TESCO PERSONAL FINANCE PLC

INTERIM REPORT
FOR THE SIX MONTHS ENDED 31 AUGUST 2012

COMPANY NUMBER SC173199

CONTENTS

BUSINESS AND FINANCIAL REVIEW

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

Tesco Personal Finance Plc is a wholly owned subsidiary of Tesco Personal Finance Group Limited, the share capital of which is wholly owned by Tesco Plc. The Group and Company operate 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 2012/13 can be found on the Tesco Plc internet page http://www.tescoplc.com/media/464364/rns.pdf.

Principal Activities

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

Headlines:

- Statutory profit before tax is £105.3m (August 2011: £45.6m).
- Underlying profit before tax[1] is 2.2% higher at £105.3m (August 2011: £103.0m).
- Total income has increased by 14.6% to £374.6m (August 2011: £326.9m).
- Operating expenses have increased by 6.6% to £233.9m (August 2011: £219.4m), reflecting the establishment of the Group's operating systems and platforms.
- Impairment charge for the period has fallen by 35.3% to £42.8m (August 2011: £66.1m) reflecting the lower level of default in the period due to the Group's ability to attract quality assets.
- An incremental £30m provision has been recognised for potential customer redress relating to PPI.
- Profit includes a non recurring credit of £30m following settlement of a dispute with a former business partner.

Business Overview and Business Development

A number of major milestones have been achieved by the Group over the last 6 months:

- All of the Company's core Banking and Insurance products are operating via its own platforms.
- The launch of Tesco Bank mortgages.
- Satisfactory termination of the historic insurance arrangement with Direct Line Group.

In May, the Group's credit cards business migrated from RBS' banking systems and operations to the Group's platforms and operational teams. 2.8m accounts were migrated with no material issues. The Group's core Banking and Insurance products are now all operating on its own platforms.

The start of August saw the Group take a significant step towards the creation of a full-service retail bank with the launch of Tesco Bank mortgages. Customers are being offered a suite of products

[1] Underlying profit before tax is stated after adjusting for movements in the Payment Protection Insurance (PPI) provision in both 2011/12 and 2012/13 and a one-off compensation payment in 2012/13. A full reconciliation to statutory profit before tax is provided on page 3.

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including 2, 3 and 5 year fixed rate products and 2 year tracker products. The product and customer ethos is totally aligned to the Tesco values statement of better, simpler, cheaper.

The Group has now re-launched its marketing campaign aligned to attractive pricing across its product range. In the second half of the year, the Group will launch a new cash ISA product, extending its range of savings products that includes the fixed rate saver (that has now attracted customer deposits of over £2bn), Instant Access and Internet Saver Accounts. Total customer deposits are sitting at over £5.4bn, up £309.5m since August 2011.

The Group has reached agreement with Direct Line Group in relation to the termination of the legacy insurance distribution agreement. The final profit commission payment is expected in the second half of financial year 2012/13 and is consistent with commission recognised by the Group to date. As a result of this agreement, the Group will have no remaining interest in the legacy business and £258.5m of capital provided to Direct Line Group in respect of this arrangement will be repaid to the Group in due course.

In the six months to 31 August 2012, the Group has experienced an increase in the volume of complaints related to historic PPI sales which are in the main driven by the activities of third party Claims Management Companies. This increase in volume has been experienced across the industry and has resulted in a number of institutions making adjustments to the value of provisions held. In addition, the Group has undertaken a second pilot exercise which has provided additional data upon which to base provision assumptions. As a result of both of these factors, the Group decided to further increase the value of the existing provision by £30m towards the end of the first half of the year.

Profit before tax also includes a non recurring credit for £30m following settlement of a dispute with a former business partner.

As a bank with plans to increase lending to the UK retail sector, the Group is considering drawing on the Bank of England's Funding for Lending Scheme (FLS) as part of its overall funding plan. Whilst the Group's lending will continue to be primarily funded by its customer deposits, funding from the FLS would provide the Group with additional, cost-effective funding to support planned new lending to customers via credit cards, personal loans and our newly launched mortgage business.

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	**2012** **£’000**	**2011** **£’000**
Net interest income	115,849	134,095
Non interest income	258,725	192,813
Operating expenses	(233,871)	(219,396)
Impairment	(42,785)	(66,115)
Share of profit of associate	7,354	4,205
Statutory profit before tax	**105,272**	**45,602**
Add back charge for increase in PPI provision	30,000	57,400
Deduct non recurring credit	(30,000)	-
Underlying profit before tax	**105,272**	**103,002**

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6 Months ended 31 August	2012	2011
Net interest margin [1]	3.5%	4.2%
Cost: income ratio [2]	62.4%	57.1%
Bad debt asset ratio [3]	1.8%	2.6%

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

Interest income has decreased by 3.9% to £204.9m (August 2011: £213.3m). Average loan balances are slightly down as a result of market competition combined with the impact of a reduction in marketing activity in the run up to migration.

Interest payable has increased by 12.4% to £89.0m (August 2011: £79.2m) reflecting the development of the Group's Balance Sheet. Deposits from customers are up 6.0% to £5,435.9m (August 2011: £5,126.3m) driven by sales from the Fixed Rate Saver product.

Net interest margin is down to 3.5% (August 2011: 4.2%). Whilst we have seen some increased competition impacting product margins, the primary impact on margin has been the decision to hold higher levels of liquid assets in advance of the launch of our range of mortgages.

Net fees and commission income has increased by 29.3% to £248.5m (August 2011: £192.2m) primarily due to the impact of the PPI provision of £57.4m in the prior year. The current year includes both the £30m increase in the PPI provision and the £30m one-off settlement.

Total **operating expenses** have increased by 6.6% to £233.9m (August 2011: £219.4m). This is due to the increase in operational costs, including depreciation, as the Group's capability and infrastructure is built up to allow management of Bank customers on its own systems and platforms.

The **cost: income ratio** of 62.4% (August 2011: 57.1%) is driven by the step change in the cost base resulting from the establishment of the Group's operations.

Impairment charges on loans and advances have fallen by 39.9% to £38.5m (August 2011: £64.0m). Default levels have continued to fall for both cards and loans and this has led to a bad debt provision release of £10.0m. The bad debt to asset ratio has improved from 2.6% to 1.8% reflecting ongoing improvements in default trends. Also included within the impairment charge for the period is an amount in relation to the insurance business of £4.3m (August 2011: £2.1m). Total impairment charge for the period is therefore £42.8m (August 2011: £66.1m).

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

	August 2012 £'000	February 2012 £'000	August 2011 £'000
Loans and advances to customers	**4,535,556**	4,423,582	4,585,701
Total assets	**7,933,394**	7,605,143	7,353,386
Deposits from customers	**5,435,867**	5,389,787	5,126,323

Loans and advances to customers are up 2.5% since year end from £4,423.6m at February 2012 to £4,535.6m at August 2012 and only £50.1m down on the August 2011 position of £4,585.7m. This is as a result of the decision to reduce product advertising spend over period of migration from RBS to the Group's new banking platform in the latter part of 2011/12 running into early 2012/13. Loans and advances to customers have increased in the latter half of the period driven by cuts in headline rates with new business volumes significantly ahead of prior year.

Deposits from customers have increased to £5,435.9m (February 2012: £5,389.8m), largely due to the continuing success of the Fixed Rate Saver products.

Capital and Liquidity Ratios

	August 2012	February 2012	August 2011
Tier 1 capital ratio [1]	16.8%	15.3%	16.2%
Risk asset ratio [2]	16.9%	16.0%	13.9%
Net stable funding ratio [3]	124.1%	120.7%	109.3%

[1] The tier 1 capital ratio is calculated by dividing total tier 1 capital at the end of the period by total risk weighted assets.
[2] The risk asset ratio is calculated by dividing total regulatory capital by total risk weighted assets.
[3] The net stable funding ratio is used to assess the Bank's liquidity position. This measure seeks to show the proportion of customer assets which are funded by stable sources of funding such as customer deposits, long term wholesale funds and equity.

The Group's capital position has strengthened during the period resulting in an improved risk asset ratio of 16.9% (February 2012: 16.0%) and an increase in the Core Tier 1 Ratio to 16.8% (February 2012: 15.3%).

The net stable funding ratio, a key measure of the Group's liquidity position, has increased from 120.7% at February 2012 to 124.1%. This is due to higher savings balances, as mentioned above, combined with a successful retail bond issue.

The Group received capital injections totalling £45.0m from Tesco Personal Finance Group Limited during the course of the period. This funding has been used for the continuing planned expenditure on systems and infrastructure.

The Group maintains a liquid asset portfolio of high quality securities which offers a high degree of liquidity.

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Risks and Uncertainties

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

The key risks and uncertainties faced by the Group are set out below. Further detail on these risks and uncertainties can be found in the Tesco Personal Finance Plc Directors' Report and Financial Statements for the year ended 29 February 2012 (pages 7 to 10). The key risks and uncertainties at the period end are consistent with those at 29 February 2012, with the exception that the Group has successfully migrated its credit card customers to its own platform. This completes the 'Transformation Programme', enabling the Group to conduct banking and insurance business independently of RBS, and therefore Transformation is no longer included in the list of principal risks.

Credit Risk - External Environment
The Group is exposed to general UK economic conditions and market trends, including impacts such as a sudden movement in interest rates, in the areas in which it operates. Risks, which mainly impact credit portfolios, include government spending cuts, fragile consumer confidence and a squeeze on real incomes due to inflation exceeding wage growth. The Group's entry into the secured lending market with the launch of mortgages will result in greater exposure to the impact of house price changes. The continuing Euro zone debt crisis may result in contagion to the wider global economy which could result in further economic shocks.

Legal and Regulatory Compliance Risk
Legal and Regulatory Compliance Risk is the risk of consequences arising as a result of non-compliance with the laws and regulations affecting the Group's governance, prudential arrangements, business activities, risk management and its conduct with customers. The Group is subject to significant regulatory oversight, including supervision by the Financial Services Authority (FSA) which has substantial powers of intervention.

The regulatory landscape is changing with current FSA responsibilities migrating to the new Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). Although the PRA and FCA will not formally exist until early 2013, operationally the FSA has already moved to a 'twin peaks' structure to reflect the way the two organisations will operate. Effectively, the Group is now dual regulated and is supervised by two independent regulators for prudential and conduct risk.

Regulatory focus remains high in relation to 'Conduct Risk' and 'Treating Customers Fairly'. Specifically there has been continued industry-wide focus on provision of redress in relation to past sales of PPI.

Insurance Risk
The Group is exposed to insurance risks through its 49.9% ownership of Tesco Underwriting Limited, an authorised insurance company.

Liquidity and Funding
Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. Funding risk is defined as the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

The Group relies upon significant amounts of on demand retail funding.

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

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A significant amount of services and processes are provided by third party service providers and currently a key operational risk to the business is third party outsourcing risk.

Market Risk

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

The Tesco Underwriting Limited investment portfolio is vulnerable to any rise in interest rates or widening of credit spreads.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2012

	Note	6 months ended 31 August 2012 £'000	6 months ended 31 August 2011 £'000
Interest and similar income	3	204,865	213,277
Interest expense and similar charges	3	(89,016)	(79,182)
Net interest income		**115,849**	**134,095**
Fees and commissions income	4	259,940	260,411
Fees and commissions expense	4	(11,401)	(10,856)
Provision for customer redress	10	(30,000)	(57,400)
Other income	11	30,000	-
Net fees and commissions income		**248,539**	**192,155**
Gains on financial assets		2,629	266
Realised gain on investment securities		7,557	392
		10,186	**658**
Total income		**374,574**	**326,908**
Administrative expenses		(204,341)	(198,519)
Depreciation and amortisation		(29,530)	(20,877)
Operating expenses		**(233,871)**	**(219,396)**
Impairment		(42,785)	(66,115)
Share of profit of associate		7,354	4,205
Profit before tax		**105,272**	**45,602**
Taxation	5	(23,056)	(10,780)
Profit for the period attributable to owners of the parent		**82,216**	**34,822**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 31 AUGUST 2012

	6 months ended 31 August 2012 £'000	6 months ended 31 August 2011 £'000
Profit for the period	**82,216**	**34,822**
Net (losses)/gains on available for sale investment securities		
Unrealised net (losses)/gains during the period, before tax	(5,797)	4,078
Cash flow hedges		
Net gains arising on hedges recognised in other comprehensive income, before tax	-	132
Tax relating to components of other comprehensive income	1,662	(1,029)
Share of other comprehensive income of associate	6,173	-
Total comprehensive income for the period attributable to owners of the parent	**84,254**	**38,003**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 AUGUST 2012

	Note	31 August 2012 £'000	29 February 2012 £'000	31 August 2011 £'000
Assets				
Cash and balances with central banks		1,000,103	455,809	398,264
Loans and advances to banks		150,447	93,132	-
Loans and advances to customers	8	4,535,556	4,423,582	4,585,701
Derivative financial instruments		36,369	19,522	12,397
Investment securities:				
- Available for sale		834,889	1,302,731	1,138,083
- Loans and receivables		300,083	292,931	292,931
Prepayments and accrued income		47,217	43,360	89,246
Other assets		455,719	454,815	378,382
Investment in associate		100,291	72,459	68,191
Deferred income tax asset		-	-	-
Intangible assets		374,151	336,995	290,426
Property, plant and equipment		98,569	109,807	99,765
Total assets		**7,933,394**	**7,605,143**	**7,353,386**
Liabilities				
Deposits from banks		5,100	77,706	120,789
Deposits from customers		5,435,867	5,389,787	5,126,323
Debt securities in issue	9	409,053	197,849	359,546
Derivative financial instruments		68,890	71,186	65,577
Provisions for liabilities and charges	10	82,745	78,341	92,318
Accruals and deferred income		137,712	132,370	174,468
Current tax liability		12,460	2,969	10,176
Other liabilities		104,951	106,139	73,819
Deferred tax liability		26,670	28,770	6,326
Subordinated liabilities		330,000	330,000	190,000
Total liabilities		**6,613,448**	**6,415,117**	**6,219,342**
Equity				
Shareholders' funds:				
- Share capital	12	107,990	103,490	97,340
- Share premium account	12	971,910	931,410	876,060
- Retained earnings		171,967	90,244	110,212
- Other reserves		23,079	19,882	5,432
Subordinated notes		45,000	45,000	45,000
Total equity		**1,319,946**	**1,190,026**	**1,134,044**
Total liabilities and equity		**7,933,394**	**7,605,143**	**7,353,386**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2012

	Share capital £'000	Share premium £'000	Retained earnings £'000	Subordinated notes £'000	Other reserves £'000	Total equity £'000
Balance at 1 March 2012	103,490	931,410	90,244	45,000	19,882	1,190,026
Comprehensive income						
Profit for the period	-	-	82,216	-	-	82,216
Net gains on available for sale investment securities	-	-	-	-	(4,135)	(4,135)
Net gains on cash flow hedges	-	-	-	-	-	-
Share of other comprehensive income of associate	-	-	-	-	6,173	6,173
Total comprehensive income	**-**	**-**	**82,216**	**-**	**2,038**	**84,254**
Transactions with owners						
Shares issued in the period	4,500	40,500	-	-	-	45,000
Dividends to ordinary shareholders	-	-	-	-	-	-
Dividends to holders of other equity	-	-	(493)	-	-	(493)
Share based payments	-	-	-	-	1,159	1,159
Total transactions with owners	**4,500**	**40,500**	**(493)**	**-**	**1,159**	**45,666**
Balance at 31 August 2012	**107,990**	**971,910**	**171,967**	**45,000**	**23,079**	**1,319,946**
Balance at 1 March 2011	**92,340**	**831,060**	**79,341**	**45,000**	**2,251**	**1,049,992**
Comprehensive income						
Profit for the period	-	-	34,822	-	-	34,822
Net losses on available for sale investment securities	-	-	-	-	3,086	3,086
Net gains on cash flow hedges	-	-	-	-	95	95
Total comprehensive income	**-**	**-**	**34,822**	**-**	**3,181**	**38,003**
Transactions with owners						
Shares issued in the period	5,000	45,000	-	-	-	50,000
Dividends to ordinary shareholders	-	-	(3,500)	-	-	(3,500)
Dividends to holders of other equity	-	-	(451)	-	-	(451)
Total transactions with owners	**5,000**	**45,000**	**(3,951)**	**-**	**-**	**46,049**
Balance at 31 August 2011	**97,340**	**876,060**	**110,212**	**45,000**	**5,432**	**1,134,044**

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2012

	Note	6 months ended 31 August 2012 £'000	6 months ended 31 August 2011 £'000
Operating activities			
Profit before taxation		105,272	45,602
Adjusted for:			
Non-cash items included in profit before taxation		86,332	142,043
Changes in operating assets and liabilities		(180,017)	(18,910)
Income taxes paid		(14,002)	(3,117)
Cash flows (used in)/generated from operating activities		**(2,415)**	**165,618**
Investing activities			
Purchase of non-current assets		(79,613)	(94,248)
Purchase of available for sale investment securities		(30,922)	(337,735)
Sale of available for sale investment securities		461,885	29,171
Loan to associate		(7,152)	-
Investment in associate		(14,305)	-
Cash flows generated from/(used in) investing activities		**329,893**	**(402,812)**
Financing activities			
Proceeds from issue of debt securities		198,401	-
Proceeds from issue of share capital	12	45,000	50,000
Dividends paid to ordinary shareholders	6	-	(3,500)
Dividends paid to holders of other equity		(507)	(444)
Interest paid on subordinated liabilities		(4,026)	(1,672)
Cash flows generated from financing activities		**238,868**	**44,384**
Net increase/(decrease) in cash and cash equivalents		566,346	(192,810)
Cash and cash equivalents at the beginning of the period		578,876	706,342
Cash and cash equivalents at the end of the period	13	**1,145,222**	**513,532**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The interim consolidated financial statements for the six months ended 31 August 2012 were approved by the Directors on 4 October 2012.

NOTE 1 Basis of preparation

These interim consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as endorsed by the European Union. The accounting policies applied are consistent with those described in the consolidated financial statements of the Group for the year ended 29 February 2012. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the Group for the year ended 29 February 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the IFRS Interpretations Committee interpretations as endorsed by the European Union.

In preparing these interim consolidated financial statements, the estimates, judgements and assumptions involved in the Group's accounting policies were the same as those that applied to the consolidated financial statements for the year ended 29 February 2012.

These interim consolidated financial statements have been reviewed, not audited, and do not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The consolidated financial statements for the year ended 29 February 2012 were approved by the Board of Directors on 27 April 2012 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 continued to strengthen its capital position during the period and the majority of the Group's balance sheet continues to be funded by retail deposits. The Directors have made a formal assessment of going concern, taking into account both current performance and the Group's outlook, including consideration of projections for the Group's capital and funding position. As a result of this assessment the Directors consider the Group to be in a satisfactory financial position and confirm that the Group has adequate resources to continue in business in the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing these interim consolidated financial statements.

Adoption of new International Financial Reporting Standards

During the period to 31 August 2012, the Group has not adopted any new or amended accounting standards which have had a material impact on these interim consolidated financial statements.

NOTE 2 Segmental reporting

Following the requirements 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:
- Retail Banking - incorporating loans, mortgages, credit cards, savings accounts, ATMs and transactional services; and
- Insurance - incorporating motor, home, pet, travel and other insurance products.

There are no transactions between the operating segments.

NOTE 2 Segmental reporting (continued)

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

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

a) Segment results of operations

	Retail banking £'000	Insurance £'000	Central costs £'000	Total £'000
Six months ended 31 August 2012				
Total income	263,078	111,496	-	374,574
Profit/(loss) before tax	119,461	71,900	(86,089)	105,272
Total assets	7,188,939	744,455	-	7,933,394
Six months ended 31 August 2011				
Total income	204,226	122,682	-	326,908
Profit/(loss) before tax	48,688	84,196	(87,282)	45,602
Total assets	6,676,849	676,537	-	7,353,386

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

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

There are no reconciling differences between segment results of operations and results of operations.

NOTE 3 Net interest income

	6 months ended 31 August 2012 £'000	6 months ended 31 August 2011 £'000
Interest and similar income		
Loans and advances to customers	189,100	197,465
Loans and advances to banks	2,123	2,871
Fair value hedge ineffectiveness	1,683	1,976
Interest on investment securities	11,959	10,965
	204,865	**213,277**

NOTE 3 Net interest income (continued)

	6 months ended 31 August 2012 £'000	6 months ended 31 August 2011 £'000
Interest expense and similar charges		
Deposits from customers	(64,779)	(47,021)
Deposits from banks	(4,635)	(21,730)
Interest rate swap expenses	(15,455)	(8,733)
Subordinated liabilities	(4,147)	(1,698)
	(89,016)	**(79,182)**

NOTE 4 Net fees and commissions income

	6 months ended 31 August 2012 £'000	6 months ended 31 August 2011 £'000
Fees and commissions income		
Banking fees and commission	142,842	132,406
Insurance income	112,071	123,985
Other income	5,027	4,020
	259,940	**260,411**
Fees and commissions expense		
Banking expenses	(11,401)	(9,949)
Other expenses	-	(907)
	(11,401)	**(10,856)**

NOTE 5 Taxation

A number of changes to the UK Corporation tax system were announced in both the March 2011 and March 2012 UK Budget Statements. A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24% from 1 April 2012. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Bill 2012 and was substantially enacted at the balance sheet date.

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 2013. The full year effective tax rate includes the impact to the Consolidated Income Statement of calculating UK deferred tax balances at the reduced UK tax rate of 23%.

Further reductions to the main rate are proposed to reduce the rate to 22% by 1 April 2014. This further change has not been substantively enacted at the balance sheet date and, therefore, is not included in this interim consolidated financial information.

NOTE 6 Distributions to equity holders

	6 months ended 31 August 2012 £'000	6 months ended 31 August 2011 £'000
Ordinary dividend paid	-	3,500
Interest paid on subordinated notes included within equity	493	451
	493	**3,951**

There were no dividends paid in the period to 31 August 2012 (August 2011: £3,500,000).

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

NOTE 7 Capital expenditure and commitments

In the 6 months ended 31 August 2012 there were additions to property, plant and equipment and intangible assets of £55,464,000 (August 2011: £84,420,000). There were no disposals of property, plant and equipment and intangible assets (August 2011: £nil). Commitments for capital expenditure contracted for but not provided at 31 August 2012 were £3,801,000 (February 2012: £1,939,000).

At 31 August 2012, the Group has undrawn credit card commitments totalling £7,730,774,000 (February 2012: £7,422,554,000) and mortgage offers made but not drawn down were £2,596,000 (February 2012: £nil). The amount is intended to provide an indication of the volume of business transacted and not for the underlying credit or other risks.

NOTE 8 Loans and advances to customers

	31 August 2012 £'000	29 February 2012 £'000	31 August 2011 £'000
Unsecured lending	4,690,570	4,583,113	4,751,764
Fair value hedge adjustment	29,549	25,100	29,288
Gross loans and advances to customers	4,720,119	**4,608,213**	**4,781,052**
Less: allowance for impairment	(184,563)	(184,631)	(195,351)
Net loans and advances to customers	**4,535,556**	**4,423,582**	**4,585,701**
Current	2,506,974	2,513,782	2,592,123
Non-current	2,028,582	1,909,800	1,993,578

As at the period end none of the credit card portfolio was securitised.

As at 29 February 2012, £1,224,655,000 of the credit card portfolio had legal interest assigned to a special purpose entity for use as collateral in securitisation transactions. As a result of the early repayment in May 2011 there were no securitisation notes in issue as at 29 February 2012.

NOTE 8 Loans and advances to customers (continued)

Fair value hedge adjustments included within loans and advances to customers amounting to £29,549,000 (February 2012: £25,100,000) are in respect of fixed rate loans. These adjustments reflect movements in interest rates from the date the loans were issued to the balance sheet date. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

The following table shows impairment provisions for loans and advances:

	31 August 2012 £'000	29 February 2012 £'000	31 August 2011 £'000
At beginning of period	184,631	195,351	181,821
Amounts written off	(48,147)	(64,539)	(55,648)
Recoveries of amounts written off	10,716	385	7,426
Charge to the income statement – six months to 31 August	38,466	-	63,977
Charge to the income statement – six months to 29 February	-	55,051	-
Unwind of discount	(1,103)	(1,617)	(2,225)
At end of period	**184,563**	**184,631**	**195,351**

NOTE 9 Debt securities in issue

On 21 May 2012 the Company issued a nominal £200,000,000 8.5 year fixed rate retail bond which is listed on the London Stock Exchange. Interest is payable at a fixed rate of 5%.

There were no issuances or repayments of debt securities during the six months to 31 August 2011.

NOTE 10 Provisions for liabilities and charges

	PPI Provision £'000	Insurance Provision £'000	Total £'000
31 August 2012			
At beginning of period	74,546	3,795	78,341
Charged to the income statement	30,000	796	30,796
Utilised during the period	(26,392)	-	(26,392)
At end of period	**78,154**	**4,591**	**82,745**

NOTE 10 Provisions for liabilities and charges (continued)

	PPI Provision £'000	Insurance Provision £'000	Total £'000
6 months to 29 February 2012			
At beginning of period	92,318	-	92,318
Charged to the income statement	-	3,795	3,795
Utilised during the period	(17,772)	-	(17,772)
At end of period	**74,546**	**3,795**	**78,341**

	PPI Provision £'000	Insurance Provision £'000	Total £'000
6 months to 31 August 2011			
At beginning of period	39,477	-	39,477
Charged to the income statement	57,400	-	57,400
Utilised during the period	(4,559)	-	(4,559)
At end of period	**92,318**	**-**	**92,318**

PPI PROVISION

Of the total provision balance at 31 August 2012, £78,154,000 (February 2012: £74,546,000) relates to a provision for customer redress in respect of potential customer complaints arising from historic sales of Payment Protection Insurance (PPI). The majority of the provision is likely to be utilised over the next two years, although the exact timing of utilisation is uncertain. Hence the balance is classified as current at the balance sheet date.

The provision value held requires significant judgement by management in determining appropriate assumptions, which include the level of complaints, uphold rates, proactive contact and response rates, and the operating costs associated with managing this programme of work.

In the six months to 31 August 2012, the Group has experienced a sharp increase in the volume of complaints received which are in the main driven by the activities of third party Claims Management Companies. This increase in volume has been experienced across the industry and has resulted in a number of institutions making adjustments to the value of provisions held. In addition, the Group has undertaken a second pilot exercise which has provided additional data upon which to base provision assumptions.

Both of these factors have resulted in the Group revising the value of the provision held upwards by £30m in the six months to 31 August 2012.

INSURANCE PROVISION

The insurance provision of £4,591,000 at 31 August 2012 (February 2012: £3,795,000) relates to a provision for insurance policy cancellation by customers. This balance is classified as current at the period end as all insurance policies expire in a maximum of one year.

NOTE 11 Other income

Other income consists of a non recurring credit of £30,000,000 following settlement of a dispute with a former business partner.

NOTE 12 Share capital and share premium

During the period the Company issued 45,000,000 (August 2011: 50,000,000) £0.10 ordinary shares to the parent company, Tesco Personal Finance Group Limited, for total consideration of £45,000,000 (August 2011: £50,000,000).

	31 August 2012 Number	29 February 2012 Number	31 August 2011 Number
Authorised			
Ordinary shares of 10p each	**Unlimited**	**Unlimited**	**Unlimited**

	31 August 2012 £'000	29 February 2012 £'000	31 August 2011 £'000
Allotted, called up and fully paid			
1,079,900,000 (February 2012: 1,034,900,000) Ordinary shares of 10p each	**107,990**	**103,490**	**97,340**

	31 August 2012 £'000	29 February 2012 £'000	31 August 2011 £'000
Share Premium Account	**971,910**	**931,410**	**876,060**

NOTE 13 Cash and cash equivalents

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

	31 August 2012 £'000	31 August 2011 £'000
Certificates of deposit	-	120,016
Loans and advances to banks	150,447	-
Cash and balances with central banks *	994,775	393,516
	1,145,222	**513,532**

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

NOTE 14 Contingent liabilities

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS has borrowed from HM Treasury to fund these compensation costs associated with institutions that failed in 2008 and will receive receipts from asset sales, surplus cash flow and other recoveries from these institutions in the future. The initial borrowings from HM Treasury are on an interest only basis and, as from 1 April 2012, this has increased from 12 month LIBOR plus 30 basis points to 12 month LIBOR plus 100 basis points. The FSCS meets its obligations by raising management expense levies which will be capped based on limits advised by the FSA. These include amounts to cover the interest on its borrowings and compensation levies on the industry.

NOTE 14 Contingent liabilities (continued)

Each deposit-taking institution contributes in proportion to its share of total protected deposits. As at 31 August 2012 the Group has accrued £3,037,000 (February 2012: £5,449,000) in respect of its current obligation to meet expenses levies, based on indicative costs published by the FSCS.

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

NOTE 15 Related party transactions

During the interim period there were no related party transactions that were materially different to those reported in the Financial Statements for the year ended 29 February 2012.

NOTE 16 Ultimate parent undertaking

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

The Board
Directors
Graham Pimlott* – Chairman
Peter Bole
Gareth Bullock*
Stuart Chambers*
Iain Clink
Paul Hewitt*
Bernard Higgins
Adrian Hill*
Ricky Hunkin
Deanna Oppenheimer*
Raymond Pierce*
John Reed*
***** Indicates independent Non-Executive Director

Company Secretary
Jonathan Lloyd

INDEPENDENT REVIEW REPORT TO TESCO PERSONAL FINANCE PLC

Introduction

We have been engaged by the Company to review the interim consolidated financial statements in the half-yearly financial report for the six months ended 31 August 2012, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the set of consolidated financial statements.

Directors' responsibilities

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

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

Our responsibility

Our responsibility is to express to the Company a conclusion on the interim consolidated set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated set of financial statements in the half-yearly financial report for the six months ended 31 August 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
4 October 2012
Edinburgh