

**TESCO PERSONAL FINANCE PLC**

**INTERIM FINANCIAL REPORT**

**FOR THE SIX MONTHS ENDED 31 AUGUST 2017**

**COMPANY NUMBER SC173199**

CONTENTS

|  |    |
|--|----|
| Interim Management Report.....   | 1  |
| Interim Condensed Consolidated Income Statement.....                   | 8  |
| Interim Condensed Consolidated Statement of Comprehensive Income ..... | 9  |
| Interim Condensed Consolidated Statement of Financial Position .....   | 10 |
| Interim Condensed Consolidated Statement of Changes in Equity.....     | 11 |
| Interim Condensed Consolidated Statement of Cash Flows.....            | 12 |
| Notes to the Interim Condensed Consolidated Financial Statements.....  | 13 |
| Responsibility Statement .....   | 31 |
| Independent Review Report to Tesco Personal Finance plc.....           | 32 |

## TESCO PERSONAL FINANCE PLC

### INTERIM MANAGEMENT REPORT

This Interim Financial Report comprises the Interim Management Report and the Interim Financial Report comprises the Interim Management Report and 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 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 2017/18 can be found on the Tesco PLC internet page <https://www.tescopl.com/media/392681/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 6 and 7 of this Interim Management Report.

#### Business Model

The Group is primarily focused on providing financial services and products to personal customers in the UK. 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. The Company is incorporated and registered in Scotland.

#### Headlines

##### Income Statement

- Profit before tax was 143.9% higher at £112.2m (August 2016: £46.0m), reflecting the impact of payment protection insurance (PPI) charges of £45.0m and restructuring charges of £21.8m taken in the prior period.
- Underlying profit before tax is 4.0% lower at £110.7m (August 2016: £115.3m). In arriving at underlying profit, the Group has excluded unrealised gains on financial instruments of £1.5m (August 2016: unrealised losses of £2.5m). In the prior period to 31 August 2016, the following items were also excluded:
  - an additional PPI provision charge of £45.0m (August 2017: £nil). This was provided during the prior period in response to the Financial Conduct Authority's (FCA) then draft, and now confirmed, policy statement on a time bar for PPI complaints and a widening of the scope of the FCA rules to include profit share arrangements; and
  - organisational restructuring costs amounting to £21.8m (August 2017: £nil).
- Total underlying income, which excludes unrealised gains on financial instruments of £1.5m (August 2016: unrealised losses of £2.5m), has increased by 7.2% to £428.1m (August 2016: £399.4m), predominantly reflecting higher interest earnings on the back of strong lending growth.
- The bad debt:asset ratio (BDAR) increased to 1.3% (August 2016: 0.9%), reflecting the rise in underlying impairment charges, which increased by 72.2% to £69.9m (August 2016 £40.6m, excluding restructuring costs of £1.1m). This reflects a combination of balance growth, the implementation of a number of credit initiatives in recent years, which have been targeted at supporting the borrowing needs of Tesco customers in a profitable and controlled way, and a lower gain on sale of non-performing debt (£9.6m) when compared with the period to 31 August 2016 (£17.3m).
- Income tax on the Group's profit for the period is a charge of £28.0m (2016: credit of £26.6m). The Group's effective tax rate is not expected to be materially different to the statutory rate. The negative effective tax rate in the prior period resulted from the availability of group relief from Tesco PLC.

INTERIM MANAGEMENT REPORT (continued)

Balance Sheet

- Loans and advances to customers have increased by 8.0% to £10.8bn (February 2017: £10.0bn). Mortgage balances reached £2.5bn (February 2017: £2.2bn) as the Mortgage product range continues to expand into the intermediary broker channel, and the Group has also seen growth in both Credit Cards and Personal Loan balances of 5.8% and 5.2% respectively.
- Customer deposits have increased by 5.1% to £8.9bn (February 2017: £8.5bn), and continue to be the main source of the Group's funding. Deposits from banks at 31 August 2017 totalled £939.0m (February 2017: £499.8m). At the period end, the Group had accessed £939.0m of funds from the Bank of England's (BoE) Term Funding Scheme (TFS) (February 2017: £400.0m). The Group had previously accessed the BoE's Funding for Lending Scheme (FLS), with £99.8m included within deposits from banks at 28 February 2017, all of which has now been repaid. The lower cost of funding provided by the TFS is reflected in competitive offers for the Group's borrowing customers.

Strategic Priorities

The ambition of Tesco Bank is to 'be the bank for people who shop at Tesco'. In order to accelerate the Group's pursuit of this ambition, during the prior year the Group established the Customer 2020 programme. This programme, comprising a number of initiatives and expected to provide the framework for business change over several years, continues to put the Tesco customer at the heart of the Group's activities. The Group's strategy to make it easier for Tesco customers to bank and insure with the Group is achieved by offering customers great value across all of the products offered by the Group and earning their trust through the Group's actions. The Group aims to achieve this through targeted investment in technology and data to simplify processes, making life simpler for both customers and colleagues and driving efficiency that can be reinvested in the customer offer.

In June 2017, the Group celebrated the 20<sup>th</sup> anniversary of the inception of Tesco Personal Finance in 1997. Over those 20 years, the Group has established a full range of retail banking products and seen strong growth in traditional banking markets, including Personal Current Accounts and Mortgages, as well as establishing and growing its insurance offering and improving payment services for the Group's customers.

The Group's mobile banking App continues to grow, and has now been downloaded by more than one million users. Changes to the App in August 2017 have also made banking easier for the Group's customers. A new feature has been added, allowing customers to easily report their credit card as lost or stolen and prevent it from being used further whilst keeping their account active. The card can subsequently be unblocked or cancelled via the App.

In September 2017, the Group announced that PayQwiq, the Group's digital wallet offering, is to be rebranded as Tesco Pay+. The service continues to grow, offering Tesco's shoppers the ability to pay and collect Clubcard points with one simple and convenient scan of their phone. The App now has over 250,000 users, with a payment made every three seconds using the App.

In July 2017 the Group celebrated the fifth anniversary of the launch of its Mortgage offering to customers. The Group continues to deliver value to its customers and has helped even more customers to buy their home in the period by adding to its Tesco Bank Mortgage Intermediaries broker panel, which now has over 4,400 registered advisors.

The Group has committed to continue providing value to its Personal Current Account customers. In April 2017, the Group relaunched its Personal Current Account offer, guaranteeing its existing customers 3% AER credit interest on balances up to £3,000, as well as even more Clubcard points when they spend with their debit card in Tesco stores, from 1 April 2017 to 1 April 2019. The offer was also extended to new Personal Current Account customers, with the addition of eligibility criteria.

**INTERIM MANAGEMENT REPORT (continued)**

The Group now has 300 Travel Money bureaux across the UK, and provided customers with over £1 billion in currency in the 12 months to 31 August 2017.

The Group's commitment to offering attractive products and good service for customers has been rewarded with recognition as 'Best Remortgage Provider' at the 2017 Moneyfacts Awards, 'Best Direct Lender' at the What Mortgage Awards 2017, 'Best Lender Newcomer' at the Mortgage Advice Bureau Awards, 'Best Direct Home and Contents Insurance Provider' at the Your Money Awards 2017 and 'Best Direct Credit Card Provider' at the YourMoney.com Awards.

During the period, colleagues raised over £49,000 for the Group's charity partners and volunteered over 3,000 hours to their local communities.

In July 2017, the Group announced that Bernard Higgins would retire as Chief Executive of the Group in February 2018, after 10 years in the role. The Board of Directors has commenced the search for a new Chief Executive.

**Regulatory Developments**

The Group closely monitors regulatory developments to ensure the implications of regulatory changes are fully considered. In 2015 the European Banking Authority, the Prudential Regulation Authority and the BoE issued consultations on a number of topics which may impact the Group's capital and funding requirements.

This included proposed changes to standardised risk weightings and the implementation of the European Commission's minimum requirements for own funds and eligible liabilities (MREL). The Group will be subject to interim MREL guidance from 1 January 2020, with full implementation scheduled for 1 January 2022. The Group continues to evaluate the impact of MREL.

**Business Review**

During the period, the business has continued to deliver growth across its primary products (Credit Cards, Personal Loans, Mortgages, Personal Current Accounts, Savings and Insurance), with 5.6m accounts actively in use by the Group's customers, an increase of 2.6% in 12 months.

Mortgage balances grew by 17.9% in the period, reaching £2,541.6m (February 2017: £2,155.3m), while Credit Card balances increased by 5.8% and Personal Loans by 5.2%.

Customer deposits of £8,896.9m (February 2017: £8,466.8m) continue to be the Group's primary source of funding. The Group's customer deposits grew by 5.1% in the period, reflecting the value offered to customers and including an increase of 16.3% in Personal Current Account balances.

During the period the Group also increased its funding from the BoE's TFS to £939.0m (Feb 2017: £400.0m) in order to support future lending growth. Funding previously accessed under the BoE's FLS, of which £99.8m was included within deposits from banks at 28 February 2017, was repaid during the period.

Money Services products have performed well overall as the Group continues to enhance the product range and expand the customer base. A reduction in ATM transaction volumes, due to the declining use of cash as customers move towards contactless and other digital payments, was offset by growth in other products, including Travel Money.

Insurance policy volumes have increased by 14.4% since the previous year, with sales of Home and Pet insurance policies growing by 19.6% and 22.3% respectively. However, income generated from insurance products has decreased by 2.3%. This is due to a continued highly competitive environment and also reflects the revised Renewal Transparency rules, which have placed increased pressure on retention rates.

## INTERIM MANAGEMENT REPORT (continued)

## 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 restructuring costs, customer redress provisions and unrealised gains/(losses) on financial instruments.

The Group's financial performance is presented in the Interim Condensed Consolidated Income Statement on page 8. A summary of the Group's financial performance on an underlying basis is presented below.

|   | 6 Months ended 31<br>August<br>2017<br>£m | 6 Months ended 31<br>August<br>2016<br>£m | % Change     |
|---|---|---|--------------|
| Net interest income   | 243.6                                     | 209.5                                     | 16.3         |
| Underlying non interest income                                  | 184.5                                     | 189.9                                     | (2.8)        |
| <b>Total underlying income</b>                                  | <b>428.1</b>                              | <b>399.4</b>                              | <b>7.2</b>   |
| Underlying operating expenses                                   | (255.1)                                   | (248.6)                                   | (2.6)        |
| Underlying impairment on loans and advances to customers        | (69.9)                                    | (40.6)                                    | (72.2)       |
| Share of profit of joint venture                                | 7.6                                       | 5.1                                       | 49.0         |
| <b>Underlying profit before tax</b>                             | <b>110.7</b>                              | <b>115.3</b>                              | <b>(4.0)</b> |
| Restructuring costs <sup>1</sup>                                | –   | (21.8)                                    | 100.0        |
| Customer redress provision <sup>2</sup>                         | –   | (45.0)                                    | 100.0        |
| Unrealised gains/(losses) on financial instruments <sup>3</sup> | 1.5                                       | (2.5)                                     | 160.0        |
| <b>Profit before tax</b>  | <b>112.2</b>                              | <b>46.0</b>                               | <b>143.9</b> |

1 Comprising:

- depreciation and amortisation charge of £nil (August 2016: £12.2m) and restructuring costs of £nil (August 2016: £8.5m), related to the Group's Customer 2020 business simplification which commenced during the prior period. These are presented within depreciation and amortisation, and administrative expenses, respectively, on page 8 and excluded from underlying operating expenses, above; and
- impairment on loans and advances to customers following agreement to sell the Group's Irish Credit Card book, of £nil (August 2016: £1.1m), presented within impairment on loans and advances to customers on page 8 and excluded from underlying impairment on loans and advances to customers, above.

2 Customer redress provision charge of £nil (August 2016: £45.0m), in relation to PPI, is presented within operating expenses on page 8 and excluded from underlying operating expenses, above.

3 Unrealised gains on financial instruments of £1.5m (August 2016: unrealised losses of £2.5m) are presented within total income on page 8 and excluded from underlying non interest income, above.

## INTERIM MANAGEMENT REPORT (continued)

The Directors consider the following to be Key Performance Indicators for the Consolidated Income Statement:

|   | 31 August<br>2017 | 28 February<br>2017 | 31 August<br>2016 |
|---|-------------------|---------------------|-------------------|
| Net interest margin <sup>1</sup>          | 4.0%              | 4.0%                | 3.9%              |
| Underlying cost:income ratio <sup>2</sup> | 59.6%             | 62.3%               | 62.2%             |
| Cost:income ratio <sup>3</sup>            | 59.4%             | 71.4%               | 79.2%             |
| Bad debt:asset ratio <sup>4</sup>         | 1.3%              | 1.1%                | 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 underlying operating expenses by underlying total income.

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

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

**Net interest income** has increased by 16.3% to £243.6m (August 2016: £209.5m) due to the annual growth in customer lending of 16.2% to £10.8bn (August 2016: £9.3bn).

**Net interest margin** has increased slightly to 4.0% (August 2016: 3.9%), reflecting an improved Credit Card margin, partially offset by the impact of growth of the lower margin Mortgage book as a percentage of the Group's overall lending portfolio.

**Underlying non-interest income**, which excludes unrealised gains on financial instruments of £1.5m (August 2016: unrealised losses of £2.5m), has decreased by 2.8% to £184.5m (August 2016: £189.9m). This is predominantly due to a reduction in ATM income, as a result of the downward trend in ATM transactions being seen across the market as customers move towards contactless and other digital payment methods.

**Underlying operating expenses**, which, in the period to 31 August 2016, excluded restructuring costs of £20.7m and an additional PPI provision charge of £45.0m, have increased by 2.6% to £255.1m (August 2016: £248.6m). Cost control remains a key focus of the Group and, as such, the underlying cost:income ratio has improved to 59.6% (August 2016: 62.2%).

**Underlying impairment** charges on loans and advances, which exclude restructuring costs of £nil (August 2016: £1.1m), have increased by 72.2% to £69.9m (August 2016: £40.6m). Despite this, credit quality remains good, with the higher charge reflecting a combination of balance growth and the implementation of a number of credit initiatives in recent years. These initiatives have been targeted at supporting the borrowing needs of Tesco customers in a profitable and controlled way. The impairment charge in the period also reflects a lower gain on sale of non-performing debt, with £9.6m being realised in the period (August 2016: £17.3m). Consequently, the Group's BDAR has increased since the prior period to 1.3% (August 2016: 0.9%).

## INTERIM MANAGEMENT REPORT (continued)

## Capital and Liquidity Ratios

The Directors consider the following to be Key Performance Indicators for capital and liquidity reporting:

|  | 31 August<br>2017 | 28 February 2017 | 31 August<br>2016 |
|--|-------------------|------------------|-------------------|
| <b>Common equity tier 1 ratio <sup>1</sup></b> | 16.5%             | 16.7%            | 16.6%             |
| <b>Total capital ratio <sup>2</sup></b>        | 19.7%             | 20.0%            | 19.9%             |
| <b>Net stable funding ratio <sup>3</sup></b>   | 119.3%            | 119.8%           | 119.7%            |
| <b>Loan to deposit ratio <sup>4</sup></b>      | 121.0%            | 117.7%           | 114.2%            |

1 The common equity tier 1 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 total capital ratio is calculated by dividing total regulatory capital by total risk weighted assets.

3 The Board Risk Committee monitors the Group's compliance with net stable funding ratio (NSFR) requirements under the Capital Requirements Directive IV (CRD IV) methodology. The NSFR is calculated under the CRD IV methodology.

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

The Group's total capital ratio remains above internal targets and regulatory requirements at 19.7% (February 2017: 20.0%) and leaves the Group well placed to support future growth.

The NSFR, a measure of the Group's long term stable funding position, remains strong at 119.3% as at 31 August 2017 (February 2017: 119.8%). The Group maintains a liquid asset portfolio of high quality securities of £1.7bn (February 2017: £1.8bn).

## Principal risks and uncertainties

The Board of Directors has overall responsibility for determining the Group's strategy and related Risk Appetite. The Board's Risk Appetite comprises a suite of financial and reputational Risk Appetite statements, underpinned by corresponding measures with agreed triggers and limits. The Risk Appetite is formally reviewed by the Board on at least an annual basis.

The Board is also responsible for overall corporate governance which includes overseeing a robust and effective system of risk management and that the level of capital and liquidity held is adequate and consistent with the risk profile of the business. To support this, a Risk Management Framework (RMF) has been embedded across the Group and is underpinned by governance, controls, processes, systems and policies.

The principal risks and uncertainties faced by the Group remain largely unchanged from those set out in the Group's Annual Report and Financial Statements for the year ended 28 February 2017 (pages 7 to 10).

- **Credit risk** is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Group will incur losses due to any other counterparty failing to meet their financial obligations.
- **Operational risk** is the risk of potential error, loss, harm or failure caused by ineffective or inadequately defined processes, system failure, improper conduct, human error or from external events. This includes the significant threat of cyber attacks, financial crime and fraud across the Financial Services industry.
- **Liquidity and Funding risk:** Liquidity risk is the risk that the Group is not able to meet its obligations as they fall due. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding.



INTERIM MANAGEMENT REPORT (continued)

- **Market risk** is the risk that the value of earnings or capital is altered through the movement of market rates. This includes interest rates, foreign exchange rates, credit spreads and equities.
- **Insurance risk** is 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.
- **Regulatory risk** is the risk of reputational damage, liability or material loss from failure to comply with the requirements of the financial services regulators or related codes of best practice applicable to the business areas within which the Group operates.
- **Capital risk** is the risk that the Group holds regulatory capital which is of insufficient quality and quantity to enable it to absorb losses.
- **Brexit:** On 29 March 2017 the UK triggered Article 50, formally beginning the process to leave the EU. The process of exiting the EU continues to contribute to political and economic uncertainty in the UK and Europe.
- **Libor rate replacement:** On 27 July 2017 the Head of the Financial Conduct Authority announced that the London Interbank Offered Rate (LIBOR) would be phased out and replaced with an alternative reference rate by the end of 2021. Further information has not yet been announced, thus creating significant uncertainty in the market.
- **Change to insurance reserving discount rate:** In September 2017, the Government announced its plans on discount rate reform. The changes will impact TU's results, which are sensitive to changes in the insurance reserves it recognises in respect of insurance policies written, net of reinsurance. Consequently, material changes in these reserves could have an impact on the carrying value of the Group's investment in TU in the Company and Consolidated Statements of Financial Position.

TESCO PERSONAL FINANCE PLC

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2017

|      |   | 6 months<br>ended 31<br>August<br>2017<br>£m | 6 months<br>ended 31<br>August<br>2016<br>£m |
|------|---|--|--|
| Note |   |  |  |
|      | Interest and similar income                                       | 331.1  | 301.0  |
|      | Interest expense and similar charges                              | (87.5)                                       | (91.5)                                       |
|      | <b>Net interest income</b>  | <b>243.6</b>                                 | <b>209.5</b>                                 |
|      | Fees and commissions income                                       | 200.0  | 201.2  |
|      | Fees and commissions expense                                      | (15.5)                                       | (15.6)                                       |
|      | <b>Net fees and commissions income</b>                            | <b>184.5</b>                                 | <b>185.6</b>                                 |
|      | Unrealised gains/(losses) on financial instruments                | 1.5  | (2.5)  |
|      | Realised gain on financial instruments                            | –  | 4.3  |
|      | <b>Net other income</b>   | <b>1.5</b>                                   | <b>1.8</b>                                   |
|      | <b>Total income</b>   | <b>429.6</b>                                 | <b>396.9</b>                                 |
|      | Administrative expenses   | (213.7)                                      | (217.1)                                      |
|      | Depreciation and amortisation                                     | (41.4)                                       | (52.2)                                       |
|      | Provision for customer redress                                    | –  | (45.0)                                       |
|      | <b>Operating expenses</b>   | <b>(255.1)</b>                               | <b>(314.3)</b>                               |
|      | Impairment on loans and advances to customers                     | (69.9)                                       | (41.7)                                       |
|      | <b>Operating profit</b>   | <b>104.6</b>                                 | <b>40.9</b>                                  |
|      | Share of profit of joint venture                                  | 7.6  | 5.1  |
|      | <b>Profit before tax</b>  | <b>112.2</b>                                 | <b>46.0</b>                                  |
|      | Income tax (charge)/credit  | (28.0)                                       | 26.6   |
|      | <b>Profit for the period attributable to owners of the parent</b> | <b>84.2</b>                                  | <b>72.6</b>                                  |

TESCO PERSONAL FINANCE PLC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2017

|   | 6 months<br>ended 31<br>August<br>2017<br>£m | 6 months<br>ended 31<br>August<br>2016<br>£m |
|---|--|--|
| Profit for the period   | 84.2   | 72.6   |
| <b>Items that may be reclassified subsequently to the income statement</b>            |  |  |
| Unrealised net gains on available-for-sale investment securities before tax           | 2.9  | 8.4  |
| Net gains arising on cash flow hedges before tax                                      | 0.2  | 1.1  |
| Tax relating to items that may be reclassified subsequently to the income statement   | (0.9)  | (5.0)  |
| Share of other comprehensive income of joint venture                                  | 0.1  | 11.3   |
| <b>Total items that may be reclassified subsequently to the income statement</b>      | <b>2.3</b>                                   | <b>15.8</b>                                  |
| <b>Total comprehensive income for the period attributable to owners of the parent</b> | <b>86.5</b>                                  | <b>88.4</b>                                  |

TESCO PERSONAL FINANCE PLC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 AUGUST 2017

|   | Note | 31 August<br>2017<br>£m | 28 February<br>2017<br>£m | 31 August<br>2016<br>£m |
|---|------|-------------------------|---------------------------|-------------------------|
| <b>Assets</b>   |      |                         |                           |                         |
| Cash and balances with central banks                        |      | 778.2                   | 802.9                     | 784.2                   |
| Loans and advances to customers                             | 8    | 10,762.2                | 9,961.2                   | 9,264.8                 |
| Derivative financial instruments                            |      | 25.8                    | 28.7                      | 30.7                    |
| Investment securities:                                      |      |                         |                           |                         |
| - Available-for-sale  |      | 951.1                   | 966.1                     | 955.5                   |
| - Loans and receivables                                     |      | 34.1                    | 34.1                      | 34.1                    |
| Prepayments and accrued income                              |      | 56.5                    | 42.2                      | 58.2                    |
| Current income tax asset                                    |      | –                       | –                         | 18.5                    |
| Other assets  |      | 295.3                   | 299.1                     | 287.4                   |
| Investment in joint venture                                 | 9    | 94.2                    | 71.0                      | 92.5                    |
| Intangible assets   |      | 284.6                   | 300.0                     | 327.6                   |
| Property, plant and equipment                               |      | 72.4                    | 73.3                      | 73.7                    |
| <b>Total assets</b>   |      | <b>13,354.4</b>         | <b>12,578.6</b>           | <b>11,927.2</b>         |
| <b>Liabilities</b>  |      |                         |                           |                         |
| Deposits from banks   |      | 939.0                   | 499.8                     | 173.7                   |
| Deposits from customers                                     |      | 8,896.9                 | 8,466.8                   | 8,111.0                 |
| Debt securities in issue                                    | 10   | 1,053.8                 | 1,204.3                   | 1,208.2                 |
| Derivative financial instruments                            |      | 123.5                   | 133.3                     | 178.2                   |
| Provisions for liabilities and charges                      | 11   | 70.8                    | 83.5                      | 96.5                    |
| Accruals and deferred income                                |      | 93.3                    | 115.1                     | 108.9                   |
| Current income tax liability                                |      | 29.7                    | 8.3                       | –                       |
| Other liabilities   |      | 144.8                   | 148.3                     | 134.2                   |
| Deferred income tax liability                               |      | 7.2                     | 13.7                      | 27.8                    |
| Subordinated liabilities and notes                          |      | 235.0                   | 235.0                     | 235.0                   |
| <b>Total liabilities</b>                                    |      | <b>11,594.0</b>         | <b>10,908.1</b>           | <b>10,273.5</b>         |
| <b>Equity and reserves attributable to owners of parent</b> |      |                         |                           |                         |
| Share capital   |      | 122.0                   | 122.0                     | 122.0                   |
| Share premium account                                       |      | 1,097.9                 | 1,097.9                   | 1,097.9                 |
| Retained earnings   |      | 490.4                   | 406.2                     | 391.4                   |
| Other reserves  |      | 50.1                    | 44.4                      | 42.4                    |
| <b>Total equity</b>   |      | <b>1,760.4</b>          | <b>1,670.5</b>            | <b>1,653.7</b>          |
| <b>Total liabilities and equity</b>                         |      | <b>13,354.4</b>         | <b>12,578.6</b>           | <b>11,927.2</b>         |

TESCO PERSONAL FINANCE PLC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 AUGUST 2017

|  | Share<br>capital<br>£m | Share<br>premium<br>£m | Retained<br>earnings<br>£m | Available-<br>for-sale<br>reserve<br>£m | Cash flow<br>hedge<br>reserve<br>£m | Share<br>based<br>payment<br>reserve<br>£m | Total<br>equity<br>£m |
|--|------------------------|------------------------|----------------------------|---|-------------------------------------|--|-----------------------|
| <b>Balance at 1 March 2017</b>                           | <b>122.0</b>           | <b>1,097.9</b>         | <b>406.2</b>               | <b>18.0</b>                             | <b>(0.6)</b>                        | <b>27.0</b>                                | <b>1,670.5</b>        |
| <b>Comprehensive income</b>                              |                        |                        |                            |   |                                     |  |                       |
| Profit for the period                                    | –                      | –                      | 84.2                       | –                                       | –                                   | –  | 84.2                  |
| Net gains on available-for-sale<br>investment securities | –                      | –                      | –                          | 2.1                                     | –                                   | –  | 2.1                   |
| Net gains on cash flow hedges                            | –                      | –                      | –                          | –                                       | 0.1                                 | –  | 0.1                   |
| Share of other comprehensive<br>income of joint venture  | –                      | –                      | –                          | 0.1                                     | –                                   | –  | 0.1                   |
| <b>Total comprehensive income</b>                        | <b>–</b>               | <b>–</b>               | <b>84.2</b>                | <b>2.2</b>                              | <b>0.1</b>                          | <b>–</b>                                   | <b>86.5</b>           |
| <b>Transactions with owners</b>                          |                        |                        |                            |   |                                     |  |                       |
| Share based payments                                     | –                      | –                      | –                          | –                                       | –                                   | 3.4  | 3.4                   |
| <b>Total transactions with owners</b>                    | <b>–</b>               | <b>–</b>               | <b>–</b>                   | <b>–</b>                                | <b>–</b>                            | <b>3.4</b>                                 | <b>3.4</b>            |
| <b>Balance at 31 August 2017</b>                         | <b>122.0</b>           | <b>1,097.9</b>         | <b>490.4</b>               | <b>20.2</b>                             | <b>(0.5)</b>                        | <b>30.4</b>                                | <b>1,760.4</b>        |
| <b>Balance at 1 March 2016</b>                           | <b>122.0</b>           | <b>1,097.9</b>         | <b>318.8</b>               | <b>5.4</b>                              | <b>(1.5)</b>                        | <b>23.2</b>                                | <b>1,565.8</b>        |
| <b>Comprehensive income</b>                              |                        |                        |                            |   |                                     |  |                       |
| Profit for the period                                    | –                      | –                      | 72.6                       | –                                       | –                                   | –  | 72.6                  |
| Net gains on available-for-sale<br>investment securities | –                      | –                      | –                          | 3.0                                     | –                                   | –  | 3.0                   |
| Net gains on cash flow hedges                            | –                      | –                      | –                          | –                                       | 1.5                                 | –  | 1.5                   |
| Share of other comprehensive<br>income of joint venture  | –                      | –                      | –                          | 11.3                                    | –                                   | –  | 11.3                  |
| <b>Total comprehensive income</b>                        | <b>–</b>               | <b>–</b>               | <b>72.6</b>                | <b>14.3</b>                             | <b>1.5</b>                          | <b>–</b>                                   | <b>88.4</b>           |
| <b>Transactions with owners</b>                          |                        |                        |                            |   |                                     |  |                       |
| Share based payments                                     | –                      | –                      | –                          | –                                       | –                                   | (0.5)                                      | (0.5)                 |
| <b>Total transactions with owners</b>                    | <b>–</b>               | <b>–</b>               | <b>–</b>                   | <b>–</b>                                | <b>–</b>                            | <b>(0.5)</b>                               | <b>(0.5)</b>          |
| <b>Balance at 31 August 2016</b>                         | <b>122.0</b>           | <b>1,097.9</b>         | <b>391.4</b>               | <b>19.7</b>                             | <b>–</b>                            | <b>22.7</b>                                | <b>1,653.7</b>        |

**TESCO PERSONAL FINANCE PLC**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

FOR THE SIX MONTHS ENDED 31 AUGUST 2017

|  |             | <b>6 months<br/>ended 31<br/>August<br/>2017</b> | <b>6 months<br/>ended 31<br/>August<br/>2016<br/>Restated</b> |
|--|-------------|--|---|
|  | <b>Note</b> | <b>£m</b>  | <b>£m</b>   |
| <b>Operating Activities</b>  |             |  |   |
| <b>Profit before tax</b>   |             | <b>112.2</b>                                     | <b>46.0</b>   |
| Adjusted for:  |             |  |   |
| Non-cash items included in operating profit before taxation and other adjustments <sup>1</sup> |             | 136.2  | 158.6   |
| Changes in operating assets and liabilities  |             | (60.4)   | (20.3)  |
| Income taxes (paid)/recovered  |             | (13.9)   | 1.6   |
| <b>Cash flows generated from operating activities</b>  |             | <b>174.1</b>                                     | <b>185.9</b>  |
| <b>Investing Activities</b>  |             |  |   |
| Purchase of intangible assets and property, plant and equipment                                |             | (29.4)   | (16.1)  |
| Purchase of available-for-sale investment securities   |             | (62.2)   | (37.2)  |
| Sale of available-for-sale investment securities   |             | 69.4   | 99.8  |
| Investment in joint venture  |             | (15.5)   | -   |
| <b>Cash flows (used in)/generated from investing activities</b>                                |             | <b>(37.7)</b>                                    | <b>46.5</b>   |
| <b>Financing Activities</b>  |             |  |   |
| Principal repayments on debt securities in issue   | 10          | (150.0)  | -   |
| Interest paid on debt securities in issue <sup>1</sup>   |             | (11.8)   | (13.0)  |
| Interest received on assets held to hedge debt securities in issue <sup>1</sup>                |             | 1.7  | 1.6   |
| Interest paid on subordinated liabilities and notes  |             | (2.0)  | (2.2)   |
| <b>Cash flows used in financing activities</b>   |             | <b>(162.1)</b>                                   | <b>(13.6)</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                                    |             | <b>(25.7)</b>                                    | <b>218.8</b>  |
| <b>Cash and cash equivalents<sup>2</sup> at beginning of period</b>                            |             | <b>788.7</b>                                     | <b>551.8</b>  |
| <b>Cash and cash equivalents<sup>2</sup> at end of period</b>                                  |             | <b>763.0</b>                                     | <b>770.6</b>  |

1 Refer to Note 1 for further detail on restated amounts.

2 Cash and cash equivalents comprise cash and balances with banks, excluding mandatory reserve deposits.

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

The Interim Condensed Consolidated Financial Statements for the six months ended 31 August 2017 were approved by the Board of Directors on 2 October 2017.

### 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 2017. 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 2017, 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 2017, except as set out below.

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 2017 were approved by the Board of Directors on 10 April 2017 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.

### Change in accounting policy

During the period, the Group has reclassified cash flows relating to debt securities in issue, along with related derivatives, from operating to financing activities. This reclassification more appropriately reports these cash flows in the section of the Interim Statement of Condensed Consolidated Cash Flows in which the principal funding transactions were reported. Prior period comparatives have been restated to align to the current period approach. The impact of this restatement on the prior period Interim Statement of Condensed Consolidated Cash Flows is as follows:

| Line item  | Total as previously<br>stated<br>£m | Adjusted<br>£m | Restated total<br>£m |
|--|-------------------------------------|----------------|----------------------|
| Non-cash items included in operating profit before taxation        | 147.2                               | 11.4           | 158.6                |
| Interest paid on debt securities in issue                          | –                                   | (13.0)         | (13.0)               |
| Interest received on assets held to hedge debt securities in issue | –                                   | 1.6            | 1.6                  |
|  | <b>147.2</b>                        | <b>–</b>       | <b>147.2</b>         |

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

**1. Basis of Preparation (continued)**

**Going concern**

The Directors have completed an assessment of the Group's going concern status, taking into account both current and projected performance, including projections for the Group's capital and funding position and having regard to the Group's risk profile. As a result of this assessment, the Directors consider the Group to be in a satisfactory financial position and have a reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Interim Condensed Consolidated Financial Statements.

**Adoption of new and amended International Financial Reporting Standards**

During the period to 31 August 2017, there have been no new accounting standards or amendments to standards which became effective for the Group with EU endorsement. There are a number of new accounting standards which will impact the Group in future reporting periods. Further details of these are included in the Consolidated Financial Statements of the Group for the year ended 28 February 2017. An update on IFRS 9 is provided below.

**IFRS 9, 'Financial Instruments'**

IFRS 9 was endorsed for adoption by the EU in November 2016 and will be implemented by the Group with effect from 1 March 2018. The Group's assessment of the impact of the Classification and Measurement, Impairment and Hedging requirements of IFRS 9 were provided in the Consolidated Financial Statements of the Group for the year ended 28 February 2017, from page 110 to 112.

The most significant impact on the Group of implementing IFRS 9 remains the impairment requirements of the new standard. The impairment workstream of the Group's IFRS 9 implementation programme continues to progress according to the project plan and a parallel run on key unsecured portfolios has commenced. The Group will disclose the financial impact estimates when the implementation programme, validation and testing is further advanced, which is expected to be no later than the Consolidated Financial Statements for the year ended 28 February 2018.

The Group will not restate comparative periods on initial application of IFRS 9 but will provide the detailed transition disclosures in accordance with the requirements of IFRS 7, 'Financial instruments: Disclosures'.

**2. Segmental Reporting**

Following the measurement approach of IFRS 8, 'Operating segments', the Group's operating segments are reported in accordance with the internal reporting provided to the Board of Directors, which is responsible for allocating resources to the operating segments and assessing their performance.

The Group has one operating segment covering all of the Group's activities, the results of which are set out in the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Financial Position.

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



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

## 3. Net Interest Income

|   | 6 months<br>ended<br>31 August<br>2017<br>£m | 6 months<br>ended<br>31 August<br>2016<br>£m |
|---|--|--|
| <b>Interest and similar income</b>                        |  |  |
| <b>On assets held at amortised cost</b>                   |  |  |
| Loans and advances to customers                           | 319.1  | 288.0  |
| Loans and advances to banks                               | 0.9  | 1.5  |
| Interest on investment securities - loans and receivables | 0.7  | 0.7  |
|   | <u>320.7</u>                                 | <u>290.2</u>                                 |
| <b>On assets held at fair value</b>                       |  |  |
| Interest on investment securities - available-for-sale    | 10.4   | 10.8   |
|   | <u>10.4</u>                                  | <u>10.8</u>                                  |
| <b>Total</b>  | <b>331.1</b>                                 | <b>301.0</b>                                 |
| <b>Interest expense and similar charges</b>               |  |  |
| <b>On liabilities held at amortised cost</b>              |  |  |
| Deposits from customers                                   | (55.2)                                       | (58.6)                                       |
| Deposits from banks                                       | (1.1)  | (3.7)  |
| Debt securities in issue                                  | (13.6)                                       | (13.8)                                       |
| Subordinated liabilities and notes                        | (1.9)  | (2.2)  |
|   | <u>(71.8)</u>                                | <u>(78.3)</u>                                |
| <b>On liabilities held at fair value</b>                  |  |  |
| Interest rate swap expenses                               | (15.7)                                       | (13.2)                                       |
|   | <u>(15.7)</u>                                | <u>(13.2)</u>                                |
| <b>Total</b>  | <b>(87.5)</b>                                | <b>(91.5)</b>                                |
| <b>Net interest income</b>                                | <b>243.6</b>                                 | <b>209.5</b>                                 |

## 4. Net Fees and Commissions Income

|  | 6 months<br>ended 31<br>August 2017<br>£m | 6 months<br>ended 31<br>August 2016<br>£m |
|--|---|---|
| <b>Fees and commissions income</b>     |   |   |
| Banking income                         | 125.1                                     | 127.0                                     |
| Insurance income                       | 61.9                                      | 63.9                                      |
| Other income                           | 13.0                                      | 10.3                                      |
|  | <u>200.0</u>                              | <u>201.2</u>                              |
| <b>Fees and commissions expense</b>    |   |   |
| Banking expense                        | (15.5)                                    | (15.6)                                    |
|  | <u>(15.5)</u>                             | <u>(15.6)</u>                             |
| <b>Net fees and commissions income</b> | <b>184.5</b>                              | <b>185.6</b>                              |

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

## 5. Impairment on Loans and Advances to Customers

|  | 6 months ended<br>31 August 2017<br>£m | 6 months<br>ended 31<br>August 2016<br>£m |
|--|--|---|
| Increase in impairment allowance, net of recoveries*             | 68.2                                   | 38.7                                      |
| Impairment charge on Irish Credit Card book                      | -                                      | 1.1                                       |
| Total impairment allowances, net of recoveries (refer to note 8) | 68.2                                   | 39.8                                      |
| Insurance premiums written off during the year as uncollectible  | 1.7                                    | 1.9                                       |
|  | 69.9                                   | 41.7                                      |

\*Recoveries include £9.6m received through the sale of non-performing debt to third parties (August 2016: £17.3m).

## 6. Income Tax

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 28 February 2018.

Income tax on the Group's profit for the period is a charge of £28.0m (2016: credit of £26.6m). The Group's effective tax rate is not expected to be materially different to the statutory rate.

The tax credit in the prior period reflects the non-deductibility of an additional Payment Protection Insurance (PPI) provision recognised in the period ended 31 August 2016, offset by an estimated tax credit of £48.0m relating to Group Relief made available to the Group from the Tesco PLC tax group. No Group Relief is anticipated in the current year.

The March 2016 Budget Statement included an announcement that the standard rate of corporation tax in the UK would be reduced to 17% from 1 April 2020. This rate reduction was enacted before the start of the current reporting period and is therefore incorporated in this Interim Financial Report. The rate change is expected to reduce the Group's effective tax rate in the medium term.

## 7. Capital Expenditure and Commitments

In the six months ended 31 August 2017 there were additions to property, plant and equipment and intangible assets of £25.5m (August 2016 £16.1m). Commitments for capital expenditure contracted for but not provided at 31 August 2017 were £nil (February 2017: £3.9m) on property, plant and equipment and £1.3m (February 2017: £1.2m) on intangible assets.

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

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

## 8. Loans and Advances to Customers

|  | 31 August<br>2017<br>£m | 28 February<br>2017<br>£m | 31 August<br>2016<br>£m |
|--|-------------------------|---------------------------|-------------------------|
| Secured Mortgage lending                     | 2,548.2                 | 2,160.7                   | 1,857.6                 |
| Unsecured lending                            | 8,408.5                 | 7,970.9                   | 7,539.4                 |
| Fair value hedge adjustment                  | 17.5                    | 23.4                      | 37.5                    |
| <b>Gross loans and advances to customers</b> | <b>10,974.2</b>         | <b>10,155.0</b>           | <b>9,434.5</b>          |
| Less: allowance for impairment               | (212.0)                 | (193.8)                   | (169.7)                 |
| <b>Net loans and advances to customers</b>   | <b>10,762.2</b>         | <b>9,961.2</b>            | <b>9,264.8</b>          |

At 31 August 2017, the Group had contractual lending commitments of £12,225.0m (February 2017: £12,132.0m).

**Fair value hedge adjustments**

Fair value hedge adjustments amounting to £17.5m (February 2017: £23.4m) 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.

**Allowance for impairment**

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

|   | 6 months to 31<br>August 2017<br>£m | 6 months to 28<br>February 2017<br>£m | 6 months to 31<br>August 2016<br>£m |
|---|-------------------------------------|---------------------------------------|-------------------------------------|
| At beginning of period  | 193.8                               | 169.7                                 | 153.9                               |
| Amounts written off   | (48.9)                              | (37.5)                                | (22.8)                              |
| Increase in allowance, net of recoveries*, charged to the Interim Condensed Consolidated Income Statement in the period (refer to note 5) | 68.2                                | 63.0                                  | 39.8                                |
| Foreign currency translation  | 0.3                                 | –                                     | 0.1                                 |
| Unwind of discount  | (1.4)                               | (1.4)                                 | (1.3)                               |
| <b>At end of period</b>   | <b>212.0</b>                        | <b>193.8</b>                          | <b>169.7</b>                        |

\* Recoveries include £9.6m received through the sale of non-performing debt to third parties (August 2016: £17.3m).

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

## 9. Investment in Joint Venture

During the year ended 28 February 2017, the Group's joint venture, Tesco Underwriting Limited (TU), recognised additional insurance reserves following a revision to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident claims. As a result of the recognition of these losses, TU required a capital injection in order to maintain the required level of regulatory capital.

The Board of Tesco Personal Finance Plc approved the capital injection of £15.5m to TU in exchange for ordinary shares in TU, increasing the Group's investment in TU by an equivalent amount. The joint venture partner correspondingly approved an increase in its investment in TU's ordinary share capital. The capital injection was completed in April 2017.

## 10. Debt Securities in Issue

|   | Interest rate       | Par value<br>£m | Term<br>(years) | Maturity<br>date | 31 August<br>2017<br>£m | 28 February<br>2017<br>£m | 31 August<br>2016<br>£m |
|---|---------------------|-----------------|-----------------|------------------|-------------------------|---------------------------|-------------------------|
| Fixed rate retail bond –<br>issued 24 February 2011 | 5.2%                | 125.0           | 7.5             | 2018             | 127.7                   | 129.2                     | 130.8                   |
| RPI bond –<br>issued 16 December 2011 <sup>1</sup>  | 1.0%                | 68.6            | 8               | 2019             | 68.6                    | 67.2                      | 66.3                    |
| Fixed rate retail bond –<br>issued 21 May 2012      | 5.0%                | 200.0           | 8.5             | 2020             | 208.3                   | 209.6                     | 213.1                   |
| Floating rate AAA bond (A1) <sup>2</sup>            | 1M LIBOR +<br>0.45% | 150.0           | 5               | 2019             | –                       | 149.7                     | 149.6                   |
| Floating rate AAA bond (A2) <sup>3</sup>            | 1M LIBOR +<br>0.65% | 350.0           | 7               | 2021             | 349.4                   | 349.2                     | 349.1                   |
| Floating rate AAA bond (A1) <sup>4</sup>            | 1M LIBOR +<br>0.65% | 300.0           | 5               | 2020             | 299.8                   | 299.4                     | 299.3                   |
|   |                     |                 |                 |                  | <b>1,053.8</b>          | <b>1,204.3</b>            | <b>1,208.2</b>          |

All Floating Rate Bonds were issued by Delamare Cards MTN Issuer plc and are listed on the Irish Stock Exchange. All retail bonds are listed on the London Stock Exchange.

<sup>1</sup> The 1% RPI Bond is redeemable at par, indexed for increases in the RPI over the life of the Bond.

<sup>2</sup> This Bond was issued on 6 June 2014 and was redeemed on its scheduled redemption date of 19 May 2017.

<sup>3</sup> This Bond was issued on 6 June 2014. The scheduled redemption date of this Bond is May 2019.

<sup>4</sup> This Bond was issued on 13 May 2015. The scheduled redemption date of this Bond is April 2018.

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

## 11. Provisions for Liabilities and Charges

|                                   | Customer<br>Redress<br>Provision<br>£m | Insurance<br>Provision<br>£m | Restructuring<br>Provision<br>£m | Other<br>provisions<br>£m | Total<br>£m |
|-----------------------------------|--|------------------------------|----------------------------------|---------------------------|-------------|
| <b>6 months to 31 August 2017</b> |  |                              |                                  |                           |             |
| At beginning of period            | 68.0                                   | 4.2                          | 6.7                              | 4.6                       | 83.5        |
| Provided during the period        | –                                      | 6.8                          | –                                | 0.5                       | 7.3         |
| Utilised during the period        | (10.0)                                 | (7.2)                        | (2.7)                            | (0.1)                     | (20.0)      |
| At end of period                  | <b>58.0</b>                            | <b>3.8</b>                   | <b>4.0</b>                       | <b>5.0</b>                | <b>70.8</b> |

## Customer redress provision - Payment protection insurance (PPI)

Of the total customer redress provision balance at 31 August 2017, £54.7m (February 2017: £63.8m) has been provided for customer redress in respect of potential customer complaints arising from historic sales of PPI.

In March 2017, the FCA issued a Policy Statement (PS17/3, 'Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance') which confirmed a deadline for PPI claims of August 2019, supported by an FCA led communications campaign.

The policy statement also confirmed that both up-front commission arrangements and profit share arrangements should be considered in the calculation of total commission for Plevin complaints.

The Group increased its PPI provision by £45.0m during the year ended 28 February 2017 to reflect:

- the impact on current claim volumes of the proposed extension to the time bar;
- an updated assessment of the current claim rate;
- the impact on the expected cost of redress from new rules proposed in the FCA paper regarding Plevin; and
- additional costs expected to be incurred in respect of the Group's contribution to the FCA's communications campaign.

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 ahead of the FCA confirmed time bar date of August 2019, the provision balance represents Management's best estimate at the reporting date of that cost. The PPI provision will continue to be monitored as trends in complaint volumes and levels of redress develop.

The table below details for each key assumption, actual data to 31 August 2017, forecast assumptions used in assessing the PPI provision adequacy and a sensitivity assessment demonstrating the impact on the provision of a variation in the future experience.

| Assumption                         | Cumulative<br>actual | Future<br>expected | Sensitivity             |  |
|------------------------------------|----------------------|--------------------|-------------------------|--|
|                                    |                      |                    | Change in<br>assumption | Consequential change in<br>provision<br>£m |
| Valid claims settled               | 107,945              | 41,676             | +/- 1,000<br>complaints | +/- 1.1                                    |
| Average redress per valid<br>claim | £1,826               | £1,079             | +/- £100                | +/- 4.1                                    |

**11. Provisions for Liabilities and Charges (continued)**

**Customer redress provision - Consumer credit act (CCA)**

The Group holds a provision of £3.3m (February 2017: £4.2m) in respect of customer redress relating to instances where certain requirements of the CCA for post-contract documentation were not fully complied with.

In arriving at the provision required the Group has considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when making its judgement. The provision represents Management's best estimate at the reporting date of the cost of concluding the redress programme for Loan and Credit Card customers, and in making the estimate Management have exercised judgement as to both the timescale for completing the redress campaign and the final scope of any amounts payable.

**Insurance provision**

The insurance provision relates to insurance policy cancellation by customers.

**Restructuring provision**

The restructuring provision relates to restructuring costs arising from the Customer 2020 programme.

**Other provisions**

Other provisions predominantly represent a dilapidation provision related to the anticipated costs of restoring leased assets to their original condition.

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

## 12. 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 2017       |                  | 28 February 2017     |                  | 31 August 2016       |                  |
|---|----------------------|------------------|----------------------|------------------|----------------------|------------------|
|   | Carrying value<br>£m | Fair value<br>£m | Carrying value<br>£m | Fair value<br>£m | Carrying value<br>£m | Fair value<br>£m |
| <b>Financial assets:</b>                      |                      |                  |                      |                  |                      |                  |
| Loans and advances to customers               | 10,762.2             | 10,920.6         | 9,961.2              | 10,178.2         | 9,264.8              | 9,440.7          |
| Investment securities - loans and receivables | 34.1                 | 37.7             | 34.1                 | 55.3             | 34.1                 | 56.8             |
|   | <b>10,796.3</b>      | <b>10,958.3</b>  | <b>9,995.3</b>       | <b>10,233.5</b>  | <b>9,298.9</b>       | <b>9,497.5</b>   |
| <b>Financial liabilities:</b>                 |                      |                  |                      |                  |                      |                  |
| Deposits from customers                       | 8,896.9              | 8,915.5          | 8,466.8              | 8,489.1          | 8,111.0              | 8,141.6          |
| Debt securities in issue                      | 1,053.8              | 1,059.1          | 1,204.3              | 1,210.0          | 1,208.2              | 1,195.6          |
| Subordinated liabilities and notes            | 235.0                | 190.6            | 235.0                | 239.9            | 235.0                | 239.8            |
|   | <b>10,185.7</b>      | <b>10,165.2</b>  | <b>9,906.1</b>       | <b>9,939.0</b>   | <b>9,554.2</b>       | <b>9,577.0</b>   |

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 instruments. The valuation techniques and inputs used to derive fair values at the period end are described below, and remain unchanged since 28 February 2017.

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

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

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

## 12. Fair Values (continued)

The table below categorises all financial instruments held at fair value (recurring measurement) and the fair value of financial instruments held at amortised cost according to the method used to establish the fair value disclosed.

|  | Level 1<br>£m  | Level 2<br>£m | Level 3<br>£m   | Total<br>£m     |
|--|----------------|---------------|-----------------|-----------------|
| <b>As at 31 August 2017</b>                            |                |               |                 |                 |
| <b>Financial assets carried at fair value</b>          |                |               |                 |                 |
| Financial assets classified as available-for-sale      | 949.3          | –             | 1.8             | 951.1           |
| Derivative financial instruments:                      |                |               |                 |                 |
| Interest rate swaps                                    | –              | 25.8          | –               | 25.8            |
| <b>Financial assets carried at amortised cost</b>      |                |               |                 |                 |
| Loans and advances to customers                        | –              | –             | 10,920.6        | 10,920.6        |
| Investment securities – loans and receivables          | –              | 37.7          | –               | 37.7            |
| <b>Total</b>   | <b>949.3</b>   | <b>63.5</b>   | <b>10,922.4</b> | <b>11,935.2</b> |
| <b>Financial liabilities carried at fair value</b>     |                |               |                 |                 |
| Derivative financial instruments:                      |                |               |                 |                 |
| Interest rate swaps                                    | –              | 122.2         | –               | 122.2           |
| Forward foreign currency contracts                     | –              | 1.3           | –               | 1.3             |
| <b>Financial liabilities carried at amortised cost</b> |                |               |                 |                 |
| Deposits from customers                                | –              | –             | 8,915.5         | 8,915.5         |
| Debt securities in issue                               | 1,059.1        | –             | –               | 1,059.1         |
| Subordinated liabilities and notes                     | –              | 190.6         | –               | 190.6           |
| <b>Total</b>   | <b>1,059.1</b> | <b>314.1</b>  | <b>8,915.5</b>  | <b>10,288.7</b> |
| <b>As at 28 February 2017</b>                          |                |               |                 |                 |
| <b>Financial assets carried at fair value</b>          |                |               |                 |                 |
| Financial assets classified as available-for-sale      | 964.4          | –             | 1.7             | 966.1           |
| Derivative financial instruments:                      |                |               |                 |                 |
| Interest rate swaps                                    | –              | 27.6          | –               | 27.6            |
| Cross currency swaps                                   | –              | 1.0           | –               | 1.0             |
| Forward foreign currency contracts                     | –              | 0.1           | –               | 0.1             |
| <b>Financial assets carried at amortised cost</b>      |                |               |                 |                 |
| Loans and advances to customers                        | –              | –             | 10,178.2        | 10,178.2        |
| Investment securities – loans and receivables          | –              | 55.3          | –               | 55.3            |
| <b>Total</b>   | <b>964.4</b>   | <b>84.0</b>   | <b>10,179.9</b> | <b>11,228.3</b> |
| <b>Financial liabilities carried at fair value</b>     |                |               |                 |                 |
| Derivative financial instruments:                      |                |               |                 |                 |
| Interest rate swaps                                    | –              | 123.8         | –               | 123.8           |
| Cross currency swaps                                   | –              | 9.3           | –               | 9.3             |
| Forward foreign currency contracts                     | –              | 0.2           | –               | 0.2             |
| <b>Financial liabilities carried at amortised cost</b> |                |               |                 |                 |
| Deposits from customers                                | –              | –             | 8,489.1         | 8,489.1         |
| Debt securities in issue                               | 1,210.0        | –             | –               | 1,210.0         |
| Subordinated liabilities and notes                     | –              | 239.9         | –               | 239.9           |
| <b>Total</b>   | <b>1,210.0</b> | <b>373.2</b>  | <b>8,489.1</b>  | <b>10,072.3</b> |



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

## 12. Fair Values (continued)

|  | Level 1<br>£m  | Level 2<br>£m | Level 3<br>£m  | Total<br>£m     |
|--|----------------|---------------|----------------|-----------------|
| <b>As at 31 August 2016</b>                            |                |               |                |                 |
| <b>Financial assets carried at fair value</b>          |                |               |                |                 |
| Financial assets classified as available-for-sale      | 954.0          | –             | 1.5            | 955.5           |
| Derivative financial instruments:                      |                |               |                |                 |
| Interest rate swaps                                    | –              | 29.6          | –              | 29.6            |
| Cross currency swaps                                   | –              | 1.0           | –              | 1.0             |
| Forward foreign currency contracts                     | –              | 0.1           | –              | 0.1             |
| <b>Financial assets carried at amortised cost</b>      |                |               |                |                 |
| Loans and advances to customers                        | –              | –             | 9,440.7        | 9,440.7         |
| Investment securities – loans and receivables          | –              | 56.8          | –              | 56.8            |
| <b>Total</b>   | <b>954.0</b>   | <b>87.5</b>   | <b>9,442.2</b> | <b>10,483.7</b> |
| <b>Financial liabilities carried at fair value</b>     |                |               |                |                 |
| Derivative financial instruments:                      |                |               |                |                 |
| Interest rate swaps                                    | –              | 170.3         | –              | 170.3           |
| Cross currency swaps                                   | –              | 6.8           | –              | 6.8             |
| Forward foreign currency contracts                     | –              | 1.1           | –              | 1.1             |
| <b>Financial liabilities carried at amortised cost</b> |                |               |                |                 |
| Deposits from customers                                | –              | –             | 8,141.6        | 8,141.6         |
| Debt securities in issue                               | 1,195.6        | –             | –              | 1,195.6         |
| Subordinated liabilities and notes                     | –              | 239.8         | –              | 239.8           |
| <b>Total</b>   | <b>1,195.6</b> | <b>418.0</b>  | <b>8,141.6</b> | <b>9,755.2</b>  |

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:

- 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
- 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.

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

**12. Fair Values (continued)**

**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.

The estimated fair value of financial assets classified as available-for-sale, being the Group's interest in VISA Inc. preferred stock, is reflected in the table on page 22. The preferred stock may be convertible into Class A Common Stock of VISA Inc at certain future dates, the earliest point being June 2020. Conversion is contingent on future events, principally related to the outcome of interchange litigation against VISA Europe Limited. As such, the valuation reflects both an illiquidity discount and the risk of a reduction in the conversion rate to VISA Inc Common Stock. The reduction in the conversion rate is the most significant unobservable input to the valuation.

There were no transfers between Level 1 and Level 2 during the period (August 2016: no transfers).

There were no transfers between Level 2 and Level 3 during the period (August 2016: no transfers).

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

## 13. Capital Resources

On 27 June 2013 the final Capital Requirements Directive IV (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<br>6 months to<br>31 August<br>2017<br>£m | Transitional<br>6 months to<br>28 February<br>2017<br>£m | Transitional<br>6 months to<br>31 August<br>2016<br>£m |
|---|--|--|--|
| <b>Movement in common equity tier 1 capital:</b>        |  |  |  |
| At the beginning of the period                          | 1,381.1  | 1,289.3  | 1,217.6  |
| Profit attributable to shareholders                     | 76.4   | 85.3   | 67.3   |
| Gains and losses on liabilities arising from own credit | –  | 0.1  | 0.8  |
| Other reserves  | 5.6  | 3.3  | 2.4  |
| Ordinary dividends                                      | (25.2)   | (20.9)   | (29.1)   |
| Movement in intangible assets                           | 15.4   | 27.7   | 36.2   |
| Movement in material holdings                           | –  | 3.4  | –  |
| Deferred tax liabilities related to intangible assets   | (7.3)  | (7.1)  | (5.9)  |
| <b>At the end of the period</b>                         | <b>1,446.0</b>   | <b>1,381.1</b>   | <b>1,289.3</b>   |

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

## 13. Capital Resources (continued)

|  | End Point<br>31 August<br>2017<br>£m | Transitional<br>31 August<br>2017<br>£m | Transitional<br>28 February<br>2017<br>£m | Transitional<br>31 August<br>2016<br>£m |
|--|--------------------------------------|---|---|---|
| <b>Common equity tier 1</b>  |                                      |   |   |   |
| Shareholders' equity (accounting capital)  | 1,753.6                              | 1,753.6                                 | 1,671.5                                   | 1,633.4                                 |
| <b>Regulatory adjustments</b>  |                                      |   |   |   |
| Unrealised gains on cash flow hedge reserve  | 0.4                                  | 0.4                                     | 0.5                                       | –                                       |
| Adjustment to own credit/Additional value adjustments                              | (1.1)                                | (1.1)                                   | (1.1)                                     | (1.2)                                   |
| Foreseeable dividends  | (25.2)                               | (25.2)                                  | –   | (29.1)                                  |
| Intangible assets  | (284.6)                              | (284.6)                                 | (300.0)                                   | (327.6)                                 |
| Deferred tax liabilities related to intangible assets                              | 6.3                                  | 6.3                                     | 13.6                                      | 20.6                                    |
| Material holdings in financial sector entities                                     | –                                    | (3.4)                                   | (3.4)                                     | (6.8)                                   |
| <b>Common equity tier 1 capital</b>  | <b>1,449.4</b>                       | <b>1,446.0</b>                          | <b>1,381.1</b>                            | <b>1,289.3</b>                          |
| <b>Tier 2 capital (instruments and provisions)</b>                                 |                                      |   |   |   |
| 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                                   |
| Credit risk adjustment   | 68.9                                 | 68.9                                    | 63.1                                      | 49.6                                    |
| <b>Tier 2 capital (instruments and provisions) before regulatory adjustments</b>   | <b>303.9</b>                         | <b>303.9</b>                            | <b>298.1</b>                              | <b>284.6</b>                            |
| <b>Regulatory adjustments</b>  |                                      |   |   |   |
| Material holdings in financial sector entities                                     | (34.1)                               | (30.7)                                  | (30.7)                                    | (27.3)                                  |
| <b>Total regulatory adjustments to tier 2 capital (instruments and provisions)</b> | <b>(34.1)</b>                        | <b>(30.7)</b>                           | <b>(30.7)</b>                             | <b>(27.3)</b>                           |
| <b>Total tier 2 capital (instruments and provisions)</b>                           | <b>269.8</b>                         | <b>273.2</b>                            | <b>267.4</b>                              | <b>257.3</b>                            |
| <b>Total capital</b>   | <b>1,719.2</b>                       | <b>1,719.2</b>                          | <b>1,648.5</b>                            | <b>1,546.6</b>                          |
| Total risk weighted assets   | 8,740.9                              | 8,740.9                                 | 8,255.1                                   | 7,763.3                                 |

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

## 13. Capital Resources (continued)

|  | End Point<br>31 August<br>2017 | Transitional<br>31 August<br>2017 | Transitional<br>28 February<br>2017 | Transitional<br>31 August<br>2016 |
|--|--------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Common equity tier 1 ratio (unaudited) | 16.6%                          | 16.5%                             | 16.7%                               | 16.6%                             |
| Tier 1 ratio (unaudited)               | 16.6%                          | 16.5%                             | 16.7%                               | 16.6%                             |
| Total capital ratio (unaudited)        | 19.7%                          | 19.7%                             | 20.0%                               | 19.9%                             |

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

|   | 31 August<br>2017<br>£m | 28 February<br>2017<br>£m | 31 August<br>2016<br>£m |
|---|-------------------------|---------------------------|-------------------------|
| Tesco Personal Finance plc (Group) shareholders' equity   | 1,760.4                 | 1,670.5                   | 1,653.7                 |
| Share of joint venture's retained earnings                | 3.5                     | 10.4                      | (9.3)                   |
| Subsidiaries' retained earnings                           | —                       | 0.8                       | —                       |
| Share of joint venture's available-for-sale reserve       | (10.3)                  | (10.2)                    | (11.0)                  |
| Tesco Personal Finance plc (Company) shareholders' equity | <b>1,753.6</b>          | <b>1,671.5</b>            | <b>1,633.4</b>          |

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.

## Leverage ratio

The Basel III reforms include the introduction of a capital leverage measure 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 on Banking Supervision (BCBS) has 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.

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

## 13. Capital Resources (continued)

| Exposures for leverage ratio  | End Point<br>31 August<br>2017<br>£m | Transitional<br>31 August<br>2017<br>£m | Transitional<br>28 February<br>2017<br>£m | Transitional<br>31 August<br>2016<br>£m |
|---|--------------------------------------|---|---|---|
| Total balance sheet exposures   | 13,328.5                             | 13,328.5                                | 12,558.3                                  | 11,867.0                                |
| Removal of accounting value of derivatives and Securities Financing Transactions (SFTs) | (22.4)                               | (22.4)                                  | (25.0)                                    | (27.5)                                  |
| Exposure value for derivatives and SFTs   | 10.0                                 | 10.0                                    | 9.1                                       | 9.2                                     |
| Off balance sheet: unconditionally cancellable (10%)                                    | 1,199.1                              | 1,199.1                                 | 1,197.7                                   | 1,136.4                                 |
| Off balance sheet: other (20%)  | 46.9                                 | 46.9                                    | 31.1                                      | 22.9                                    |
| Other regulatory adjustment – including intangible assets                               | (324.8)                              | (324.8)                                 | (343.9)                                   | (376.9)                                 |
| Material holdings in financial sector entities  | –                                    | (3.4)                                   | (3.4)                                     | (6.8)                                   |
| <b>Total</b>  | <b>14,237.3</b>                      | <b>14,233.9</b>                         | <b>13,243.9</b>                           | <b>12,624.3</b>                         |
| <b>Common equity tier 1</b>   | <b>1,449.4</b>                       | <b>1,446.0</b>                          | <b>1,381.1</b>                            | <b>1,289.3</b>                          |
| <b>Leverage ratio</b>   | <b>10.2%</b>                         | <b>10.2%</b>                            | <b>10.3%</b>                              | <b>10.2%</b>                            |

The Company's estimated end point leverage ratio is 10.2% (February 2017: 10.3%). 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 the higher of this internal assessment and regulatory requirements. Capital adequacy and performance against the Group's capital plan is monitored daily, with monthly reporting provided to the Board, Asset and Liability Committee and Capital Management Forum.

During the period capital and leverage regulations continued to evolve.

## Pillar 2 capital methodologies

The PRA updated its Pillar 2 capital methodologies in July 2016 following the publication of prudential requirements for implementation of ring-fencing and in February 2017 consulted on Pillar 2A adjustments to the Standardised Approach for Credit Risk, revisions to internal ratings-based benchmarking (IRB) and additional consideration for standardised firms using IFRS accounting.

These proposals are aimed at promoting the safety and soundness of PRA-regulated firms, to facilitate a more effective banking sector and to make the PRA's Pillar 2A capital assessment more robust and more proportionate by addressing some of the concerns over the differences between Standardised approach and IRB risk weights. This will continue to be managed as part of the Bank's internal capital adequacy assessment process in line with the PRA updated expectations as advised in February 2017. The PRA general safety and soundness objectives in relation to continuity of core services in the UK and ring-fencing of Bank activities where core deposits are in excess of £25bn are due to be implemented from 1 January 2019.

Management forecasts indicate that the Group will not exceed this threshold and will not automatically be required to ring-fence the Group's core activities by the 2019 implementation date.

**13. Capital Resources (continued)**

**Credit Risk**

In December 2015 the BCBS published a second consultation on revisions to the Standardised credit risk framework and the impact of these proposed revisions was assessed through a Quantitative Impact Study during 2016. The proposed revisions are designed to increase the risk sensitivity of the framework and to better align with IRB approaches. Final rules have not yet been agreed.

**Operational risk**

In March 2016 BCBS proposed a revised Standardised Approach for Operational Risk which is expected to replace the existing approaches with a new standardised measurement approach. Final rules have not yet been agreed.

**Leverage**

In April 2016 BCBS issued revisions to the Basel III leverage ratio framework which included revisions for derivative exposures, off balance sheet items and the treatment of prudent valuation adjustments and also noted that further clarity was required on general and specific provisions. In August 2016 a European Banking Authority (EBA) report recommended a minimum Pillar 1 leverage of 3% to be applied to all credit institutions in scope for CRD IV requirements by 1 January 2018. The EBA also recommended a potential cap on the use of additional tier 1 capital for globally systematically important institutions and recommended that the inclusion of Tier 2 capital would not be appropriate in the leverage capital measure.

A PRA leverage statement in August 2016 invited firms which are currently subject to the UK leverage ratio framework to apply for a temporary modification to allow firms to exclude from the calculation of the total exposure measure those assets constituting claims on central banks.

The Group is subject to the Capital Requirements Regulation (CRR) reporting and disclosure requirements and is not currently subject to temporary modifications of the UK leverage ratio framework.

**The European Commission's minimum requirements for own funds and eligible liabilities (MREL)**

MREL requires banks to maintain at all times a sufficient aggregate amount of own funds and eligible liabilities (that may be bailed-in if required). MREL will, on full implementation, be set on a firm-specific basis and calculated as the sum of two components: a loss absorption amount, being the amount needed to absorb losses up to and in resolution; and a recapitalisation amount which reflects the capital that a firm is likely to need post resolution.

MREL is expected to be set annually over the transitional period until 1 January 2022. Prior to 31 December 2019, MREL will be equal to an institution's minimum regulatory capital requirements. From 1 January 2020 until 31 December 2021 an interim requirement will be set, with full compliance applicable on 1 January 2022. The Group is working towards implementation of these requirements and has reflected them in its strategic plan.

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

**14. 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 2017.

**15. Contingent Liabilities**

In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group undertook immediate remedial action and an independent review of the issue and continues to work closely with the authorities and regulators on this incident.

There is a possibility of a financial penalty in relation to this incident, which may or may not be material. It is not practicable to reliably estimate any impact of this at the date of this Interim Report.

**16. Ultimate Parent Undertaking**

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

**17. Events after the Reporting Period**

There have been no significant events between 31 August 2017 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, 'Interim Financial Reporting', as endorsed by the European Union; and
- the Interim Condensed Consolidated Financial Statements and Interim Management Report contained herein includes a fair review of the information required by DTR 4.2.7R, 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,

Declan Hourican  
Director  
2 October 2017

**Directors:**

Graham Pimlott - Independent Non-Executive Chairman  
Karl Bedlow - Chief Customer Officer  
John Castagno - Independent Non-Executive Director  
Iain Clink - Deputy Chief Executive  
Robert Endersby - Independent Non-Executive Director  
Richard Henderson - Chief Risk Officer  
Bernard Higgins - Chief Executive  
Declan Hourican - Chief Financial Officer  
Simon Machell - Independent Non-Executive Director  
James McConville - Independent Non-Executive Director  
David McCreadie - Managing Director  
Raymond Pierce - Independent Non-Executive Director  
Amanda Rendle - Independent Non-Executive Director  
Alan Stewart - Non-Executive Director  
James Willens - Senior Independent Non-Executive Director

**Company Secretary:**

Michael Mustard

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 2017 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 17. 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 Statements.

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 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 2017 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**

Statutory Auditor  
Edinburgh, United Kingdom  
2 October 2017