TESCO PERSONAL FINANCE PLC

INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 AUGUST 2015

COMPANY NUMBER SC173199

CONTENTS

INTERIM MANAGEMENT REPORT

This Interim Financial Report comprises the Interim Management Report, the Interim Condensed Consolidated Financial Statements and accompanying notes. In the Interim Financial Report, unless specified otherwise, the 'Company' means Tesco Personal Finance plc and the 'Group' means the Company and its subsidiaries and its joint venture included in the Interim Condensed Consolidated Financial Statements. The Group operates using the trading name of Tesco Bank.

Tesco Personal Finance plc is a wholly owned subsidiary of Tesco Personal Finance Group Limited, the share capital of which is wholly owned by Tesco PLC. A reconciliation of the results contained within the Interim Financial Report to the Tesco Bank results presented in the Tesco PLC Interim Results 2015/16 can be found on the Tesco PLC internet page http://www.tescoplc.com/media/876802/rns.pdf.

Cautionary Statement regarding forward-looking information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions users of these Interim Condensed Consolidated Financial Statements that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'principal risks and uncertainties' on pages 8 to 9 of this Interim Management Report.

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. TU is accounted for as a joint venture of the Group.

Headlines

- The Group serves 7.6m accounts, compared to 7.4m at 28 February 2015 and 7.2m at 31 August 2014, an increase of 6.2% in 12 months.
- Profit Before Tax is 25.1% higher at £100.1m (August 2014: £80.0m).
- Underlying Profit Before Tax[1] is 8.7% lower at £106.8m (August 2014: £117.0m).
- Total underlying income has decreased by 0.3% to £392.7m (August 2014: £393.7m) driven by the impact of regulation on interchange rates more than offsetting growth in other areas.
- Credit quality remains good in the first half of the year. Impairment charges have increased 3.5% to £35.4m compared to the same period in 2014 (£34.2m) reflecting asset growth. The bad debt:asset ratio is in line with the six months ended August 2014 at 0.9%.
- An overall increase in customer lending since February 2015 of 7.4% to £8.3bn (February 2015: £7.7bn) has been underpinned by mortgage growth.
- Customer Deposits of £6.6bn (February 2015: £6.9bn) continue to be the main source of the Group's funding.
- The Group successfully completed a Credit Card securitisation of £300m in May 2015 (refer to note 10). This has supported continued growth in customer lending.
- The balance sheet remains strong and well positioned to support future lending growth from both a liquidity and capital stand point. At August 2015, the risk asset ratio was 19.1% (February 2015: 18.8%) and net stable funding ratio was 108.8% (February 2015: 116.6%).

1 Excluding PPI provision charge of £nil (August 2014: £27.0m) and losses on financial instruments, movements on derivatives and hedge accounting of £6.7m (August 2014: £10.0m).

INTERIM MANAGEMENT REPORT (continued)

Strategic Priorities

The ambition of Tesco Bank is to be the 'Bank for people who shop at Tesco'. Our strategy focuses on: Ease of doing business; Value delivered to the customer, and Trust as the foundation to our customer relationship.

The Group continued to broaden its product range in 2015, for the benefit of Tesco customers. The introduction of a 95% LTV Mortgage and smaller loan sizes further widens the options available to customers.

Changes to the services offered have made it easier for customers to Bank and Insure with the Group, including the launch of 'Balance Peek' on the mobile app, which makes it quicker and easier for customers to check their account balances.

The Group became the first UK Bank to show foregone interest on our customers' monthly statements. This allows customers to clearly see if they could have earned more interest by transferring deposits from their Personal Current Account to an Instant Access Savings Account with the Group.

The Group's commitment to offering attractive products and good service for customers has been rewarded with recognition as 'Best Overall Personal Finance Provider' and the 'Best Direct Mortgage Provider' at the 2015 Moneynet Awards and 'Best Overall Direct Provider' at the YourMoney Awards.

During the period, colleagues raised over £47,000 for the Group's charity partners and volunteered over 3,650 hours to their local communities.

Business Review

Banking

During the first six months, the Banking business has delivered 4% growth in customer numbers across the primary Banking products (Credit Cards, Personal Loans, Mortgages, Personal Current Accounts and Savings). This growth has been delivered within an extremely competitive trading environment and total customer accounts now stand at over 5.6m (February 2015: 5.4m).

As anticipated, Credit Card interchange income fell in the period as a result of MasterCard's agreement with the Competition and Markets Authority on interchange rates. The cap on Credit Card interchange rate received by the Group is being implemented progressively, reducing initially to 0.8% in April 2015 with further reductions resulting in a final level of 0.3% in December 2015. As a result, the full adverse impact of the development will take effect from December 2015 onward.

The Group intends to minimise the impact on our customers by ensuring, in particular, that the amount of Clubcard points our customers earn in Tesco stores remains unchanged, and by continuing to offer Clubcard points on spend outside Tesco stores. The Group is, however, reducing the earn rate for spend outside of Tesco, meaning that when customers use their card anywhere other than Tesco, the amount of Clubcard points they earn will reduce to one point for every £8 spent.

The decision to maintain the earn rate in Tesco Stores is supported by a revised commercial agreement between the Group and Tesco Stores Limited. While the Group is disappointed that the industry changes have resulted in the need to reduce the rewards earned by customers, it remains confident that the Tesco Bank Credit Card continues to offer customers excellent value. The future impact of this development is examined further within principal risks and uncertainties on page 9.

Retail sales on Credit Cards have averaged £1.3bn each month, 4% higher than the same period in the previous year, with strong sales growth also seen in Money Services, particularly Travel Money, and Gift Cards (26% and 12%).

INTERIM MANAGEMENT REPORT (continued)

Mortgage balances reached £1.5bn (February 2015: £1.2bn), an increase of 25%, while Credit Card balances increased by 2.8% and Personal Loans by 7.9%. Our Personal Current Account product also continued to grow steadily.

Customer lending is primarily funded by customer deposits of £6,580.8m (February 2015: £6,914.8m). The funding position has been diversified with the issue of £300.0m of securities backed by Credit Card assets.

Insurance

In a very competitive market, the Insurance business was able to broadly maintain the number of in-force policies, with only a slight reduction experienced in Motor due to more selective criteria being enforced. Home Insurance policies have grown 5% year on year. The profitability of both Home and Motor products has benefited from the introduction of enhanced rating criteria.

During the period we expanded our Pet product range with the launch of our new "lifetime" product.

Financial Performance

Statutory information is set out in the Interim Condensed Consolidated Financial Statements. To present a more meaningful view of business performance, the Group's results are also presented in this Interim Management Report on an underlying basis, excluding customer redress provisions and gains/(losses) on financial instruments, movements on derivatives and hedge accounting.

The Group’s financial performance is presented in the Interim Condensed Consolidated Income Statement on page 10

A summary of the Group's financial performance on an underlying basis is presented below.

	6 Months ended 31 August 2015 £m	6 Months ended 31 August 2014 £m	% Change
Net interest income	198.2	192.5	3.0
Underlying non interest income	194.5	201.2	(3.3)
Total underlying income	**392.7**	**393.7**	**(0.3)**
Operating expenses	(252.3)	(245.3)	(2.9)
Impairment on loans and advances to customers	(35.4)	(34.2)	(3.5)
Share of profit of joint venture	1.8	2.8	(35.7)
Underlying profit before tax	**106.8**	**117.0**	**(8.7)**
Customer redress provision[1]	–	(27.0)	–
Losses on financial instruments, movements on derivatives and hedge accounting[1]	(6.7)	(10.0)	33.0
Profit before tax	**100.1**	**80.0**	**25.1**

1 PPI provision charge of £nil (August 2014: £27.0m) and losses on financial instruments, movements on derivatives and hedge accounting of £6.7m (August 2014: £10.0m) are presented within total income on page 10.

INTERIM MANAGEMENT REPORT (continued)

	31 August 2015 £m	28 February 2015 £m	31 August 2014 £m
Net interest margin [1]	4.2%	4.2%	4.4%
Underlying cost:income ratio [2]	64.2%	65.0%	62.3%
Cost:income ratio [3]	65.4%	70.2%	68.8%
Bad debt:asset ratio [4]	0.9%	0.7%	0.9%

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

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

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

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

Profit Before Tax is 25.1% higher at £100.1m (August 2014: £80.0m).

Net interest income has increased by 3.0% to £198.2m (August 2014: £192.5m) due to the growth in customer lending of 7.4% to £8.3bn (February 2015: £7.7bn).

Net interest margin has decreased to 4.2% (August 2014: 4.4%), in line with February 2015 but lower year on year due to the impact of the growing mortgage book.

Underlying non-interest income has decreased by 3.3% to £194.5m (August 2014: £201.2m), impacted by decreased interchange income for part of the period.

Operating expenses have increased by 2.9% to £252.3m (August 2014: £245.3m), primarily due to the timing of recognition of Financial Services Compensation Scheme (FSCS) levy costs, together with a full 6 months (August 2014: 3 months) of Personal Current Account costs. Expenses were otherwise flat year on year.

Impairment charges on loans and advances have increased by 3.5% to £35.4m (August 2014: £34.2m). Credit quality remains good with the increase in impairment charges reflecting book growth. The bad debt:asset ratio has increased from the year-end (February 2015: 0.7%), but is in line with prior year at 0.9% (August 2014: 0.9%).

INTERIM MANAGEMENT REPORT (continued)

The Group's Interim Condensed Consolidated Statement of Financial Position is presented on page 12. Selected extracts are presented below.

	31 August 2015 £m	28 February 2015 £m	31 August 2014 £m
Loans and advances to customers	8,297.3	7,725.3	7,528.2
Total assets	10,574.6	10,059.7	10,064.3
Deposits from banks	445.6	106.5	368.3
Deposit from customers	6,580.8	6,914.8	6,631.7
Net assets	1,509.1	1,470.6	1,450.3

Loans and advances to customers have increased 7.4% since year end, to £8,297.3m at 31 August 2015. Mortgage balances reached £1.5bn at 31 August 2015 (February 2015: £1.2bn) and the Group has seen growth in both Credit Cards and Personal Loans balances.

Deposits from customers have decreased to £6,580.8m (February 2015: £6,914.8m) in the period as the Group raised further wholesale funding and sought to optimise its liquidity position.

Deposits from banks have risen to £445.6m (February 2015: £106.5m) due to an increase in repurchase transactions in the period, which have been used to maintain the cash component within the Group's liquid asset portfolio.

The Group's financial position remains strong and able to support future lending growth from both a liquidity and capital standpoint. The Directors consider the following to be Key Performance Indicators for capital and liquidity reporting:

Capital and Liquidity Ratios

	31 August 2015	28 February 2015	31 August 2014
Tier 1 capital ratio [1]	15.6%	15.2%	13.5%
Risk asset ratio [2]	19.1%	18.8%	17.1%
Net stable funding ratio [3]	108.8%	116.6%	115.7%
Loan to deposit ratio [4]	126.1%	111.7%	113.5%

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 and is calculated in line with the Capital Requirements Regulation (CRR).

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 stable funding (including own funds and customer liabilities) by loans and advances to customers and other illiquid assets.

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

INTERIM MANAGEMENT REPORT (continued)

The Group's risk asset ratio remains above internal targets and regulatory requirements at 19.1% (February 2015: 18.8%) and leaves the Group well placed to support future growth.

The net stable funding ratio, a measure of the Group's liquidity position remains strong at 108.8% at 31 August 2015 (February 2015: 116.6%). The Group maintains a liquid asset portfolio of high quality securities of £1.3bn (February 2015: £1.5bn).

Appointment of the Group's new auditor

As part of the process of Tesco PLC appointing Deloitte LLP as auditor, on 30 June 2015, the Directors approved the appointment of Deloitte LLP as the Group's new auditor. The incumbent auditor, PricewaterhouseCoopers LLP (PwC), submitted a 'Statement of no circumstances' letter to the Board which was noted. The relevant filings have been made by both PwC and the Company to the Registrar of Companies and the Financial Reporting Council.

Principal risks and uncertainties

The Board of Directors has overall responsibility for determining the Group's strategy and related risk appetite. The Group's Risk Statement, approved by the Board, defines the level of risk that the Group is prepared to accept to achieve its strategic objectives. The Board is also responsible for overall corporate governance which includes overseeing a robust and effective system of risk management and ensuring 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 2015 (pages 8 to 10), other than as referenced under Conduct Risk and Business Risk below.

- **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** is the risk of potential error, loss, harm or failure caused by inadequate or failed internal processes, people, systems or from external events.

- **Liquidity, Capital and Funding Risk:** Liquidity Risk is the risk that the Group has insufficient liquidity resources to meet its obligations as they fall due or can do so only at excessive cost. Capital Risk is the risk that the Group holds regulatory capital which is of insufficient quality and quantity to enable it to absorb losses. Funding Risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.

- **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 and credit spreads.

- **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** 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. Note 17 provides further information regarding the specific risk arising from the Supreme Court decision in Plevin v Paragon Personal Finance Limited.

INTERIM MANAGEMENT REPORT (continued)

- **Business Risks:**

Interchange Fees

A final regulation has been published by the European Commission which imposes caps on interchange fees for debit and credit cards of 0.2% and 0.3% of the transaction value respectively. The caps will enter into force on 9 December 2015.

In advance of full implementation, from 1 April 2015 MasterCard reduced its interchange rates for UK-issued ‘premium’ consumer credit cards used at UK merchants to the level of its ‘standard’ cards (0.8%). Further reductions will be made resulting in a final level of 0.3% from December 2015. MasterCard credit cards make up the considerable majority of the Group’s credit card portfolio.

The Group has taken steps to mitigate the impact of these changes by altering the Credit Card reward programme and amending the commercial arrangement with Tesco Stores Limited. The ultimate impact on the Group is difficult to predict however, as it depends in large part on the effectiveness of its commercial response and the actions of its customers and competitors.

Political outlook

UK economic performance continues to show signs of gradual improvement, evidenced by continued GDP growth and low unemployment rates. However, the impact of future Bank of England base rate increases is as yet unknown.

Doubts over the outcome and implications of any potential UK referendum on EU membership contributes to uncertainty over the recovery of the UK and Eurozone economies. The broader international economic forecast is also unclear, with the economic slow-down in China in particular a potential cause of reduced international market confidence.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2015

	Note	6 Months ended 31 August 2015 £m	6 Months ended 31 August 2014 £m
Interest and similar income	3	281.8	268.0
Interest expense and similar charges	3	(83.6)	(75.5)
Net interest income		**198.2**	**192.5**
Fees and commissions income	4	209.3	216.2
Fees and commissions expense	4	(15.4)	(15.1)
Provision for customer redress	11	–	(27.0)
Net fees and commissions income		**193.9**	**174.1**
Losses on financial instruments, movements on derivatives and hedge accounting		(6.7)	(10.0)
Realised gain on investment securities		0.6	0.1
Other income		**(6.1)**	**(9.9)**
Total income		**386.0**	**356.7**
Administrative expenses		(209.4)	(207.5)
Depreciation and amortisation		(42.9)	(37.8)
Operating expenses		**(252.3)**	**(245.3)**
Impairment on loans and advances to customers	5	(35.4)	(34.2)
Operating profit		**98.3**	**77.2**
Share of profit of joint venture		1.8	2.8
Profit before tax		**100.1**	**80.0**
Income tax expense	6	(19.9)	(16.3)
Profit for the period attributable to owners of the parent		**80.2**	**63.7**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2015

	6 months ended 31 August 2015 £m	6 months ended 31 August 2014 £m
Profit for the period	80.2	63.7
Items that may be reclassified subsequently to the income statement		
Unrealised net gains on available-for-sale investment securities before tax	2.9	1.6
Net (losses)/gains arising on cash flow hedges before tax	(2.7)	0.1
Tax relating to items that may be reclassified subsequently to the income statement	(0.1)	(0.4)
Share of other comprehensive (expense)/income of joint venture	(3.1)	2.3
Total items that may be reclassified subsequently to the income statement	**(3.0)**	**3.6**
Total comprehensive income for the period attributable to owners of the parent	**77.2**	**67.3**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 AUGUST 2015

	Note	31 August 2015 £m	28 February 2015 £m	31 August 2014 £m
Assets				
Cash and balances with central banks		563.4	626.3	673.3
Loans and advances to customers	9	8,297.3	7,725.3	7,528.2
Derivative financial instruments		24.6	31.7	31.9
Investment securities:				
- Available-for-sale		738.1	827.3	962.5
- Loans and receivables		34.1	34.1	34.1
Prepayments and accrued income		71.9	41.0	88.2
Current income tax asset		–	4.5	–
Other assets		308.0	200.8	155.0
Investment in joint venture		78.5	79.7	82.4
Intangible assets		379.7	402.6	417.2
Property, plant and equipment		79.0	86.4	91.5
Total assets		**10,574.6**	**10,059.7**	**10,064.3**
Liabilities				
Deposits from banks		445.6	106.5	368.3
Deposits from customers		6,580.8	6,914.8	6,631.7
Debt securities in issue	10	1,199.4	898.0	894.4
Derivative financial instruments		79.3	86.9	57.3
Provisions for liabilities and charges	11	79.0	90.1	113.3
Accruals and deferred income		110.9	120.0	165.4
Current income tax liability		23.0	–	16.3
Other liabilities		276.1	143.0	158.4
Deferred income tax liability		36.4	39.8	18.9
Subordinated liabilities and notes	12	235.0	190.0	190.0
Total liabilities		**9,065.5**	**8,589.1**	**8,614.0**
Equity and reserves attributable to owners of parent				
Share capital	13	122.0	122.0	122.0
Share premium account	13	1,097.9	1,097.9	1,097.9
Retained earnings		263.3	183.1	168.2
Other reserves		25.9	22.6	17.2
Subordinated notes	12	–	45.0	45.0
Total equity		**1,509.1**	**1,470.6**	**1,450.3**
Total liabilities and equity		**10,574.6**	**10,059.7**	**10,064.3**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2015

	Note	Share capital £m	Share premium £m	Retained earnings £m	Subordinated notes £m	Other reserves £m	Total equity £m
Balance at 1 March 2015		**122.0**	**1,097.9**	**183.1**	**45.0**	**22.6**	**1,470.6**
Comprehensive income/(expense)							
Profit for the period		–	–	80.2	–	–	80.2
Net gains on available-for-sale investment securities		–	–	–	–	2.2	2.2
Net losses on cash flow hedges		–	–	–	–	(2.1)	(2.1)
Share of other comprehensive income of joint venture		–	–	–	–	(3.1)	(3.1)
Total comprehensive income		**–**	**–**	**80.2**	**–**	**(3.0)**	**77.2**
Transactions with owners							
Dividends to ordinary shareholders	7	–	–	–	–	–	–
Reclassification of subordinated notes to liabilities	12	–	–	–	(45.0)	–	(45.0)
Share based payments		–	–	–	–	6.3	6.3
Total transactions with owners		**–**	**–**	**–**	**(45.0)**	**6.3**	**(38.7)**
Balance at 31 August 2015		**122.0**	**1,097.9**	**263.3**	**–**	**25.9**	**1,509.1**
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 ordinary shareholders		–	–	–	–	–	–
Dividend 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**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2015

	Note	6 months ended 31 August 2015 £m	6 months ended 31 August 2014 £m
Operating Activities			
Profit before tax		**100.1**	**80.0**
Adjusted for:			
Non cash items included in operating profit before taxation		80.2	121.4
Changes in operating assets and liabilities		(628.5)	(517.0)
Income taxes recovered		4.1	–
Cash flows used in operating activities		**(444.1)**	**(315.6)**
Investing Activities			
Purchase of Intangible assets and Property, plant and equipment		(15.0)	(41.5)
Purchase of available-for-sale investment securities		(79.7)	(143.8)
Sale of available-for-sale investment securities		178.6	48.6
Deposit with parent		–	145.0
Cash flows generated from investing activities		**83.9**	**8.3**
Financing Activities			
Net proceeds received in association with issuance of debt securities	10	298.6	498.0
Dividends paid to holders of other equity	7	–	(0.5)
Interest paid on subordinated liabilities and notes		(2.2)	(1.6)
Cash flows generated from financing activities		**296.4**	**495.9**
Net (decrease)/increase in cash and cash equivalents		**(63.8)**	**188.6**
Cash and cash equivalents at beginning of period		**613.3**	**484.6**
Cash and cash equivalents at end of period	15	**549.5**	**673.2**

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Interim Condensed Consolidated Financial Statements for the six months ended 31 August 2015 were approved by the Directors on 5 October 2015.

1. Basis of preparation

These Interim Condensed Consolidated 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 2015, except as described below. The Interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Group for the year ended 28 February 2015, 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 Interim Condensed Consolidated 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 2015.

These Interim Condensed 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 2015 were approved by the Board of Directors on 30 April 2015 and have been filed with the Registrar of Companies. The report of the auditors (PwC) 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 that it is appropriate to adopt the going concern basis of accounting in preparing these Interim Condensed Consolidated Financial Statements.

Adoption of new and amended International Financial Reporting Standards

During the period to 31 August 2015, 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 2015:

- Amendment to IAS 19 'Employee benefits: Employee contributions'

This amendment is effective for annual periods beginning on or after 1 July 2014, however is endorsed for application by the EU from 1 February 2015. It provides additional guidance on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan. There has been no impact on the Group of the adoption of this amendment.

- Annual Improvements

The Annual Improvements process covers minor amendments to IFRS that the IASB consider non-urgent but necessary. The Annual Improvements 2010-2012 and 2011-2013 process resulted in several minor changes to standards which are effective for annual periods beginning on or after 1 July 2014, however these are endorsed for application by the EU from 1 February 2015. There has been no impact on the Group of the adoption of these amendments.

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

2. Segmental reporting

Following the measurement 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.

The Group has two main operating segments:

- Banking - incorporating Credit Cards, Personal 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. Although the Group serves customers in the Republic of Ireland, this is incorporated within the UK geographic sector for the purpose of internal reporting. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

There are no transactions between the operating segments. There are no significant seasonal fluctuations that affect the Group's results.

Segmental assets and liabilities comprise operating assets and liabilities, being the majority of the Interim Condensed Consolidated Statement of Financial Position, but exclude unallocated reconciling items such as taxation.

Segmental results of operations, and a reconciliation of segmental results of operations to the total results of operations are presented below.

	Banking £m	Insurance £m	Central Costs £m	Total Management Reporting £m	Unallocated reconciling items £m	Total £m
6 months ended 31 August 2015						
Total income	304.7	81.3	–	386.0	–	386.0
Profit/(loss) before tax [1, 2]	180.3	50.9	(131.1)	100.1	–	100.1
6 months ended 31 August 2014						
Total income	269.8	86.9	–	356.7	–	356.7
Profit/(loss) before tax [1, 2]	147.7	52.0	(119.7)	80.0	–	80.0

1 The Banking segment includes a PPI charge of £nil (August 2014: £27.0m) and losses on financial instruments, movements on derivatives and hedge accounting of £6.7m (August 2014: Loss of £10.0m).

2 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.

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

2. Segmental reporting (continued)

	Banking £m	Insurance £m	Central Costs £m	Total Management Reporting £m	Unallocated reconciling items £m	Total £m
31 August 2015						
Total assets [1]	10,282.5	292.1	–	10,574.6	–	10,574.6
Total liabilities	8,980.5	25.6	–	9,006.1	59.4	9,065.5
28 February 2015						
Total assets [1]	9,766.9	288.3	–	10,055.2	4.5	10,059.7
Total liabilities	8,521.9	27.4	–	8,549.3	39.8	8,589.1
31 August 2014						
Total assets [1]	9,751.2	313.1	–	10,064.3	–	10,064.3
Total liabilities	8,545.1	33.7	–	8,578.8	35.2	8,614.0

1 The investment of £78.5m (February 2015: £79.7m, August 2014: £82.4m) in TU is shown within total assets of the insurance segment.

3. Net interest income

	6 months ended 31 August 2015 £m	6 months ended 31 August 2014 £m
Interest and similar income		
Loans and advances to customers	270.9	257.2
Loans and advances to banks	1.3	1.6
Interest on investment securities	9.6	9.2
	281.8	**268.0**
Interest expense and similar charges		
Deposits from customers	(49.8)	(50.6)
Deposits from banks and Debt securities in issue	(20.6)	(13.1)
Interest rate swap expenses	(11.0)	(10.1)
Subordinated liabilities and notes	(2.2)	(1.7)
	(83.6)	**(75.5)**

Interest payable on the subordinated notes (refer to note 7) is based on three month LIBOR plus a spread ranging from 120 to 220 basis points (August 2014: Three month LIBOR plus a spread ranging from 120 to 220 basis points).

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

4. Net fees and commissions income

	6 months ended 31 August 2015 £m	6 months ended 31 August 2014 £m
Fees and commissions income		
Banking Income	136.1	140.5
Insurance Income	64.7	69.2
Other income	8.5	6.5
	209.3	**216.2**
Fees and commissions expense		
Banking expense	**(15.4)**	**(15.1)**

5. Impairment on loans and advances to customers

	6 months ended 31 August 2015 £m	6 months ended 31 August 2014 £m
Increase in impairment allowance, net of recoveries (refer to note 9)	33.7	32.0
Amounts written off during the year as uncollectible	1.7	2.2
	35.4	**34.2**

6. Income tax expense

The tax charge in the Interim Condensed Consolidated Income Statement is based on management's best estimate of the full year effective tax rate based on expected full year profits to 29 February 2016.

The 2015 Summer budget announced a number of changes which affect the Group including:

- Cuts in the rate of corporation tax from 20.0% to 19.0% from 1 April 2017 and to 18.0% from 1 April 2020.
- A corporation tax surcharge of 8.0% on UK banking entities from 1 January 2016.
- Making compensation in relation to breaches of regulation non-deductible for corporation tax.

These changes have not yet been substantively enacted, and are therefore not reflected in the half year results. The net effect of the changes is expected to increase the Bank's effective tax rate.

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

7. Distributions to equity holders

	6 months ended 31 August 2015 £m	6 months ended 31 August 2014 £m
Interest payable on subordinated notes	–	0.6

There were no dividends paid in the period to 31 August 2015 (August 2014: £nil).

Interest payments on subordinated notes have been classified as interest payable in the period (refer to note 12).

Interest payable on the subordinated notes is based on three month LIBOR plus a spread ranging from 120 to 220 basis points (August 2014: Three month LIBOR plus a spread ranging from 120 to 220 basis points).

8. Capital expenditure and commitments

In the 6 months ended 31 August 2015 there were additions to property, plant and equipment and intangible assets of £12.9m (August 2014 £29.9m). Commitments for capital expenditure contracted for but not provided at 31 August 2015 were £0.3m (February 2015: £0.3m) on property, plant and equipment and £0.5m (February 2015: £0.4m) on intangible assets.

At 31 August 2015, the Group had undrawn Personal Current Account overdraft commitments of £1.9m (February 2015: £1.3m), Credit Card commitments totalling £11,894.0m (February 2015: £11,420.7m), Mortgage commitments of £124.6m (February 2015: £67.9m) and other commitments of £5.5m (February 2015: £5.6m).

The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

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

9. Loans and advances to customers

	31 August 2015 £m	28 February 2015 £m	31 August 2014 £m
Secured mortgage lending	1,490.1	1,198.3	1,027.1
Unsecured lending	6,944.5	6,651.9	6,657.5
Fair value hedge adjustment	12.2	14.6	3.8
Gross loans and advances to customers	**8,446.8**	**7,864.8**	**7,688.4**
Less: allowance for impairment	(149.5)	(139.5)	(160.2)
Net loans and advances to customers	**8,297.3**	**7,725.3**	**7,528.2**

At the period end, £2,830.4m (February 2015: £3,011.3m) of the Credit Card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. At the period end, the Group owns £1,000.0m of Credit Card backed bonds issued by Delamare Cards MTN Issuer plc (February 2015: £1,500.0m). Delamare Cards MTN Issuer plc has a further £800.0m (February 2015; £500.0m) of Credit Card backed bonds in issuance which are owned by external parties.

At the period end, £800.0m of the Credit Card bonds owned by the Group (February 2015: £1,290.0m), and £281.9m of unsecured Personal Loans (February 2015: £nil) have been pledged with the Bank of England to collateralise £639.0m (February 2015: £789.0m) of Funding for Lending Scheme (FLS) drawings.

Fair value hedge adjustments amounting to £12.2m (February 2015: £14.6m) are in respect of fixed rate loans and mortgages. 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

9. Loans and advances to customers (continued)

The following table shows impairment provisions for loans and advances to customers:

	6 months to 31 August 2015 £m	6 months to 28 February 2015 £m	6 months to 31 August 2014 £m
At beginning of period	139.5	160.2	156.9
Amounts written off	(22.3)	(35.9)	(27.3)
Increase in allowance, net of recoveries, charged to the income statement in the period (refer to note 5)	33.7	16.4	32.0
Foreign currency translation	–	–	(0.1)
Unwind of discount	(1.4)	(1.2)	(1.3)
At end of period	**149.5**	**139.5**	**160.2**

10. Debt securities in issue

On 13 May 2015, the Group issued the following bonds on the Irish Stock Exchange:

	Interest rate	Par value	Term	Maturity date	31 August 2015 £m
Floating rate AAA bond (A1)[1]	1m GBP LIBOR + 0.65%	£300.0m	5 years	2020	£298.6m

1 The scheduled redemption date of this Bond is 2018.

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

11. Provision for liabilities and charges

	Customer Redress Provision £m	Insurance Provisions £m	Total £m
6 months to 31 August 2015			
At beginning of period	85.8	4.3	90.1
Charged to income statement	–	0.1	0.1
Utilised during the period	(11.2)	–	(11.2)
At end of period	**74.6**	**4.4**	**79.0**

Customer redress provision – Payment Protection Insurance

Of the total provision balance at 31 August 2015, £31.4m (February 2015: £38.0m) relates to a provision for customer redress in respect of potential customer complaints arising from historic sales of Payment Protection Insurance (PPI).

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.

The Group's programme of proactive customer contact to those customers sold PPI during a specific time period is now complete. Of the responding customers the vast majority have now received a complaint decision and redress where applicable.

Although 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, the provision balance represents management’s best estimate at the reporting date of that cost.

This balance provides redress capacity at current run rates (average of last 3 months) for a total of 28 months.

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

11. Provision for liabilities and charges (continued)

The table below details, for each key assumption, actual data to 31 August 2015, 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 assumption £m**
Customer initiated complaints settled	57,500	12,549	+/- 1,000 complaints	+/- 1.7
Average redress per valid claim (loans)	£1,870	£1,664	+/- £100	+/- 1.3

Customer redress provision – Credit Card Protection

The Group holds a provision of £16.0m (February 2015: £16.8m) in respect of customer redress relating to the historic sale of certain cardholder protection products to credit card customers.

The level of provision held is based on management's assumptions at the reporting date, relating to the number and value of cases for which compensation may be paid under two industry-wide schemes of arrangement. Both have been in operation during the period. The level of the provision allows for the repayment of charges paid by the customer, together with an additional interest of 8.0% per annum.

The table below details for each key assumption, actual data to 31 August 2015, forecast assumptions used in assessing the 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 assumption £m**
Future customer responses	40,700	56,200	+/- 1,000 complaints	+/- 0.2
Average redress per valid claim	£158	£244	+/- £10	+/- 0.6

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

11. Provision for liabilities and charges (continued)

Customer redress provision – Consumer Credit Act

The Group holds a provision of £27.2m (February 2015: £31.0m) in respect of customer redress relating to instances where certain requirements of the Consumer Credit Act (CCA) for post contract documentation were not fully complied with.

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 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, 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 FCA have been advised of the Group's approach to determining the proposed customer redress.

Insurance Provision

The insurance provision relates to insurance policy cancellation by customers.

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

12. Subordinated liabilities and notes

	31 August 2015 £m	28 February 2015 £m	31 August 2014 £m
Floating rate subordinated loans maturing 2030	190.0	190.0	190.0
Undated floating rate notes	45.0	–	–
Total	**235.0**	**190.0**	**190.0**

Subordinated liabilities and notes comprise loan capital issued to Tesco Personal Finance Group Limited. This includes £190.0m (February 2015: £190.0m) of subordinated loans maturing in 2030 and £45.0m (February 2015: £nil) of undated notes with no fixed maturity date. In previous periods the dated loans were classified as a liability and the undated notes were classified as equity in the Statement of Financial Position.

On 9 January 2014, the Group re-documented both the dated and undated loan notes to ensure full compliance with Capital Requirement Directive (CRD) IV regulations. A review in the period to 31 August 2015 of the revised loan agreements concluded that the undated notes are more appropriately classified as a liability under the requirements of IAS 32 rather than equity. As a result the total balance of £45.0m has been reclassified from equity to liabilities in the period. Interest payments on the loan notes have also been classified as interest payable in the period (refer to note 7).

Prior year balances have not been restated in accordance with IAS 8 as the impact on the Statement of Financial Position and Income Statement is not material. Both the dated and undated amounts are included in the Group's qualifying subordinated debt for regulatory capital reporting at 31 August 2015 (refer to note 16) which is consistent with the treatment at February 2015 year end.

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

13. Share capital and share premium

The Company did not issue any shares during the period to 31 August 2015 (August 2014: nil).

	31 August 2015 Number	31 August 2015 £m	28 February 2015 Number	28 February 2015 £m	31 August 2014 Number	31 August 2014 £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			Share Premium		
	31 August 2015 £m	28 February 2015 £m	31 August 2014 £m	31 August 2015 £m	28 February 2015 £m	31 August 2014 £m
At beginning of period	122.0	122.0	122.0	1,097.9	1,097.9	1,097.9
Shares issued in the period	–	–	–	–	–	–
At end of period	**122.0**	**122.0**	**122.0**	**1,097.9**	**1,097.9**	**1,097.9**

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

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 Interim Condensed Consolidated Statement of Financial Position are approximately equal to their fair values.

	31 August 2015		28 February 2015	
	Carrying value	**Fair Value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets:				
Loans and advances to customers	8,297.3	8,342.0	7,725.3	7,777.1
Investment securities - loans and receivables	34.1	38.6	34.1	35.0
	8,331.4	**8,380.6**	**7,759.4**	**7,812.1**
Financial liabilities:				
Deposits from customers	6,580.8	6,567.0	6,914.8	6,873.4
Debt securities in issue	1,199.4	1,184.4	898.0	903.8
Subordinated liabilities	235.0	194.7	190.0	157.1
	8,015.2	**7,946.1**	**8,002.8**	**7,934.3**

The only financial assets and financial liabilities which are carried at fair value on the Interim Condensed Consolidated Statement of Financial Position are available-for-sale investment securities and derivative financial assets and financial liabilities. The valuation techniques and inputs used to derive fair values at the period end are described below, and remain unchanged since year end.

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 fair value of derivative financial assets and financial liabilities is calculated by discounting future cash flows using benchmark observable market interest rates based on Overnight Index Swaps (OIS). In the case of each of the financial assets and financial liabilities detailed in the table above fair value is calculated by discounting future cash flows using benchmark observable market interest rates based on LIBOR.

The table below categorises all financial instruments held at fair value and the fair value of financial instruments held at amortised cost according to the method used to establish the fair value disclosed. The fair values of all financial instruments are measured on a recurring basis.

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

14. Fair values (continued)

As at 31 August 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets carried at fair value				
Financial assets classified as available-for-sale	738.1	–	–	738.1
Derivative financial instruments:				
Interest rate swaps	–	18.0	–	18.0
Forward foreign currency contracts	–	6.6	–	6.6
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	8,342.0	8,342.0
Investment securities – loans and receivables	–	38.6	–	38.6
Total	**738.1**	**63.2**	**8,342.0**	**9,143.3**
Financial liabilities carried at fair value				
Derivative financial instruments:				
Interest rate swaps	–	77.8	–	77.8
Cross currency swaps	–	0.7	–	0.7
Forward foreign currency contracts	–	0.8	–	0.8
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	6,567.0	6,567.0
Debt securities in issue	1,184.4	–	–	1,184.4
Subordinated liabilities	–	194.7	–	194.7
Total	**1,184.4**	**274.0**	**6,567.0**	**8,025.4**
As at 28 February 2015				
Financial assets carried at fair value				
Financial assets classified as available-for-sale	827.3	–	–	827.3
Derivative financial instruments:				
Interest rate swaps	–	20.2	–	20.2
Forward foreign currency contracts	–	1.8	–	1.8
Cross currency swaps	–	9.7	–	9.7
Financial assets carried at amortised cost				
Loans and advances to customers	–	–	7,777.1	7,777.1
Investment securities – loans and receivables	–	35.0	–	35.0
Total	**827.3**	**66.7**	**7,777.1**	**8,671.1**
Financial liabilities carried at fair value				
Derivative financial instruments:				
Interest rate swaps	–	86.4	–	86.4
Cross currency swaps	–	0.5	–	0.5
Financial liabilities carried at amortised cost				
Deposits from customers	–	–	6,873.4	6,873.4
Debt securities in issue	903.8	–	–	903.8
Subordinated liabilities	–	157.1	–	157.1
Total	**903.8**	**244.0**	**6,873.4**	**8,021.2**

14. Fair values (continued)

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 (for example, as prices) or indirectly (for example, 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 categorised as Level 2 are those where no active market exists or where there are quoted prices available for similar instruments in active markets.

Fair values of investment securities classified as loans and receivables are based on quoted prices, where available, or by using discounted cash flows applying market rates.

The estimated fair value of subordinated liabilities is calculated using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

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

Loans and advances to customers are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The estimated fair value of deposits from customers represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

There were no transfers between Level 1 and Level 2 during the period (August 2014: no transfers).

There were no transfers between Level 2 and Level 3 during the period (August 2014: no transfers).

During the second half of the year to 28 February 2015, loans and advances to customers and deposits from customers were transferred from Level 2 to Level 3 following review by management of the fair value methodology applied to these balances, which are designated at amortised cost in the Statement of Financial Position. Transfers are deemed to have occurred on the date of the event or change in circumstances that caused the transfer. The fair value of these balances now includes adjustments for the Group's expectation of future credit losses.

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

15. Cash and cash equivalents

For the purposes of the Interim Condensed Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following balances with short term maturities from the date of acquisition:

	31 August 2015 £m	28 February 2015 £m	31 August 2014 £m
Cash and balances with central banks [1]	549.5	613.3	663.2
Certificates of deposit	–	–	10.0
	549.5	**613.3**	**673.2**

1 Mandatory reserve deposits held within the Bank of England of £13.9m (February 2015: £13.0m, August 2014: £10.1m) are not included within cash and cash equivalents for the purposes of the Interim Condensed Consolidated Cash Flow Statement as these do not have short term maturities.

16. Capital resources

On 27 June 2013 the final CRD IV rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules, the Prudential Regulatory Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding time frames for implementation. The CRD IV rules are currently being phased in. The following tables analyse the regulatory capital resources of the Company (being the regulated entity) applicable as at the period end and also the "end point" position, once all of the rules contained within CRD IV have come into force:

	Transitional 6 months to 31 August 2015 £m	Transitional 6 months to 28 February 2015 £m	Transitional 6 months to 31 August 2014 £m
Movement in common equity tier 1 capital:			
At the beginning of the period	1,041.1	926.3	913.6
Profit attributable to shareholders	78.4	71.0	60.3
Gains and losses on liabilities arising from own credit	–	0.1	(0.2)
Other reserves	8.5	11.5	2.0
Ordinary dividends/Foreseeable dividends	(25.7)	8.7	(59.9)
Movement in intangible assets	22.9	14.6	10.5
Movement in material holdings	–	3.3	–
Deferred tax liabilities related to intangible assets	–	5.6	–
At the end of the period	**1,125.2**	**1,041.1**	**926.3**

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

16. Capital resources (continued)

	End Point 31 August 2015 £m	Transitional 31 August 2015 £m	Transitional 28 February 2015 £m	Transitional 31 August 2014 £m
Common equity tier 1				
Shareholders' equity (accounting capital)	1,501.7	1,501.7	1,462.0	1,439.0
Regulatory adjustments				
Subordinated notes not qualifying as tier 1	–	–	(45.0)	(45.0)
Gains and losses on liabilities arising from own credit	(0.1)	(0.1)	(0.1)	(0.2)
Unrealised losses on available for sale debt securities	–	–	–	(7.2)
Unrealised losses on cash flow hedge reserve	1.4	1.4	(0.7)	(1.9)
Foreseeable dividends	(25.7)	(25.7)	–	(59.9)
Intangible assets net of related deferred tax liabilities	(341.9)	(341.9)	(364.9)	(385.0)
Material holdings in financial sector entities	–	(10.2)	(10.2)	(13.5)
Common equity tier 1 capital	**1,135.4**	**1,125.2**	**1,041.1**	**926.3**
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	190.0
Collectively assessed impairment provisions	37.3	37.3	36.1	32.4
Tier 2 capital (instruments and provisions) before regulatory adjustments	**272.3**	**272.3**	**271.1**	**267.4**
Regulatory adjustments				
Material holdings in financial sector entities	(34.1)	(23.9)	(23.9)	(20.6)
Total regulatory adjustments to tier 2 capital (instruments and provisions)	**(34.1)**	**(23.9)**	**(23.9)**	**(20.6)**
Total tier 2 capital (instruments and provisions)	**238.2**	**248.4**	**247.2**	**246.8**
Total Capital	**1,373.6**	**1,373.6**	**1,288.3**	**1,173.1**
Total risk weighted assets (unaudited)	7,193.2	7,193.2	6,844.2	6,875.5

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

16. Capital resources (continued)

	End Point 31 August 2015	**Transitional 31 August 2015**	Transitional 28 February 2015	Transitional 31 August 2014
Common equity tier 1 ratio (unaudited)	15.8%	15.6%	15.2%	13.5%
Tier 1 ratio (unaudited)	15.8%	15.6%	15.2%	13.5%
Total capital ratio (unaudited)	19.1%	19.1%	18.8%	17.1%

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

	6 months to 31 August 2015 £m	6 months to 28 February 2015 £m	6 months to 31 August 2014 £m
Tesco Personal Finance plc (Group) shareholders' equity	1,509.1	1,470.6	1,450.3
Share of joint venture's retained earnings	(9.7)	(8.0)	(12.9)
Subsidiaries' retained earnings	–	–	–
Share of joint venture's available for sale reserve	2.3	(0.6)	1.6
Tesco Personal Finance plc (Company) shareholders' equity	**1,501.7**	**1,462.0**	**1,439.0**

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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

16. 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 January 2015 the European Commission revised the CRD IV leverage rules to closely align to the Basel III Leverage Framework.

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

Exposures for leverage ratio (unaudited) **2015**	**End Point 31 August 2015 £m**	**Transitional 31 August 2015 £m**	**Transitional 28 February 2015 £m**
Total balance sheet exposures	10,547.2	10,547.2	10,039.3
Removal of accounting value of derivatives and Securities Financing Transactions (SFTs)	(24.1)	(24.1)	(29.1)
Exposure value for derivatives and SFTs	57.2	57.2	60.1
Off balance sheet: unconditionally cancellable (10%)	1,190.1	1,190.1	1,142.0
Off balance sheet: other (20%)	24.9	24.9	13.6
Regulatory adjustment – intangible assets	(379.7)	(379.7)	(402.6)
Material holdings in financial sector entities	–	(10.2)	(10.2)
Total	**11,415.6**	**11,405.4**	**10,813.1**
Common equity tier 1	**1,135.4**	**1,125.2**	**1,041.1**
Leverage ratio	**9.9%**	**9.9%**	**9.6%**

The Company's estimated end point leverage ratio is 9.9% (February 2015: 9.6%). The Basel Committee's minimum ratio of 3.0% is proposed to become a Pillar 1 requirement by 1 January 2018.

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 and performance against the Capital plan is monitored daily by Treasury, with monthly reporting provided to the Board, Asset and Liability Management Committee and the Capital Management Forum. The Group carried regulatory capital resources in excess of its capital requirements throughout the period.

17. Contingent liabilities

Plevin v Paragon Personal Finance Limited

Developments in respect of the UK Supreme Court's decision in the case of Plevin v Paragon (November 2014) are being followed closely by the Group. The case related to the sale of a single premium PPI policy which was held to be an 'unfair relationship' under s.140A of the Consumer Credit Act 1974 due to high, undisclosed commission. On 2 October 2015, the FCA announced that, as part of a consultation on the introduction of a deadline by which consumers would need to make PPI complaints, it would consult on proposed rules and guidance concerning the handling of PPI complaints in light of the Supreme Court's decision in the case, and announced that such complaints would also be subject to the proposed deadline. The FCA intends to publish its consultation paper on the deadline for PPI complaints and on rules and guidance in light of the Plevin decision before the end of 2015. Given the current uncertainty, it is not possible to estimate reliably any potential impact and thus no provision arising from this case has been made. The impact may be material.

Financial Services Compensation Scheme (FSCS) Levy

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 or likely to be unable to pay claims against it. 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. Any shortfall is being recovered by raising compensation levies on all deposit-taking participants over a three year period, which commenced in August 2013. Each deposit-taking institution contributes in proportion to its share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March.

As at 31 August 2015 the Group has accrued £2.4m (February 2015: £2.3m) 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, the level of protected deposits, the population of deposit-taking participants and potential recoveries of assets by the FSCS.

18. 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 2015.

19. Ultimate parent undertaking

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

20. Events after the reporting period

There have been no significant events between 31 August 2015 and the date of approval of this Interim Financial Report which would require a change to or additional disclosure in this Interim Financial Report.

RESPONSIBILITY STATEMENT

The Directors listed below confirm that to the best of their knowledge these Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 as endorsed by the European Union.

The Interim Condensed Consolidated Financial Statements and Interim 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 Condensed Consolidated 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
5 October 2015

Directors:	Graham Pimlott - Independent Non-Executive Chairman Peter Bole - Chief Financial Officer Feike Brouwers - Chief Risk Officer Gareth Bullock - Independent Non-Executive Director Iain Clink - Deputy Chief Executive Robert Endersby - Independent Non-Executive Director Bernard Higgins - Chief Executive Simon Machell - Independent Non-Executive Director James McConville - Independent Non-Executive Director Deanna Oppenheimer - Non-Executive Director Raymond Pierce - Senior Independent Non-Executive Director
Company Secretary:	Michael Mustard

INDEPENDENT REVIEW REPORT TO TESCO PERSONAL FINANCE PLC

We have been engaged by Tesco Personal Finance plc ("the Company") to review the Interim Condensed Consolidated Financial Statements in the Interim Financial Report for the six months ended 31 August 2015 which comprises the Interim Condensed Consolidated Income Statement, the Interim Condensed Consolidated Statement of Comprehensive Income, the Interim Condensed Consolidated Statement of Financial Position, the Interim Condensed Consolidated Statement of Changes in Equity, the Interim Condensed Consolidated Statement of Cash Flows and related notes 1 to 20. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Condensed Consolidated Financial Statement.

This report is made solely to the Company 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. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim 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 Company are prepared in accordance with IFRS as adopted by the European Union. The Interim Condensed Consolidated Financial Statements included in this Interim Financial Report have 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 Interim Condensed Consolidated Financial Statements in the Interim Financial Report based on our review.

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 inquiries, 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 Interim Condensed Consolidated Financial Statements in the Interim Financial Report for the six months ended 31 August 2015 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.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh, United Kingdom
5 October 2015