS 11 and IFRS 12 and provides additional transition relief. The only impact of the adoption of this amendment is on the disclosure requirements under IFRS 12. These amended disclosures will be made in the Group's financial statements for the year ended 28 February 2015.

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

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

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

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

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

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

- IFRIC 21 'Levies'

This IFRIC clarifies the timing of recognition of a liability to pay a levy recognised in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The adoption of this interpretation will affect the timing of the Group's recognition of the Financial Services Compensation Scheme (FSCS) Levy in the second half of the current financial year as a result of a change in the date at which the liability is measured, but the impact will not be significant to the financial statements of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

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, personal current accounts, ATMs and money services; and
- Insurance - incorporating motor, home, pet, travel and other insurance products.

There were no changes in the reported operating segments during the period.

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 unallocated reconciling 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

	Banking* £m	Insurance £m	Central costs £m	Total £m
Six months ended 31 August 2014				
Total income	269.8	86.9	-	356.7
Profit/(loss) before tax **	147.7	52.0	(119.7)	80.0
Total assets (excluding taxation) ***	9,751.2	313.1	-	10,064.3
Total liabilities (excluding taxation)	8,545.1	33.7	-	8,578.8
Six months ended 31 August 2013				
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

* The Banking segment includes an additional PPI provision of £27.0m (August 2013: £nil) and losses on financial instruments, movements on derivatives and hedge accounting of £10.0m (August 2013: Gain of £5.9m).

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

*** The investment of £82.4m (August 2013: £92.6m) in Tesco Underwriting Limited, a joint venture company accounted for using the equity method, is shown within the total assets of the insurance segment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

2 Segmental reporting (continued)

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

	Total management reporting £m	Unallocated reconciling items £m	Total £m
Six months ended 31 August 2014			
Total income	356.7	-	356.7
Profit before tax	80.0	-	80.0
Total assets	10,064.3	-	10,064.3
Total liabilities	8,578.8	35.2	8,614.0
Six months ended 31 August 2013			
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

3 Net interest income

	6 months ended 31 August 2014 £m	6 months ended 31 August 2013 £m
Interest and similar income		
Loans and advances to customers	257.2	238.0
Loans and advances to banks	1.6	2.0
Interest on investment securities	9.2	7.2
	268.0	**247.2**
Interest expense and similar charges		
Deposits from customers	(50.6)	(60.5)
Deposits from banks	(13.1)	(10.1)
Interest rate swap expenses	(10.1)	(10.6)
Subordinated liabilities	(1.7)	(3.0)
	(75.5)	**(84.2)**

Interest income recognised due to the unwinding of the discount on impairment provisions relating to impaired financial assets amounted to £1.3m (August 2013: £2.2m).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

4 Net fees and commissions income

	6 months ended 31 August 2014 £m	6 months ended 31 August 2013 £m
Fees and commissions income		
Banking income	140.5	133.0
Insurance income	69.2	66.9
Other income	6.5	6.4
	216.2	**206.3**
Fees and commissions expense		
Banking expenses	**(15.1)**	**(14.9)**

5 Impairment

	6 months ended 31 August 2014 £m	6 months ended 31 August 2013 £m
Loans and advances to customers		
Increase in impairment allowance, net of recoveries (refer note 9)	32.0	24.8
Amounts written off during the year as uncollectible	2.2	3.2
	34.2	**28.0**

6 Income tax expense

The tax charge in the Consolidated 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 2015.

7 Distributions to equity holders

	6 months ended 31 August 2014 £m	6 months ended 31 August 2013 £m
Interest payable on subordinated notes included within equity	**0.6**	**0.6**

There were no dividends paid in the period to 31 August 2014 (August 2013: £nil).

Interest payable on the subordinated notes included within equity is based on three month LIBOR plus a spread ranging from 120 to 220 basis points (August 2013: 120 - 220 basis points).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

8 Capital expenditure and commitments

In the 6 months ended 31 August 2014 there were additions to property, plant and equipment and intangible assets of £29.9m (August 2013: £46.5m). Commitments for capital expenditure contracted for but not provided at 31 August 2014 were £0.2m (February 2014: £0.1m) on property, plant and equipment and £0.4m (February 2014: £1.3m) on intangible assets.

At 31 August 2014, the Group had undrawn personal current account overdraft commitments of £0.6m (February 2014: £nil), credit card commitments totalling £10,497.9m (February 2014: £9,620.3m), mortgage commitments of £105.8m (February 2014: £91.0m) and other commitments of £5.6m (February 2014: £5.8m).

9 Loans and advances to customers

	31 August 2014 £m	28 February 2014 £m	31 August 2013 £m
Secured mortgage lending	1,027.1	696.5	456.8
Unsecured lending	6,657.5	6,378.2	6,128.5
Fair value hedge adjustment	3.8	4.2	7.4
Gross loans and advances to customers	**7,688.4**	**7,078.9**	**6,592.7**
Less: allowance for impairment	(160.2)	(156.9)	(156.2)
Net loans and advances to customers	**7,528.2**	**6,922.0**	**6,436.5**
Current	3,847.8	3,708.8	3,547.3
Non-current	3,680.4	3,213.2	2,889.2

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 FLS.

As at the period end, £2,975.1m (February 2014: £2,343.9m) 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. On 26 April 2013 the Group purchased £1,750.0m of credit card backed bonds issued by Delamare Cards MTN Issuer plc. Of this, £1,285.0m (February 2014: £1,600.0m) has been pledged with the Bank of England collateralising £789.0m (February 2014: £1,096.0m) of FLS drawings.

There were no unsecured personal loans pledged or used as collateral for FLS drawings at the period end. At February 2014, an amount of £557.0m of unsecured personal loans had been pledged to the Bank of England and £236.0m had been used to collateralise £118.0m of FLS drawings.

Fair value hedge adjustments amounting to £3.8m (February 2014: £4.2m) are in respect of fixed rate loans. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

9 Loans and advances to customers (continued)

The following table shows impairment provisions for loans and advances:

	6 months to 31 August 2014 £m	6 months to 28 February 2014 £m	6 months to 31 August 2013 £m
At beginning of period	156.9	156.2	172.2
Amounts written off	(27.3)	(27.6)	(38.6)
Increase in allowance, net of recoveries, charged to the income statement	32.0	30.2	24.8
Foreign currency translation	(0.1)	(0.2)	-
Unwind of discount	(1.3)	(1.7)	(2.2)
At end of period	**160.2**	**156.9**	**156.2**

10 Debt securities in issue

On 6 June 2014, the Group issued the following bonds on the Irish Stock Exchange:

	Interest rate	Par value	Term	Maturity date
Floating rate AAA bond (A1)*	1m GBP LIBOR + 0.45%	£150.0m	5 years	2019
Floating rate AAA bond (A2)**	1m GBP LIBOR + 0.65%	£350.0m	7 years	2021

There were no issuances or repayments of debt securities during the prior year.

* The scheduled redemption date of this Bond is 2017

** The scheduled redemption date of this Bond is 2019

11 Provisions for liabilities and charges

	Customer Redress Provision £m	Other Provisions £m	Total £m
6 months to 31 August 2014			
At beginning of period	100.3	5.2	105.5
Charged to the income statement	27.0	0.8	27.8
Utilised during the period	(20.0)	-	(20.0)
At end of period	**107.3**	**6.0**	**113.3**
6 months to 28 February 2014			
At beginning of period	59.4	4.2	63.6
Charged to the income statement	63.0	1.2	64.2
Utilised during the period	(22.1)	(0.2)	(22.3)
At end of period	**100.3**	**5.2**	**105.5**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

11 Provisions for liabilities and charges (continued)

	Customer Redress Provision £m	Other Provisions £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**

Customer redress provision – Payment Protection Insurance

Of the total provision balance at 31 August 2014, £46.5m (February 2014: £32.9m) relates to a provision for customer redress in respect of potential customer complaints arising from historic sales of Payment Protection Insurance (PPI). The balance is classified as current at period end.

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

During the period, the Group completed the programme of proactive customer contact to those customers sold PPI during a specific time period where there were concerns about the way in which the product was sold. As a result an overall population of approximately 41,000 personal loan and 42,700 credit card customers have been mailed. At the reporting date customer responses totalled 24,700 for personal loans and 22,400 for credit cards. Of the responding customers the vast majority have now received a complaint decision and redress where applicable. In the case of responding credit card customers 350 were in receipt of redress offers that were pending acceptance as at 31 August 2014.

A significant degree of uncertainty remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers not subject to proactive contact. A detailed review of new complaints has resulted in a revised view of future expected complaint volumes. The duration over which claims are expected to emerge has been increased and a revised estimate of future compensation has been prepared. This revised assessment increased the total estimated cost of redress by a further £27.0m during the period. This provides redress capacity at current run rates (average of last 3 months) for a total of 28 months.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

11 Provisions for liabilities and charges (continued)

The table below details, for each key assumption, actual data to 31 August 2014, forecast assumptions used in assessing the PPI provision adequacy and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

Assumption	Cumulative actual	Future expected	Sensitivity: Change in assumption	Sensitivity: Consequential change in provision £m
Customer initiated complaints settled	50,900	18,600	+/- 1,000 complaints	+/- 1.8
Average redress per valid claim	£1,880	£1,800	+/- £100	+/- 1.9

Customer redress provision – Credit Card Protection

The Group holds a further provision of £18.2m (February 2014: £24.4m) in respect of customer redress relating to the historic sale of certain cardholder protection products to credit card customers. The balance is classified as current at period end.

As at 31 August 2014 an amount of £6.2m (February 2014: £0.6m) had been paid in respect of these historic sales.

An industry-wide Scheme of Arrangement dealing with customers who purchased products underwritten by CPP plc ("CPP") has operated during the period. At the reporting date customer responses totalled approximately 38,500 (equivalent to 32.5% of the customer population). The Scheme features a court and regulatory approved closure date for new complaints (subject to certain exceptions) of 31 August 2014.

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

The table below details for each key assumption; actual data to 31 August 2014; forecast assumptions used in assessing the Scheme of Arrangement provision adequacy; and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

Assumption	Cumulative actual	Future expected	Sensitivity: Change in assumption	Sensitivity: Consequential change in provision £m
Future customer responses	0	46,700	+/- 1,000 complaints	+/- 0.3
Average redress per valid claim	-	£325	+/- £10	+/- 0.5

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

11 Provisions for liabilities and charges (continued)

Customer redress provision – Consumer Credit Act

The Group holds a provision of £42.6m (February 2014: £43.0m) in respect of customer redress relating to instances where certain of the requirements of the Consumer Credit Act (CCA) for post contract documentation have not been fully complied with.

As at 31 August 2014 an amount of £0.4m (February 2014: £nil) had been incurred in respect of costs of delivering the redress programme.

During the course of the prior financial year the Group instigated a review of certain historic operational issues that had resulted in instances where certain of the requirements of the Consumer Credit Act (CCA) for post contract documentation had not been fully complied with. In November 2013 the Office of Fair Trading (OFT) wrote to lenders in the industry seeking confirmation of their compliance with the requirements of the CCA. The Group extended its earlier investigation to undertake further assurance work relating to compliance with the CCA. As a result, the Group has determined that it is appropriate to redress certain customers affected by these breaches.

Extensive analysis has been undertaken of the relevant issues to identify where customers have been affected and to determine if the Group should take further action. The requirements of the CCA in respect to these issues are not straightforward and have not been subject to significant judicial consideration to date. In arriving at the provision required, the Group considered the legal and regulatory position with respect to these matters and has sought external legal advice which it took into account when it made its judgement. The provision represents management's best estimate at the reporting date of the cost of providing redress to those loan and credit card customers. The balance is classified as current at the reporting date and, in making the estimate, management have exercised judgement as to both the timescale for implementing the redress campaign and the final scope of any amounts payable.

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

It is not clear what regulatory position, if any, the FCA will take and as highlighted above, there is no judicial certainty in the legal position. The actual cost of customer redress could therefore differ materially from this estimate.

Management expect that customer redress payments will commence during the second half of the financial year and will continue into the first half of the next financial year.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

11 Provisions for liabilities and charges (continued)

Other provisions

Other provisions comprise amounts in respect of insurance policy cancellation and warranty costs following the sale of non-performing debt.

The insurance provision relates to insurance policy cancellation by customers. This balance is classified as current at the period end as all insurance policies expire in a maximum of one year.

The warranty provision relates to warranty costs provided for following the sale of non-performing debt which took place during the year to 28 February 2014. This balance is classified as current at period end as the warranty period of 12 months expired in September 2014.

12 Share capital and share premium account

The Company did not issue any shares during the period to 31 August 2014.

During the period ended 31 August 2013, 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.

	31 August 2014 Number	31 August 2014 £m	28 February 2014 Number	28 February 2014 £m	31 August 2013 Number	31 August 2013 £m
Authorised						
Ordinary shares of 10p each	Unlimited		Unlimited		Unlimited	
Allotted, called up and fully paid						
Ordinary shares of 10p each	1,219,900,000	122.0	1,219,900,000	122.0	1,219,900,000	122.0

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

	Share capital 31 August 2014 £m	Share capital 28 February 2014 £m	Share capital 31 August 2013 £m	Share premium account 31 August 2014 £m	Share premium account 28 February 2014 £m	Share premium account 31 August 2013 £m
At beginning of period	122.0	122.0	108.0	1,097.9	1,097.9	971.9
Shares issued in the period	-	-	14.0	-	-	126.0
At end of period	**122.0**	**122.0**	**122.0**	**1,097.9**	**1,097.9**	**1,097.9**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

13 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 2014		28 February 2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets:				
Loans and advances to customers	7,528.2	7,513.6	6,922.0	6,852.3
Investment securities – loans and receivables	34.1	35.3	34.1	36.1
	7,562.3	**7,548.9**	**6,956.1**	**6,888.4**
Financial liabilities:				
Deposits from customers	6,631.7	6,592.7	6,082.4	6,048.3
Debt securities in issue	894.4	906.7	394.8	405.1
Subordinated liabilities	190.0	200.8	190.0	211.8
	7,716.1	**7,700.2**	**6,667.2**	**6,665.2**

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 2014 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.

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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

13 Fair values (continued)

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

As at 31 August 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets classified as available for sale	952.5	10.0	-	962.5
Derivative financial instruments:				
Interest rate swaps	-	15.6	-	15.6
Forward foreign currency contracts	-	0.2	-	0.2
Cross currency swaps	-	10.7	-	10.7
Index linked swaps	-	5.4	-	5.4
Loans and advances to customers	-	7,513.6	-	7,513.6
Investment securities – loans and receivables	-	35.3	-	35.3
	952.5	**7,590.8**	**-**	**8,543.3**
Derivative financial instruments:				
Interest rate swaps	-	57.3	-	57.3
Forward foreign currency swaps	-	0.1	-	0.1
Deposits from customers	-	6,592.7	-	6,592.7
Debt securities in issue	402.9	503.8	-	906.7
Subordinated liabilities	-	200.8	-	200.8
	402.9	**7,354.7**	**-**	**7,757.6**

As at 28 February 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets classified as available for sale	850.3	-	-	850.3
Derivative financial instruments:				
Interest rate swaps	-	27.9	-	27.9
Forward foreign currency contracts	-	0.3	-	0.3
Cross currency swaps	-	8.4	-	8.4
Loans and advances to customers	-	6,852.3	-	6,852.3
Investment securities – loans and receivables	-	36.1	-	36.1
	850.3	**6,925.0**	**-**	**7,775.3**
Derivative financial instruments:				
Interest rate swaps	-	41.8	-	41.8
Deposits from customers	-	6,048.3	-	6,048.3
Debt securities in issue	405.1	-	-	405.1
Subordinated liabilities	-	211.8	-	211.8
	405.1	**6,301.9**	**-**	**6,707.0**

There are three levels to the hierarchy as follows:

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

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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

13 Fair values (continued)

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 categorised 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).

There were no transfers between Level 1 and Level 2 (28 February 2014: none).

14 Cash and cash equivalents

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

	31 August 2014 £m	31 August 2013 £m
Cash and balances with central banks *	663.2	475.0
Certificates of deposit	10.0	-
	673.2	**475.0**

* Mandatory reserve deposits held within the Bank of England of £10.1m (August 2013: £8.9m) are not included within cash and cash equivalents for the purposes of the cash flow statement as these do not have short term maturities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

15 Capital resources

On 27 June 2013 the final Capital Requirements Directive (CRD) IV rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules, the Prudential Regulation Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules will be phased in over the course of the next 5 years.

Within the following tables capital resources at 31 August 2013 have been amended to reflect profits earned up to that date. This presents capital resources on a consistent basis with the current year presentation. In line with the Capital Requirements Regulation, which was applicable from 1 January 2014, current year capital resources also reflect a deduction for foreseeable dividends.

“Transitional” disclosure sets out the capital resources of the Company (being the regulated entity) based on those rules currently applicable at the period end. “End Point” disclosure sets out capital resources based on the full CRD IV rule set which will come into force.

	Transitional 6 months to 31 August 2014 £m	6 months to 28 February 2014 £m	6 months to 31 August 2013 £m
Movement in common equity tier 1 capital:			
At the beginning of the period	913.6	916.6	705.4
Ordinary shares issued	-	-	140.0
Profit attributable to shareholders	60.3	37.7	77.1
Gains and losses on liabilities arising from own credit	(0.2)	-	-
Other reserves	2.0	-	1.2
Ordinary dividends	-	(100.0)	-
Foreseeable dividends	(59.9)	-	-
Movement in intangible assets net of related deferred tax liabilities	10.5	9.0	(7.1)
Movement in material holdings	-	11.2	-
Material holdings	-	39.1	-
At the end of the period	**926.3**	**913.6**	**916.6**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

15 Capital resources (continued)

	End Point 31 August 2014 £m	Transitional 31 August 2014 £m	28 February 2014 £m	31 August 2013 £m
Common equity tier 1				
Shareholders' equity (accounting capital)	1,439.0	1,439.0	1,375.2	1436.4
Regulatory adjustments				
Subordinated notes not qualifying as tier 1	(45.0)	(45.0)	(45.0)	(45.0)
Gains and losses on liabilities arising from own credit	(0.2)	(0.2)	-	-
Unrealised losses on available for sale debt securities	-	(7.2)	(5.9)	(5.5)
Unrealised losses on cash flow hedge reserve	(1.9)	(1.9)	(1.7)	(1.0)
Foreseeable dividends	(59.9)	(59.9)	-	-
Intangible assets net of related deferred tax liabilities	(385.0)	(385.0)	(395.5)	(404.5)
Material holdings in financial sector entities	-	(13.5)	(13.5)	(63.8)
Common equity tier 1 capital	**947.0**	**926.3**	**913.6**	**916.6**
Tier 2 capital (instruments and provisions)				
Undated subordinated notes	45.0	45.0	45.0	45.0
Dated subordinated notes net of regulatory amortisation	190.0	190.0	190.0	182.3
Collectively assessed impairment provisions	32.4	32.4	32.8	23.9
Tier 2 capital (instruments and provisions) before regulatory adjustments	267.4	267.4	267.8	251.2
Regulatory adjustments				
Material holdings in financial sector entities	(34.1)	(20.6)	(20.6)	(63.8)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	(34.1)	(20.6)	(20.6)	(63.8)
Total tier 2 capital (instruments and provisions)	**233.3**	**246.8**	**247.2**	**187.4**
Total capital	**1,180.3**	**1,173.1**	**1,160.8**	**1104.0**
Total risk weighted assets (unaudited)	**6,875.5**	**6,875.5**	6,546.8	6036.4

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

15 Capital resources (continued)

	End Point 31 August 2014	Transitional 31 August 2014	28 February 2014	31 August 2013
Common equity tier 1 ratio (unaudited)	**13.8%**	**13.5%**	14.0%	15.2%
Tier 1 ratio (unaudited)	**13.8%**	**13.5%**	14.0%	15.2%
Total capital ratio (unaudited)	**17.2%**	**17.1%**	17.7%	18.3%

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

	6 months to 31 August 2014 £m	6 months to 28 February 2014 £m	6 months to 31 August 2013 £m
Tesco Personal Finance plc (Group) shareholders' equity	1,450.3	1,381.4	1,443.1
Share of joint venture's retained earnings	(12.9)	(10.1)	(10.9)
Subsidiaries' retained earnings	-	-	(0.2)
Share of joint venture's available for sale reserve	1.6	3.9	4.4
Tesco Personal Finance plc (Company) shareholders' equity	**1,439.0**	1,375.2	1,436.4

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

15 Capital resources (continued)

Leverage ratio (unaudited)

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

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

Exposures for leverage ratio (unaudited) **2014**	**End Point 31 August 2014 £m**	**Transitional 31 August 2014 £m**	**Transitional 28 February 2014 £m**
Total balance sheet exposures	**10,057.0**	10,057.0	9,243.3
Removal of insurance assets	**(105.1)**	(105.1)	(105.1)
Removal of accounting value of derivatives and Securities Financing Transactions (SFTs)	**(28.8)**	(28.8)	(33.6)
Exposure value for derivatives and SFTs	**58.9**	58.9	62.8
Off balance sheet: unconditionally cancellable (10%)	**1,050.3**	1,050.3	962.6
Off balance sheet: other (100%)	**105.8**	105.8	91.0
Financial sector entities not included within regulatory consolidation	**411.6**	411.6	400.1
Regulatory adjustment – intangible assets	**(417.2)**	(417.2)	(427.7)
Total	**11,132.5**	11,132.5	10,193.4
Common equity tier 1	**947.0**	**926.3**	913.6
Leverage ratio	**8.5%**	8.3%	**9.0%**

The Company's estimated end point leverage ratio is 8.5% (February 2014: 9.2%). The Basel Committee's minimum ratio of 3.0% is proposed to become a Pillar 1 requirement by 1 January 2018. Higher leverage ratio requirements could be set by the European Union or PRA in due course.

Capital Management

The Group operates an integrated risk management process to identify, quantify and manage risk in the Group. The quantification of risk includes the use of both stress and scenario testing. Where capital is considered to be an appropriate mitigant for a given risk this is identified and reflected in the Group's internal capital assessment. The capital resources of the Group are regularly monitored against both this internal assessment and regulatory requirements. Capital adequacy is monitored daily by the Treasury department and is reported monthly to the Asset and Liability Management Committee and the Board.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

16 Contingent liabilities

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

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 February 2014, the FSCS updated its expected shortfall to approximately £1,161.0m (July 2013: £1,089.0m) and 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 falling due in September 2014 and September 2015 respectively.

Each deposit-taking institution contributes in proportion to its share of total protected deposits. As at 31 August 2014 the Group has accrued £6.9m (February 2014: £6.7m) in respect of its current obligation to meet expenses levies, based on indicative costs published by the FSCS.

The ultimate levy to the industry cannot currently be estimated reliably as it is dependent on various uncertain factors including participation in the market at 31 December 2014, the level of protected deposits, the population of deposit-taking participants and potential recoveries of assets by the FSCS.

17 Related party transactions

The Group's related party transactions during the interim period were entered into in the normal course of business. Transactions for this period are not significant to an understanding of the Group's financial position or performance, and are similar in nature to those for the year ended 28 February 2014.

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 condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as endorsed by the European Union.

The condensed consolidated interim 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 condensed consolidated interim set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

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

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
22 October 2014

The Board of Directors

Executive Directors	**Independent non-executive Directors**	**Company Secretary**
Peter Bole	Graham Pimlott – Chairman	Michael Mustard
Iain Clink	Gareth Bullock	
Bernard Higgins	Simon Machell	
	Deanna Oppenheimer	
	Raymond Pierce	

INDEPENDENT REVIEW REPORT TO TESCO PERSONAL FINANCE PLC

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Our conclusion
We have reviewed the condensed consolidated interim financial statements, defined below, in the Interim Report of Tesco Personal Finance plc for the six months ended 31 August 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are 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.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed
The condensed consolidated interim financial statements, which are prepared by Tesco Personal Finance plc, comprise:

- the consolidated statement of financial position as at 31 August 2014;
- the consolidated income statement for the period then ended;
- the consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves
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.

We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

INDEPENDENT REVIEW REPORT TO TESCO PERSONAL FINANCE PLC (continued)

RESPONSIBILITIES FOR THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND THE REVIEW

Our responsibilities and those of the Directors

The Interim Report, including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the Company a conclusion on the condensed consolidated interim financial statements in the Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
22 October 2014
London