TESCO PERSONAL FINANCE PLC

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 AUGUST 2011

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 condensed consolidated financial statements.

Tesco Personal Finance Plc is a wholly owned subsidiary of Tesco Personal Finance Group Limited, the share capital of which is wholly owned by Tesco Plc. A reconciliation of the results contained within this interim report to the Tesco Bank results presented in the Tesco Plc Interim Results 2011/12 can be found on the Tesco Plc internet page http://www.tescoplc.com/media/197680/h1_1112_bank_rec.pdf

Principal Activities

The Group is engaged in the provision of banking and general insurance services. The Group operates using the trading name of Tesco Bank. The Group is primarily focused on providing financial services and products to UK personal customers although there is a small international presence in the Republic of Ireland and Poland. The Company owns 49.9% of Tesco Underwriting Limited, an authorised insurance company. The remaining 50.1% of Tesco Underwriting Limited is owned by Ageas Insurance Limited.

Headlines:

- Total income has increased by 6.7% to £326.9m (August 2010: £306.4m).
- An incremental £57.4m provision has been recognised for potential customer redress relating to Payment Protection Insurance (PPI).
- Adjusting for the additional PPI provision expense, income has grown 25.4% compared to the same period in 2010.
- Underlying Profit before tax (adjusting for the PPI provision) is up 23.9 % to £103.0m (August 2010: £83.1m).
- Statutory profit before tax is £45.6m (August 2010: £83.1m).
- Operating expenses have increased by 49.5% to £219.4m (August 2010: £146.8m), reflecting the Group's new insurance operating model and the development of standalone operational capability.
- Impairment charge for the period has fallen by 11.1% to £66.1m (August 2010: £74.4m).

The Group's financial performance is presented in the Consolidated Income Statement on page 7. A summary is presented below.

6 Months ended 31 August	2011 £'000	2010 £'000
Net interest income	134,095	137,897
Non interest income	192,813	168,512
Operating expenses	(219,396)	(146,759)
Impairment	(66,115)	(74,360)
Share of profit/(loss) of associate	4,205	(2,147)
Statutory profit before tax	**45,602**	**83,143**
Add back charge for increase in PPI provision	57,400	-
Underlying profit before tax	**103,002**	**83,143**

BUSINESS AND FINANCIAL REVIEW

6 Months ended 31 August	2011	2010
Net interest margin	4.2%	4.9%
Cost: income ratio	57.1%	47.9%
Bad debt asset ratio	2.6%	3.2%

1 Net interest margin is calculated by dividing net interest income by average interest bearing assets
2 The cost: income ratio is calculated by dividing operating expenses by total income and excludes the additional PPI provision expense at 31 August 2011
3 The bad debt asset ratio is calculated by dividing the impairment loss by the average customer balance

Business Overview

The Group saw good business growth during the first half. Income increased by 6.7% and by 25.4% before the additional PPI provision. The Group profit before tax, adjusting for the PPI provision movement, grew by 23.9% to £103.0m.

Customer account numbers grew across the product portfolio during the half; savings by 1%, active credit card users by 4% and motor insurance by 3%. Balances have increased by 3% on credit cards and 2% on savings. Year-on-year, ATM transactions also rose strongly, by 8%. Tesco credit card retail spend is up by 14.2%, ahead of the market.

Further progress has been made towards the creation of a full-service retail bank providing a comprehensive range of simple, good value financial products for Tesco customers. The migration of existing products onto the Group's new systems and call centre platforms is close to completion and the Group is preparing for the next stage of development, which will be driven by the roll-out of important new products, including mortgages and current accounts, beginning early next year.

Most of the Group's established major financial products and services - including motor and household insurance, personal savings accounts and loans have been migrated successfully onto new systems platforms over recent months. That said, the Group has taken the decision to slow down the introduction of new products until the new team, processes and systems have settled in. This follows some technical issues that were encountered during the summer, which resulted in some customers being unable to access online accounts for a short period.

This decision to delay the timing of the completion of migration and the launch of new products has implications for the financial performance of the Group during the current financial year. Specifically, the focus on the completion will mean that a more active marketing campaign for existing and new products, including the launch of mortgages, will now be deferred until early 2012. It will also result in a temporary extension of the period during which the Group is absorbing double running costs. Consequently, in combination, these will impact total profit during the second half of the current financial year by around £40m against the Group's original internal target.

The Group has also reviewed carefully the level of provisioning which is appropriate to cover possible future claims arising from alleged mis-selling of payment protection insurance policies. Whilst the level of claims to date has been modest (£15.9m), as a result of this review, we have decided to increase our current provision, which was originally set up in 2009, by a further £57.4m to £91.5m. This extra provision was made over the last few months.

Business Development

The Group continues to make good progress towards developing a range of mortgage products however the launch of these products, which remain subject to regulatory approval, has been deferred until early 2012.

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Review of results

The Group has continued to make progress over the last six months. Underlying profit before tax, after adjusting for the £57.4m provision for customer redress is up 23.9% to £103.0m (2010: £83.1m).

Interest income has increased by 1.8% to £213.3m (August 2010: £209.6m). Credit card income is slightly down reflecting the continuing trend of customers repaying balances in full, and following the implementation of a new commitment to customers at the beginning of the financial year to ensure customer repayments are allocated against the highest interest bearing balances first. Interest income on loans has increased reflecting a modest increase in rates charged to customers.

Interest payable has increased 10.4% to £79.2m (August 2010: £71.7m) reflecting both significant year on year growth in deposits from customers (up 8.3% to £5,126.3m – August 2010: £4,734.2m) primarily due to the successful launch of the new internet based Fixed Rate Saver in September 2010 and interest paid on the £125.0m of retail debt issued in February this year.

Net interest margin is down to 4.2% (August 2010: 4.9%) predominantly due to the credit card performance referred to above.

Net fees and commissions income has increased by 13.7% to £192.2m (August 2010: £169.1m). This is adversely impacted by the increase in the provision for customer redress of £57.4m. Adjusting for this expense, net fees and commissions income grew 47.6% to £249.6m. Prior to October 2010 the Group received a net underwriting profit on insurance products sold via RBS. Since October 2010 the Group has sold insurance policies via the internet and newly established customer service centres in Newcastle and Glasgow, underwritten predominately by Tesco Underwriting Limited. The Group now receives a higher gross commission within net fees and commissions income, with related additional staff, marketing and operational costs being shown within operating expenses.

Total **operating expenses** have increased by 49.5% to £219.4m (August 2010: £146.8m). This is driven by the insurance operating model change referred to above (incremental operating and marketing costs are in the region of £40m), and the establishment of the Group's stand alone infrastructure. As a result of opening the new customer service centres in Glasgow and Newcastle, staff numbers have almost doubled to 2,937.

The cost: income ratio of 57.1% (August 2010: 47.9%) is driven by the step change in the cost base resulting from the new insurance model and the establishment of the Group's operations.

Impairment charges on loans and advances have fallen 14.0% to £64.0m (August 2010: £74.4m). Default levels have continued to fall for both cards and loans. The bad debt to asset ratio has improved from 3.2% to 2.6% 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 £2.1m (August 2010: nil). Total impairment charge for the period is therefore £66.1m.

The Group's Statement of Financial Position is presented on page 9. Selected extracts are presented below.

	August 2011 £'000	February 2011 £'000	August 2010 £'000
Loans and advances to customers	**4,585,701**	4,679,184	4,610,880
Total assets	**7,353,386**	6,994,430	6,485,218
Deposits from customers	**5,126,323**	5,077,465	4,734,224

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Loans and advances to customers are slightly down since year end from £4,679.2m at February 2011 to £4,585.7m at August 2011. This is as a result of the decision to reduce product advertising spend over the loan migration period from RBS to the Group's new banking platform.

Deposits from customers have increased to £5,126.3m (February 2011: £5,077.5m), largely due to the introduction of the Fixed Rate Saver product in autumn 2010.

Capital and Liquidity Ratios

	August 2011	February 2011	August 2010
Tier 1 capital ratio [1]	16.2%	15.9%	13.6%
Risk asset ratio [2]	13.9%	13.6%	13.2%
Net Stable Funding Ratio [3]	109.3%	112.3%	116.5%

[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.
[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 13.9% (February 2011: 13.6%) and an increase in the Core Tier 1 Ratio to 16.2% (February 2011: 15.9%).

The net stable funding ratio, a key measure of the Group's liquidity position, while remaining strong, has reduced from 112.3% at February 2011to 109.3%. This reduction reflects in part a lower than planned level of new savings balances attracted during the migration period.

The Group received capital injections totalling £50.0m 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 offer a high degree of liquidity. At 31 August 2011 treasury assets totalled more than £1.5bn.

The Group has a diversified funding base comprising savings products, a seven and a half year term retail bond and government guaranteed bonds. The Group has also received a further capital injection in September 2011, after the balance sheet date, of £61.5m from Tesco Personal Finance Group Limited. Taking both the current performance and the Group's outlook into account, the Directors consider the Group to be in a satisfactory financial position and confirm that the Group has adequate resources to continue in business in the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the interim report.

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Risks and Uncertainties

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

The key risks and uncertainties faced by the Group are set out below. 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 28 February 2011 (pages 8 to 11). The key risks and uncertainties at the period end are consistent with those at 28 February 2011.

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.

External Environment
The Group is exposed to general UK economic conditions as well as general market trends 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 high inflation and low wage growth. Consumer behaviours, e.g. consumer groups borrowing more to stay afloat and consumers switching to variable rate mortgages to reduce outgoings, may also be leading indicators of increasing general market risks.

Insurance Risk
The Group is exposed to insurance risks through its historic distribution agreement with RBS and indirectly through its 49.9% ownership of Tesco Underwriting Limited, an authorised insurance company.

Regulatory Environment
Regulatory risk is the risk of failure to meet the Group's obligations under the Financial Services and Market's Act, the Consumer Credit Act and the Data Protection Act and to meet the expectations of regulators. The Group is subject to significant regulatory oversight, including supervision by the Financial Services Authority (FSA) which has substantial powers of intervention.

There is currently a significant amount of regulatory change including the continued evolution of capital and liquidity requirements. The regulatory landscape is changing with current FSA responsibilities due to migrate to the new Prudential Regulatory Authority and the Financial Conduct Authority. Detailed proposals for the new regulatory authorities are due to be published later this year.

There remains continued regulatory focus in relation to "Conduct Risk" or "Treating Customers Fairly". Specifically there has been continued focus on complaints relating to the sale of PPI.

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

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

Transformation Programme
The Transformation Programme is the name given to a series of projects which are designed to develop alone, or in conjunction with partners or outsourcers, a banking and insurance IT platform and set of processes to enable the Group to conduct banking and insurance business independently of RBS. The programme also includes the recruitment and training of relevant staff and the development of the

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necessary supporting infrastructure. The Programme is at an advanced stage with the key remaining element being the establishment of credit card operational capability and the migration of customers to that platform.

In addition, the Group has developed plans for launching mortgages, subject to FSA approval. The addition of new products adds further to the complexity and delivery challenge of the Transformation Programme.

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CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2011

	Note	6 months ended 31 August 2011 £'000	6 months ended 31 August 2010 £'000
Interest and similar income	3	213,277	209,592
Interest expense and similar charges	3	(79,182)	(71,695)
Net interest income		**134,095**	**137,897**
Fees and commissions income	4	260,411	179,166
Fees and commissions expense	4	(10,856)	(10,113)
Provision for customer redress	10	(57,400)	-
Net fees and commissions income		**192,155**	**169,053**
Gains/ (Losses) on financial assets		266	(919)
Realised gain on investment securities		392	378
Total income		**326,908**	**306,409**
Administrative expenses		(198,519)	(141,477)
Depreciation and amortisation		(20,877)	(5,282)
Operating expenses		**(219,396)**	**(146,759)**
Impairment		(66,115)	(74,360)
Share of profit/(loss) of associate		4,205	(2,147)
Profit before tax		**45,602**	**83,143**
Income tax expense	5	(10,780)	(23,354)
Profit for the period		**34,822**	**59,789**
Profit attributable to:			
Owners of the parent		34,822	59,789
		34,822	**59,789**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2011

	6 months ended 31 August 2011 £'000	6 months ended 31 August 2010 £'000
Profit for the period	**34,822**	**59,789**
Net gains/(losses) on available for sale investment securities		
Unrealised net gains/(losses) during the period, before tax	4,078	(56)
Cash flow hedges		
Net gains arising on hedges recognised in other comprehensive income, before tax	132	423
Income tax relating to components of other comprehensive income	(1,029)	-
Total comprehensive income for the period	38,003	60,156
Total comprehensive income attributable to:		
Owners of the parent	38,003	60,156
	38,003	60,156

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 AUGUST 2011

	Note	31 August 2011 £'000	28 February 2011 £'000	31 August 2010 £'000
Assets				
Cash and balances with central banks		398,264	136,848	207,131
Loans and advances to banks		-	403,598	262,633
Loans and advances to customers	8	4,585,701	4,679,184	4,610,880
Derivative financial instruments		12,397	16,378	6,768
Investment securities:				
- Available for sale		1,138,083	849,831	732,978
- Loans and receivables		292,931	292,931	266,500
Prepayments and accrued income		89,246	82,359	73,056
Other assets		378,382	142,668	91,771
Investment in associate		68,191	63,985	-
Deferred tax asset		-	-	65
Intangible assets		290,426	215,275	141,482
Property, plant and equipment		99,765	111,373	91,954
Total assets		**7,353,386**	**6,994,430**	**6,485,218**
Liabilities				
Deposits from banks		120,789	36,200	49,643
Deposits from customers		5,126,323	5,077,465	4,734,224
Debt securities in issue	9	359,546	350,031	223,651
Derivative financial instruments		65,577	37,369	68,600
Provisions for liabilities and charges	10	92,318	39,477	96,312
Accruals and deferred income		174,468	188,020	146,883
Current income tax liability		10,176	2,788	15,710
Other liabilities		73,819	18,066	72,912
Deferred income tax liability		6,326	5,022	-
Subordinated liabilities		190,000	190,000	190,000
Total liabilities		**6,219,342**	**5,944,438**	**5,597,935**
Equity				
Shareholders' funds:				
- Share capital	11	97,340	92,340	62,690
- Share premium account	11	876,060	831,060	564,210
- Retained earnings		110,212	79,341	215,169
- Other reserves		5,432	2,251	214
Subordinated notes		45,000	45,000	45,000
Total equity		**1,134,044**	**1,049,992**	**887,283**
Total liabilities and equity		**7,353,386**	**6,994,430**	**6,485,218**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2011

	Share capital £'000	Share premium £'000	Retained earnings £'000	Subordinated notes £'000	Other reserves £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 March 2011	92,340	831,060	79,341	45,000	2,251	1,049,992	-	1,049,992
Comprehensive income								
Profit for the period	-	-	34,822	-	-	34,822	-	34,822
Net gains on available for sale investment securities	-	-	-	-	3,086	3,086	-	3,086
Net gains on cash flow hedges	-	-	-	-	95	95	-	95
Total comprehensive income	**-**	**-**	**34,822**	**-**	**3,181**	**38,003**	**-**	**38,003**
Transactions with owners								
Shares issued in the period	5,000	45,000	-	-	-	50,000	-	50,000
Dividends to ordinary shareholders	-	-	(3,500)	-	-	(3,500)	-	(3,500)
Dividends to other equity holders	-	-	(451)	-	-	(451)	-	(451)
Total transactions with owners	**5,000**	**45,000**	**(3,951)**	**-**	**-**	**46,049**	**-**	**46,049**
Balance at 31 August 2011	**97,340**	**876,060**	**110,212**	**45,000**	**5,432**	**1,134,044**	**-**	**1,134,044**
Balance at 1 March 2010	**47,790**	**430,110**	**155,799**	**45,000**	**(153)**	**678,546**	**2,005**	**680,551**
Comprehensive income								
Profit for the period	-	-	59,789	-	-	59,789	-	59,789
Net losses on available for sale investment securities	-	-	-	-	(56)	(56)	-	(56)
Net gains on cash flow hedges	-	-	-	-	423	423	-	423
Total comprehensive income	**-**	**-**	**59,789**	**-**	**367**	**60,156**	**-**	**60,156**
Transactions with owners								
Shares issued in the period	14,900	134,100	-	-	-	149,000	-	149,000
Dividends to ordinary shareholders	-	-	-	-	-	-	-	-
Dividends to other equity holders	-	-	(419)	-	-	(419)	(2,005)	(2,424)
Total transactions with owners	**14,900**	**134,100**	**(419)**	**-**	**-**	**148,581**	**(2,005)**	**146,576**
Balance at 31 August 2010	**62,690**	**564,210**	**215,169**	**45,000**	**214**	**887,283**	**-**	**887,283**

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2011

	Note	6 months ended 31 August 2011 £'000	6 months ended 31 August 2010 £'000
Operating activities			
Profit before taxation		45,602	83,143
Adjusted for:			
Non-cash items included in profit before taxation		142,043	109,544
Changes in operating assets and liabilities		(18,910)	48,477
Income taxes (paid)/refunded		(3,117)	17,000
Cash flows from operating activities		**165,618**	**258,164**
Investing activities			
Purchase of non-current assets		(94,248)	(116,966)
Purchase of available for sale investment securities		(337,735)	(127,026)
Sale of available for sale investment securities		29,171	52,247
Loan to associate		-	(8,000)
Cash flows from investing activities		**(402,812)**	(199,745)
Financing activities			
Proceeds from issue of share capital	11	50,000	149,000
Dividends paid to ordinary share holders	6	(3,500)	-
Dividends paid to non-controlling interest		-	(2,005)
Dividends paid to other equity holders		(444)	(407)
Interest paid on subordinated liabilities		(1,672)	(1,633)
Cash flows from financing activities		**44,384**	144,955
Net (decrease)/increase in cash and cash equivalents		(192,810)	203,374
Cash and cash equivalents at the beginning of the period		706,342	487,498
Cash and cash equivalents at the end of the period	12	**513,532**	690,872

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The interim condensed consolidated financial statements for the six months ended 31 August 2011 were approved by the directors on 12 October 2011.

NOTE 1 Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim Financial Reporting' as endorsed by the European Union. The accounting policies applied are consistent with those described in the financial statements of the Company for the year ended 28 February 2011, apart from those detailed below. The interim condensed consolidated financial statements should be read in conjunction with the financial statements of the Company for the year ended 28 February 2011, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the International Financial Reporting Interpretations Committee (IFRIC) interpretations 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 that applied to the financial statements for the year ended 28 February 2011, with the exception of the change to the provision estimate for Payment Protection Insurance (PPI) (refer note 10).

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 financial statements for the year ended 28 February 2011 were approved by the Board of Directors on 25 May 2011 and have been filed with the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

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

Adoption of new International Financial Reporting Standards

During the period to 31 August 2011, the Group has not adopted any new or amended accounting standards which have had a material impact on these interim condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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, credit cards, savings accounts and ATMs; and
- Insurance - incorporating motor, home, pet, travel and other insurance products.

There are no transactions between the operating segments.

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

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

a) Segment results of operations

	Retail banking £'000	Insurance £'000	Total £'000
Six months ended 31 August 2011			
Total income	202,641	124,267	326,908
(Loss)/Profit before tax	(40,179)	85,781	45,602
Total assets	6,676,849	676,537	7,353,386
Six months ended 31 August 2010			
Total income	265,598	40,811	306,409
Profit before tax	48,521	34,622	83,143
Total assets	6,148,677	336,476	6,485,153

The Insurance segment includes only directly attributable administrative costs such as marketing and operational costs. Central overhead costs are reported within the Retail banking segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2 Segmental reporting (continued)

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

	Total management reporting £'000	Consolidation and adjustments £'000	Total consolidated £'000
Six months ended 31 August 2011			
Total income	326,908	-	326,908
Profit before tax	45,602	-	45,602
Total assets	7,353,386	-	7,353,386
Six months ended 31 August 2010			
Total income	306,409	-	306,409
Profit before tax	83,143	-	83,143
Total assets	6,485,153	65	6,485,218

NOTE 3 Net interest income

	6 months ended 31 August 2011 £'000	6 months ended 31 August 2010 £'000
Interest and similar income		
Loans and advances to customers	197,465	190,966
Loans and advances to banks	2,871	6,921
Fair value hedge ineffectiveness	1,976	6,746
Interest on investment securities	10,783	4,895
Other	182	64
	213,277	**209,592**
Interest expense and similar charges		
Deposits from customers	(47,021)	(47,128)
Deposits from banks and interest rate swap expenses	(30,463)	(23,003)
Subordinated liabilities	(1,698)	(1,564)
	(79,182)	**(71,695)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4 Net fees and commissions income

	6 months ended 31 August 2011 £'000	6 months ended 31 August 2010 £'000
Fees and commissions income		
Banking fees and commission	132,406	133,335
Insurance commission	123,985	40,811
Other fees	4,020	5,020
	260,411	**179,166**
Fees and commissions expense		
Banking expenses	(9,949)	(8,441)
Other expenses	(907)	(1,672)
	(10,856)	**(10,113)**

NOTE 5 Taxation

A number of changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. The Finance Act 2011 included legislation to reduce the main rate of corporation tax from 27% to 26% from 1 April 2011 and to 25% from 1 April 2012. The proposed reduction from 27% to 25% was substantively enacted at the balance sheet date.

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 29 February 2012. 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 25%.

Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 6 Distributions to equity holders

	6 months ended 31 August 2011 £'000	6 months ended 31 August 2010 £'000
Ordinary dividend paid	3,500	-
Interest paid on subordinated notes included within equity	451	419
	3,951	**419**

On 30 June 2011 a dividend of £0.04 per ordinary share was paid resulting in a total dividend payment for the period of £3,500,000 (August 2010: nil).

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 2011 there were additions to property, plant and equipment and intangible assets of £84,420,000 (August 2010: £117,288,000). There were no disposals of property, plant and equipment and intangible assets (August 2010: nil). Commitments for capital expenditure contracted for but not provided at 31 August 2011 were £1,897,000 (February 2011: £1,907,000).

At 31 August 2011, the Group has undrawn credit card commitments totalling £6,640,265,000 (February 2011: £7,127,334,000). The amount is intended to provide an indication of the volume of business transacted and not for the underlying credit or other risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 8 Loans and advances to customers

	31 August 2011 £'000	28 February 2011 £'000
Unsecured lending	4,751,764	4,845,499
Fair value hedge adjustment	29,288	15,506
Gross loans and advances to customers	**4,781,052**	**4,861,005**
Less: allowance for impairment	(195,351)	(181,821)
Net loans and advances to customers	**4,585,701**	**4,679,184**
Current	2,592,123	2,535,140
Non-current	1,993,578	2,144,044

As at the period end £1,328,010,000 of the credit card portfolio was securitised (February 2011: £1,355,995,000).

Fair value hedge adjustments included within loans and advances to customers amounting to £29,288,000 (February 2011: £15,506,000) are in respect of fixed rate loans. These adjustments reflect movements in interest rates from the date the loans were issued to the balance sheet date. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

The following table shows impairment provisions for loans and advances:

	31 August 2011 £'000	28 February 2011 £'000
At beginning of period	181,821	313,991
Amounts written off	(55,648)	(268,252)
Recoveries of amounts previously written off	7,426	8,636
Charge to the income statement – six months to 31 August	63,977	74,360
Charge to the income statement – six months to 28 February	-	56,582
Unwind of discount	(2,225)	(3,496)
At end of period	**195,351**	**181,821**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9 Debt securities in issue

There have been no issuances or repayments of debt securities during the six months to 31 August 2011 (August 2010: nil).

NOTE 10 Provisions for liabilities and charges

Of the total provision balance at 31 August 2011 of £92,318,000 (February 2011: £39,477,000), £91,537,000 (February 2011: £39,477,000) relates to a provision for customer redress in respect of potential customer complaints arising from historic sales of Payment Protection Insurance (PPI). The provision is likely to be utilised over several years, although the exact timing of utilisation is uncertain. Hence the balance is classified as current at the balance sheet date.

The Group did not take part in the Judicial Review initiated by the British Bankers Association and continued to deal with customer complaints in line with the FSA requirements throughout the duration of the legal proceedings undertaken by the other banks involved.

During the first half of the year, the Group has undertaken a review of historic sales practices in place over the period in which PPI was sold to customers. As a result, the Group intends to begin a programme of proactive customer contact in which it will invite customers who think they have been mis-sold PPI during a specific period of time to seek reimbursement from the Group. This decision represents a material change in the assumptions used to calculate the provision that was in place at 28 February 2011. As a consequence the balance of the provision at 31 August 2011 includes an upward revision of £57,400,000.

There are still a number of uncertainties as to the eventual cost of redress given the inherent uncertainty in determining the number of customers to whom redress will be paid. The provision represents management's best estimate of the cost of customer redress including the administration costs.

NOTE 11 Share capital and share premium

During the period the Company issued 50,000,000 (August 2010: 149,000,000) £0.10 ordinary shares to the parent company, Tesco Personal Finance Group Limited, for total consideration of £50,000,000 (August 2010: £149,000,000).

NOTE 12 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 2011 £'000	31 August 2010 £'000
Cash and balances with central banks	393,516	203,178
Loans and advances to banks	-	262,633
Certificates of deposit	120,016	225,061
	513,532	**690,872**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 13 Contingent liabilities

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS has borrowed from HM Treasury to fund these compensation costs associated with institutions that failed in 2008 and will receive receipts from asset sales, surplus cash flow and other recoveries from these institutions in the future.

The FSCS meets its obligations by raising management expense levies. These include amounts to cover the interest on its borrowings and compensation levies on the industry. Each deposit-taking institution contributes in proportion to its share of total protected deposits.

As at 31 August 2011 the Group has accrued £3,020,000 (February 2011: £3,384,000) in respect of its current obligation to meet expenses levies.

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.

NOTE 14 Related party transactions

During the interim period there were no related party transactions that were materially different to those reported in the Financial Statements for the year ended 28 February 2011.

NOTE 15 Ultimate parent undertaking

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

NOTE 16 Events occurring after the balance sheet date

On 28 September 2011 the Group received a capital injection of £61,500,000 from its parent company, Tesco Personal Finance Group Limited.

On 30 September 2011 the Group paid a dividend of £4,650,000 to its parent company, Tesco Personal Finance Group Limited.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors 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 (EU).

The interim condensed 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 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
Iain Clink
Shaun Doherty
Bernard Higgins
Andrew Higginson – Chairman
Adrian Hill*
Rick Hunkin
Raymond Pierce*
Graham Pimlott*
John Reed*
***** Indicates independent Non Executive Director

Company Secretary
Jonathan Lloyd

INDEPENDENT REVIEW REPORT TO TESCO PERSONAL FINANCE PLC

Independent review report to Tesco Personal Finance plc

Introduction
We have been engaged by the Company to review the condensed interim financial statements for the six months ended 31 August 2011, 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 interim consolidated set of financial information.

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 interim consolidated set of financial information 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 information 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 information in the half-yearly financial report for the six months ended 31 August 2011 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
12 October 2011
Edinburgh