Cardnet Merchant Services Limited

Directors' report and financial statements
For the year ended 31 December 2011

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

735844

Directors

S D Bonham
S L Warner
N R Leacock (Resigned 02/02/2012)
M C Regnier (Appointed 02/02/2012)
R M Dallas (Resigned 02/05/2012)
A R England (Appointed 02/05/2012)

Company secretary

S N Slattery

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2011

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2011

Business review

Principal activities

Cardnet Merchant Services Limited ("the Company") is a limited company incorporated and domiciled in England and Wales (registered number 735844)

The Company is a joint venture between Lloyds TSB Bank plc, FDR Limited and Lloyds Bank Subsidiaries Limited and its principal activity during the year was the provision of services to merchants enabling the acceptance, authorisation and clearing of plastic card transactions

The profit after taxation for the financial year ended 31 December 2011 amounted to £39,576,000 (2010 £35,672,000) as detailed in the Statement of comprehensive income The directors aim to continue the development of the business by recruiting new merchants and leveraging Lloyds Banking Group plc corporate relationships within the existing customer base

Dividends

A dividend of £37,210,000, representing a dividend of £28,601 per share, in respect of the year to 31 December 2011 was declared and paid during the year (2010 £35,916,000) to the A & B shareholders

Further details are shown in note 13

Principal risks and uncertainties

The directors consider that the principal areas of risk are counter-party credit risk, but there is also exposure to liquidity, foreign currency and interest rate risk The Company has counter-party credit risk management processes in place which are designed to prevent specific individual merchant loss

The Company's financial risk management objectives and policies are given in note 16 to the financial statements

Key performance indicators ("KPIs")

The Company's two main KPIs are the number of transactions processed in comparison with the prior year and the aggregate value of those transactions processed in comparison with the prior year This is monitored separately between the Sterling and multicurrency platforms

Sterling platform
During the year ended 31 December 2011 the Company processed 18 7% (2010 14 4%) more transactions by value and 26 1% (2010 18 0%) more transactions by volume than during the year ended 31 December 2010 on the sterling platform

Multicurrency platform
During the year ended 31 December 2011 the Company processed 23 8% (2010 19 2%) more transactions by value and 20 0% (2010 11 2%) more transactions by volume than during the year ended 31 December 2010 on the multicurrency platform

Directors

The names of the current directors are shown on the cover

The following changes have taken place since the year end

N R Leacock	(resigned 2 February 2012)
M C Regnier	(appointed 2 February 2012)
R M Dallas	(resigned 2 May 2012)
A R England	(appointed 2 May 2012)

Employees

The Company, as a member of the Group, is committed to providing employment practices and policies which recognise the diversity of our workforce and ensure equality of opportunity for employees regardless of gender, race, disability, age, sexual orientation or religious belief

In the UK, the Group belongs to the major employer groups campaigning for equality of opportunity for all members including the Employers' Forum on Disability, Employers' Forum on Age and Stonewall The Group is also represented on the Board for Race Opportunity and the Equal Opportunities Commission The Group's involvement with these organisations enables the identification and implementation of best practice for staff

Directors' report (continued)

For the year ended 31 December 2011

Employees (continued)

The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary

Employees are kept closely involved in major changes affecting them through well established forums such as team meetings of staff, briefings, internal communications and opinion surveys There are also regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions

Share options and share purchase schemes are available for most staff, to encourage their financial involvement in the Group

Policy and practice on payment of suppliers

The Company follows "The Prompt Payment Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers Information about the "Prompt Payment Code" may be obtained by visiting www promptpaymentcode org uk

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated

It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

In relation to amounts owed to trade creditors as at 31 December 2011, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is 5 days (2010 3 days) The basis of the calculation of creditor days has been updated since the prior year financial statements to more accurately reflect the operations of Cardnet The prior year amount has been restated to reflect this

Going Concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis

Directors' indemnities

The directors have the benefit of a deed of indemnity which constitutes a "qualifying third party indemnity provision" These deeds are in force during the whole of the financial year (or from the date of appointment in respect of the directors who join the board during the financial year) The indemnities remain in force for the duration of a director's period of office

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' report (continued)

For the year ended 31 December 2011

Disclosure of information to auditors

Each director in office at the date of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006

On behalf of the board

M C Regnier
Director

21 June 2012

Independent auditors' report to the members of Cardnet Merchant Services Limited

We have audited the financial statements of Cardnet Merchant Services Limited for the year ended 31 December 2011 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Nathan Irwin

Nathan Irwin (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

31 Great George Street
Bristol
BS1 5QD

21 June 2012

Statement of comprehensive income

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Fees and commission income		**232,215**	198,817
Fees and commission expense		**(171,575)**	(142,768)
Net fees and commission income	4	**60,640**	56,049
Net finance income	3	**8,710**	7,636
Other operating expenses	5	**(15,509)**	(14,233)
Profit before tax		**53,841**	49,452
Taxation	6	**(14,265)**	(13,780)
Profit for the year attributable to owners, being total comprehensive income		**39,576**	35,672

The notes on pages 9 to 22 are an integral part of these financial statements

All results derive from continuing operations

Balance sheet
As at 31 December 2011

	Note	2011 £'000	2010 £'000
ASSETS			
Cash and cash equivalents		**38,773**	36,642
Trade and other receivables	7	**209,431**	125,034
Amounts owed by group undertakings	15	**186,959**	190,822
Property, plant and equipment	8	**1**	1
Deferred tax asset	9	**150**	46
Total assets		**435,314**	352,545
LIABILITIES			
Trade and other payables	10	**388,927**	308,417
Provisions for liabilities and charges	11	**3,530**	3,708
Amounts owed to related parties	15	**2,526**	2,989
Current tax liabilities		**14,378**	13,844
Total liabilities		**409,361**	328,958
EQUITY			
Share capital	12	**3**	3
Retained earnings		**25,950**	23,584
Total equity		**25,953**	23,587
Total equity and liabilities		**435,314**	352,545

The notes on pages 9 to 22 are an integral part of these financial statements

The financial statements on pages 5 to 22 were approved by the board of directors and were signed on its behalf by

M C Regnier
Director

21 June 2012

Statement of changes in equity

For the year ended 31 December 2011

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2010	3	23,828	23,831
Total comprehensive income for the year	-	35,672	35,672
Dividend paid	-	(35,916)	(35,916)
At 31 December 2010	**3**	**23,584**	**23,587**
Total comprehensive income for the year	-	39,576	39,576
Dividend paid	-	(37,210)	(37,210)
At 31 December 2011	**3**	**25,950**	**25,953**

The notes on pages 9 to 22 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2011

	2011 £'000	2010 £'000
Cash flows generated from operating activities		
Profit before tax	**53,841**	49,452
Adjustments for		
- Interest and similar income	**(8,710)**	(7,636)
- Depreciation	**-**	2
- (Decrease)/increase in provision for other liabilities and charges	**(178)**	1,220
Changes in operating assets and liabilities		
- Net decrease/(increase) in amounts owed by group undertakings	**3,863**	(23,616)
- Net (decrease)/increase in amounts owed to related parties	**(463)**	1,788
- Net increase in trade and other receivables	**(84,397)**	(12,532)
- Net increase in trade and other payables	**80,510**	51,798
Cash generated from operations	**44,466**	60,476
Taxes paid	**(13,835)**	(14,123)
Net cash generated from operating activities	**30,631**	46,353
Cash flows from investing activities		
Interest received	**8,710**	7,636
Net cash from investing activities	**8,710**	7,636
Cash flows used in financing activities		
Dividends paid	**(37,210)**	(35,916)
Net cash used in financing activities	**(37,210)**	(35,916)
Net increase in cash and cash equivalents	**2,131**	18,073
Cash and cash equivalents at beginning of year	**36,642**	18,569
Cash and cash equivalents at end of year	**38,773**	36,642
Cash and cash equivalents comprise		
Cash at bank	**38,773**	36,642
Cash and cash equivalents	**38,773**	36,642

The notes on pages 9 to 22 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2011

1 Accounting policies

1 1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied to both years presented, unless otherwise stated

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements

(i) Amendments to IAS 24 Related Party Disclosures Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for related party transactions with government related entities As the amendments only result in reduced disclosures, the amendments have not had any impact for amounts recognised in these financial statements

(ii) Improvements to IFRSs (issued May 2010) Sets out minor amendments to IFRS standards as part of the annual improvements process Most amendments clarified existing practice The application of these new interpretations has not had any impact for amounts recognised in these financial statements

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2011 and which have not been applied in preparing these financial statements are given in note 18

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention

1 2 Income recognition

Revenue

Fees and commissions are recognised when the service has been provided These services comprise initialisation and ongoing fees for services delivered to merchants in the Statement of comprehensive income

Finance income includes interest and is recognised in the Statement of comprehensive income for all interest–bearing financial instruments, using the effective interest rate method

Foreign currency translation

The financial statements are presented in Sterling which is the Company's functional and presentation currency Foreign currency transactions are translated into Sterling at the exchange rate prevailing at the date of the transaction

Exchange gains and losses arising from the translation of monetary assets and liabilities at the exchange rate prevailing at the balance sheet date are recognised in the Statement of comprehensive income

1 3 Expenses

Expenses directly attributable to merchant acquiring business are recognised through fees and commission expense All other expenses are recognised through other operating expenses

Property, plant and equipment are included at historical purchase cost less depreciation and any impairment allowance Historical cost includes expenditure that is directly attributable to the acquisition of the items Depreciation on other assets is calculated using the straight line method to allocate the difference between the cost and expected residual value over their estimated useful lives, as follows

Equipment - between 3 and 8 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately

1 4 Dividends

Dividends on ordinary shares are recognised through equity in the period in which they are paid

Notes to the financial statements (continued)

For the year ended 31 December 2011

1 Accounting policies (continued)

1 5 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents and Bank overdrafts comprise balances with less than three months' maturity

1 6 Taxation, including deferred income taxes

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or credit in the period in which the profits or losses arise

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

Tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously

1 7 Trade and other receivables

Trade and other receivables are measured at amortised costs, less provision for impairment

1 8 Trade and other payables

Trade and other payables are measured at amortised cost

1 9 Provision for liabilities and charges

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected The most critical estimate and judgement made by the company is in respect of provisions for other liabilities and charges

Provisions for chargebacks and fraud

This provision relates to the risk that the Company may be liable for the chargebacks of transactions on merchants who are potentially unable to meet the chargeback demands themselves The amount held is based on the value of related transactions and the likelihood of chargebacks

Due to the economic climate the company experienced an increase in attempted fraud and company failures, necessitating the need for increased provisions

Terminal commission clawback

This provision is for refunding commissions earned, where the contractual relationship with a merchant subsequently terminates The provisioning rate is based on recent historical performance of refunds

Notes to the financial statements (continued)

For the year ended 31 December 2011

3 Net finance income

	2011 £'000	2010 £'000
Finance income	**14,566**	12,285
Finance expense	**(5,856)**	(4,649)
Net finance income	**8,710**	7,636
Representing		
Lloyds TSB Bank plc	**8,705**	7,641
Third parties	**5**	(5)
	8,710	7,636

4. Net fees and commission income

	2011 £'000	2010 £'000
Fees and commission income		
Service charges	**214,383**	183,126
Other fee and commission income	**17,832**	15,691
Fees and commission expense		
Fee and commission expense	**(171,575)**	(142,768)
Net fees and commission income	**60,640**	56,049

5. Other operating expenses

	2011 £'000	2010 £'000
Recharges relating to salary and other related costs	**10,454**	9,341
Depreciation	**-**	2
Marketing	**543**	372
Change in provisions, operational losses and fraud	**2,477**	2,231
Communications	**129**	117
Charges in from LBG	**873**	869
Other	**1,033**	1,301
	15,509	14,233

Included in other operating expenses are fees payable to the Company's auditors for the audit of the financial statements of £36,000 (2010 £36,000)

The Company has no employees (2010 none), as the staff who manage the affairs of the Company are employed by the shareholders, Lloyds TSB Bank plc and FDR Limited, who recharge the cost of these employees to the Company

Pensions

Full disclosure in respect of pensions in accordance with IAS 19 "Employment Benefits" can be found in the financial statements of Lloyds TSB Bank plc, the parent company

Director's emoluments

The amounts paid to the directors in respect of services to the Company were £156,076 (2010 £199,211) This relates to payments to one director only

One director received shares under long term incentive schemes in the current and previous year

Retirement benefits are accruing to one Director under a defined benefit pension scheme operated by Lloyds TSB Bank plc (2010 one) During the year company contributions to a pension scheme for the Director totalled £38,985 (2010 £36,230)

No share options were exercised by the Directors of the Company in either the current or preceding year

Notes to the financial statements (continued)

For the year ended 31 December 2011

6 Taxation

a) Analysis of credit for the year

The credit for taxation is made up as follows

	2011 £'000	2010 £'000
UK corporation tax		
- Current tax on taxable profit for the year	**14,378**	13,844
- Adjustments in respect of prior years	**(9)**	(59)
Current tax charge	**14,369**	13,785
UK deferred tax		
- Origination and reversal of timing differences	**(113)**	9
- Adjustments in respect of prior years	**9**	(14)
Deferred tax credit (see note 9)	**(104)**	(5)
	14,265	13,780

Corporation tax is calculated at a rate of 26 5% (2010 28 0%) of the estimated taxable profit for the year

b) Factors affecting the tax credit for the year

The tax on the Company's Profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows

	2011 £'000	2010 £'000
Profit before tax	**53,841**	49,452
Tax charge thereon at UK corporation tax rate of 26 5% (2010 28 0%)	**14,268**	13,847
Factors affecting charge		
- Non-allowable and non-taxable items	**3**	6
- Adjustments in respect of prior years	**-**	(73)
- Effect of reduction in tax rate	**(6)**	-
Tax on profit on ordinary activities	**14,265**	13,780
Effective rate	26 5%	27 9%

7 Trade and other receivables

	2011 £'000	2010 £'000
Amounts owed by card schemes	**179,659**	101,072
Amounts owed by merchants	**8,648**	6,829
Other receivables	**1,925**	892
Accrued income	**19,199**	16,241
	209,431	125,034

Notes to the financial statements (continued)
For the year ended 31 December 2011

8. Property, plant and equipment

Equipment

	2011 £'000	2010 £'000
Cost		
At 1 January and 31 December	217	217
Accumulated depreciation		
At 1 January	216	214
Charge for the year	-	2
At 31 December	216	216
Net book value at 31 December	1	1

9 Deferred tax asset

The movement in the deferred tax asset is as follows

	2011 £'000	2010 £'000
At 1 January	46	41
Charge for the year (see note 6)	104	5
At 31 December	150	46

The deferred tax credit in the Statement of comprehensive income comprises the following temporary differences

	2011 £'000	2010 £'000
Accelerated capital allowances	7	1
Short-term timing differences	97	4
	104	5

The deferred tax asset comprises	2011 £'000	2010 £'000
Accelerated capital allowances	26	19
Other temporary differences	124	27
	150	46

The net deferred tax asset is payable as follows,

After more than 12 months	150	46
Within 12 months	-	-

Notes to the financial statements (continued)
For the year ended 31 December 2011

9. Deferred tax asset (continued)

The deferred tax asset arises due to the timing difference arising between the accounting and tax treatment on fixed assets and accrued bonuses

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011

In his Budget speech on 23 March 2011 the Chancellor announced a further reduction in the rate of corporation tax to 26 per cent with effect from 1 April 2011 This further reduction was enacted under the Provisional Collection of Taxes Act 1968 on 29 March 2011 Legislation to reduce the main rate of corporation tax from 26 per cent to 25 per cent from 1 April 2012 has been included in the Finance Act 2011 and substantively enacted on 5 July 2011 Accordingly the deferred tax asset has been recognised at 25% As a result the company's deferred tax liability decreased, resulting in a credit to the statement of comprehensive income of £3 447

In his Budget speech on 21 March 2012 the Chancellor announced that the main rate of corporation tax will be reduced from 26% to 24% with effect from 1 April 2012 The reduction from 26% to 24% is estimated to decrease the deferred tax asset by £5,995, which will be reflected in the financial statements for the subsequent year ended 31 December 2012

The proposed further reductions in the rate of corporation tax by 1 per cent per annum to 22 per cent from 1 April 2014 are expected to be enacted separately each year The effect of these further changes upon the company's deferred tax balances cannot be reliably quantified at this stage

10. Trade and other payables

	2011 **£'000**	2010 £'000
Amounts owed to merchants	**385,446**	306,410
Amounts owed to card schemes	**105**	-
Other creditors and accruals	**3,376**	2,007
	388,927	308,417

11. Provision for liabilities and charges

	2011 **£'000**	2010 £'000
At 1 January	**3,708**	2,488
Provisions made during the year	**3,631**	3,889
Amounts written off during the year	**(3,809)**	(2,669)
At 31 December	**3,530**	**3,708**
Provisions for chargebacks and fraud	**1,634**	1,942
Terminal commission clawback	**1,896**	1,766
	3,530	**3,708**

12 Share capital

	2011 **£'000**	2010 £'000
Allotted, issued and fully paid		
650 'A' ordinary shares of £1 each	**1**	1
651 'B' ordinary shares of £1 each	**1**	1
1,300 deferred shares of £1 each	**1**	1
	3	3

At 31 December 2011, the authorised share capital of the Company was £2,601 divided into 650 "A" ordinary shares of £1 each, 651 "B" ordinary shares of £1 each and 1,300 deferred shares of £1 each

Notes to the financial statements (continued)

For the year ended 31 December 2011

12 Share capital (continued)

The ordinary shareholders (the holders of the "A" ordinary shares and the "B" ordinary shares) have priority over the deferred shareholders (the holders of the deferred shares) to receive dividends distributed up to the 'deferred share threshold' as defined in the Company's articles of association Dividends above the threshold are to be distributed as follows 99% amongst the ordinary shareholders and 1% amongst the deferred shareholders On winding up, the deferred shareholders have priority over the ordinary shareholders to receive repayment of capital The ordinary shareholders have equal voting rights and the deferred shareholders have no voting rights

FDR Limited holds 650 "A" ordinary shares Lloyds TSB Bank plc holds 637 "B" ordinary shares Lloyds Bank Subsidiaries Limited holds 14 "B" ordinary shares Lloyds Banking Group plc holds 1,300 deferred shares

13 Ordinary dividends

	2011 £'000	2011 £ per share	2010 £'000	2010 £ per share
Amounts paid in respect of preceding years				
Second interim dividend	23,575	18,121	23,819	18,308
Amounts paid in respect of current years				
First interim dividend	13,635	10,480	12,097	9,298
	37,210	28,601	35,916	27,606

14 Share based payments

Share based payments

During the year ended 31 December 2011, the Company's ultimate parent company operated the following share based payment schemes, all of which are equity settled

Executive schemes

The Executive share option schemes were long-term incentive schemes and were available to certain senior executives of the Group, with grants usually made annually Options were granted within limits set by the rules of the schemes relating to the number of shares under option and the price payable on the exercise of options The last grant of executive options was made in August 2005 These options were granted without a performance multiplier and the maximum limit for the grant of options in normal circumstances was three times annual salary Between April 2001 and August 2004, the aggregate value of the award based upon the market price at the date of grant could not exceed four times the executive's annual remuneration and, normally, the limit for the grant of options to an executive in any one year would be equal to 1 5 times annual salary with a maximum performance multiplier of 3 5 Prior to 18 April 2001, the normal limit was equal to one year's remuneration and no performance multiplier was applied

Performance conditions for executive options

For options granted up to March 2001

The performance condition was that the growth in earning per share must be equal to the aggregate percentage change in the Retail Price Index plus three percentage points for each complete year of the relevant period together with a further condition that Lloyds Banking Group plc's ranking based on shareholder return (calculated by reference to both dividends and growth in share price) over the relevant period should be in the top fifty companies of the FTSE100

The relevant period for the performance conditions began at the end of the financial year preceding the date of grant and continued until the end of the third subsequent year following commencement or, if not met, the end of such later year in which the conditions were met Once the conditions were satisfied the options will remain exercisable without further conditions If they are not satisfied by the tenth anniversary of the grant the options would lapse

For options granted from August 2001 to August 2004

The performance condition is linked to the performance of Lloyds Banking Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 17 companies including Lloyds Banking Group plc

The performance condition was measured over a three year period which commenced at the end of the financial year preceding the grant of the option and continued until the end of the third subsequent year If the performance condition was not then met, it was measured at the end of the fourth financial year If the condition has not then been met, the options would lapse

Notes to the financial statements (continued)

For the year ended 31 December 2011

14 Share based payments (continued)

Performance conditions for executive options (continued)

For options granted from August 2001 to August 2004 (continued)

To meet the performance conditions, the Lloyds Banking Group's ranking against the comparator group was required to be at least ninth The full grant of options only became exercisable if the Group was ranked first A performance multiplier (of between nil and 100%) was applied below this level to calculate the number of shares in respect of which options granted to executive directors would become exercisable, and were calculated on a sliding scale If Lloyds Banking Group plc was ranked below median the options would not be exercisable

Options granted to senior executives other than executive directors are not so highly leveraged and as a result, different performance multipliers are applied to their options For the majority of executives, options are granted with the performance condition but no performance multiplier

For options granted in 2005

The same conditions apply as for grants made up to August 2004, except that

- the performance condition was linked to the performance of Lloyds Banking Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 15 companies including Lloyds Banking Group plc,
- if the performance condition was not met at the end of the third subsequent year, the options would lapse, and
- the full grant of options became exercisable only if the Lloyds Banking Group plc is ranked in the top four places of the comparator group A sliding scale applies between fourth and eighth positions If Lloyds Banking Group plc was ranked below the median (ninth or below) the options would lapse

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn ("SAYE") schemes to save up to £250 per month and, at the expiry of a fixed term of three, five or seven years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in Lloyds Banking Group plc at a discounted price of no less than 80 per cent of the market price at the start of the invitation

Other share option plans

Lloyds TSB Group Executive Share Plan 2003

The plan was adopted in December 2003 and under the plan share options may be granted to senior employees Options granted under this plan have been granted specifically to facilitate recruitment and as such were granted not subject to any performance conditions The plan has now been extended to not only compensate new recruits for any lost share awards but also to make grants to key individuals for retention purposes, and in some instances, the grant being made subject to individual performance conditions

Other share plans

Long-Term Incentive Plan

The Long-Term Incentive Plan ("LTIP") introduced in 2006 is a long-term incentive scheme aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of the Group over a 3 year period Awards are made within limits set by the rules of the plan, with the limits determining the maximum number of shares that can be awarded equating to 3 times annual salary In exceptional circumstances this may increase up to 4 times annual salary

The performance conditions for awards made in March, April and August 2008 are as follows

(i) For 50% of the award (the "EPS Award") – the percentage increase in earnings per share of the Group (on a compound annualised basis) over the relevant period must be at least an average of 6 percentage points per annum greater than the percentage increase (if any) in the Retail Price Index over the same period If it is less than 3% per annum the EPS Award will lapse If the increase is more than 3% but less than 6% per annum then the proportion of shares released will be on a straight line basis between 17 5% and 100% The relevant period commenced on 1 January 2008 and ended on 31 December 2010

(ii) For the other 50% of the award (the "TSR Award") – it will be necessary for the Group's total shareholder return (calculated by reference to both dividends and growth in share price) to exceed the median of a comparator group (13 companies) over the relevant period by an average of 7 5% per annum for the TSR Award to vest in full 17 5% of the TSR Award will vest where the Group's total shareholder return is equal to median and vesting will occur on a straight line basis in between these points Where the Group's total shareholder return is below the median of the comparator group, the TSR Award will lapse The relevant period commenced on 6 March 2008 and ended on 5 March 2011

Notes to the financial statements (continued)

For the year ended 31 December 2011

14 Share based payments (continued)

Other share plans (continued)

Long-Term Incentive Plan (continued)

As consequence of the acquisition of HBOS and the general market turmoil, in March 2009 the remuneration committee decided that the performance test for the 2008 awards should be based on the performance of the Group to 17 September 2008, the date prior to the announcement of the HBOS acquisition The performance test was on a fair value basis, on the estimated probability, as at that date, of achieving the performance conditions

The performance conditions for the awards made in April, May and September 2009 are as follows

(i) EPS relevant to 50% of the award Performance will be measured based on EPS growth over a three-year period from the baseline EPS of 2008

(ii) Economic Profit relevant to 50% of the award Performance will be measured based on the extent to which cumulative Economic Profit targets are achieved over the three-year period

In addition, in 2009 an additional discretionary award was made in April, May and September 2009 The performance conditions for those awards were as follows

(i) Synergy Savings The release of 50% of the shares will be dependant on the achievement of target run rate synergy savings in 2009 and 2010 as well as the achievement of sustainable synergy savings of at least £1 5billion by the end of 2011 The award will be broken down into three equally weighted annual tranches Performance will be assessed at the end of each year against annual performance targets based on a trajectory to meet the 2011 target The extent to which targets have been achieved will determine the proportion of shares to be banked each year Any release of shares will be subject to the Remuneration Committee judging the overall success of the delivery of the integration programme

(ii) Integration Balanced Scorecard The release of the remaining 50% of the shares will be dependent on the outcome of a Balanced Scorecard of non-financial measures of the success of the integration in each of 2009, 2010 and 2011 The Balanced Scorecard element will be broken down into three equally weighted tranches The tranches will be crystallised and banked for each year of the performance cycle subject to separate annual performance targets across the four measurement categories of Building the Business, Customer, Risk and People and Organisation Development

The performance conditions for awards made in March and September 2011 are as follows

(i) EPS relevant to 50% of the award The performance target is based on 2013 adjusted EPS outcome

(ii) Economic Profit relevant to 50% of the award The performance target is based on 2013 adjusted EP outcome

Share incentive plan

Free shares

An award of Group shares may be made annually to employees based on a percentage of the employees' salary in the preceding year up to maximum of £3,000 The percentage is normally announced concurrently with the Group's annual results and the price of the shares awarded is announced at the time of award The shares awarded are held in trust for a mandatory period of three years on the employees' behalf The award is subject to a non-market based condition if an employee leaves the Group within this three year period for other than a 'good' reason, all of the shares awarded will be forfeited

No free shares were awarded in 2010 or 2011

Matching shares

The Group undertakes to match shares purchased by employees up to the value of £30 per month These shares are held in trust for a mandatory period of three years on the employees' behalf, during which period the employee is entitled to any dividends on such shares The award is subject to a non-market based condition, if an employee leaves within this three year period for other than a 'good' reason, 100% of the matching shares are forfeited

Notes to the financial statements (continued)

For the year ended 31 December 2011

14 Share based payments (continued)

Other information

The charge made to the Statement of comprehensive income represents the Company's share of the cost of the above schemes This charge has been allocated to the Company based on the number of the Company's employees who participate in the above schemes It is not practicable for the Company to provide information regarding the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and the number of options outstanding that is specific to the Company's employees without incurring significant additional cost

Full details of the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and number of options outstanding for the above schemes overall can be found in the 2011 annual report and accounts of the Company's ultimate parent company Copies of the ultimate parent company's 2011 annual report and accounts may be obtained from the Company Secretary's Department, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN

15. Related party transactions

The immediate parent company is Lloyds TSB Bank plc The company regarded by the Directors as the ultimate parent company is Lloyds Banking Group plc, a limited liability company incorporated and resident in Scotland, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings Copies of the group accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN

The Company's related parties include parent companies, fellow subsidiaries, pension schemes of the Company's ultimate parent company and the Company's key management personnel Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's Directors and members of the Lloyds Banking Group plc board

Key management personnel

Directors' emoluments information is disclosed in note 5

Members of the Lloyds Banking Group plc board are employed by other companies in the Lloyds Banking Group and consider that their services to this Company are incidental to their other activities in the Group

There were no other transactions between the Company and key management personnel during the current or preceding year

Amounts owed by group undertakings

Transactions are entered into with related parties in the normal course of business Details of such related party transactions are shown below

	2011 **£'000**	2010 £'000
Lloyds TSB Bank plc		
At 1 January	**190,822**	167,206
Expenses recharged	**(15,702)**	(14,843)
Dividend paid	**(18,619)**	(17,972)
Net cash flows including settlement transactions	**30,458**	56,431
Total amounts owed by group undertakings	**186,959**	190,822

The dividend paid includes a dividend of £400,415 (2010 £386,484) in relation to Lloyds Bank Subsidiaries Limited in respect of 14 "B" ordinary shares held

Notes to the financial statements (continued)

For the year ended 31 December 2011

15. Related party transactions (continued)

Amounts owed by Lloyds TSB Bank plc are interest-bearing and the average rate of net interest earned during the year was 3 99% (2010 5 30%) The fair value of amounts owed is equal to their carrying amounts No provisions have been recognised in respect of these amounts

For certain merchants, the risk of irrecoverable chargebacks is underwritten by Lloyds TSB Bank plc The credit risk underwritten by Lloyds TSB Bank plc amounted to £79,278,000 (2010 £58,400,000)

During the year, deposits were placed with Lloyds TSB Bank plc on normal commercial terms At 31 December 2011 these deposits amounted to £24 4 million (2010 £0 3 million)

Amounts owed to related parties

	2011 £'000	2010 £'000
FDR Limited		
At 1 January	2,989	1,201
Expenses recharged	2,818	2,822
Fees charged	12,113	11,377
Commissions earned	(3,258)	(3,459)
Dividend paid	18,591	17,944
Net payments during the year	(30,727)	(26,896)
Total amounts owed to related parties	2,526	2,989

Amounts owed to related parties are non-interest bearing The fair value of amounts owed is equal to their carrying amounts

16. Financial risk management

The directors are responsible for establishing a framework for evaluating, measuring, monitoring and controlling risk They are responsible for ensuring that the risks within the business are identified, assessed, monitored and controlled These controls and procedures where relevant comply with Lloyds Banking Group policies and standards All risk policies are reviewed and authorised by the Company's board of Directors, which comprises directors appointed by Lloyds TSB Bank plc and FDR Limited

16 1 Measurement basis of financial assets and liabilities

Financial assets consist of trade and other receivables, amounts owed by group undertakings and cash and cash equivalents Financial liabilities consist of trade and other payables and amounts owed to group undertakings and trade and other payables Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument Financial assets and liabilities are de-recognised when the rights to receive cash flows, or obligations to pay cash flows, have expired

Interest bearing financial assets and liabilities are recognised at amortised cost inclusive of transaction costs, using the effective interest rate method

16 2 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations is detailed below

	2011 £'000	2010 £'000
Amounts owed by group undertakings	186,959	190,822
Trade and other receivables	209,431	125,034
Maximum credit risk exposure	396,390	315,856

Credit risk arises from extending credit in all forms, where there is a possibility that a counterparty may default The Company is committed to a strong credit culture that recognises the need to ensure that risk assets are of high quality

Notes to the financial statements (continued)

For the year ended 31 December 2011

16 Financial risk management (continued)

16 2 Credit risk (continued)

The Company maintains and adheres to a credit policy document in compliance with policies established by the Group Risk Management Department within the Lloyds Banking Group

Every new merchant is subject to a detailed credit check which includes a review of financial information (for example, audited financial statements, management accounts, projections and business plans), a credit reference agency search, review of terms and conditions, associated websites and site visit reports (as necessary) Full Know Your Customer and Know Your Business checks are undertaken in line with the Company's anti-money laundering policies

The prime risk for the Company arises from the chargeback rules of the card schemes in which the Company operates, and if the financial strength of the merchant is weak, risk mitigation is considered This includes taking guarantees (including from Lloyds TSB Bank plc), cash security and deferral of funds to the merchant The Company also takes into account the availability of bonding by obtaining security through travel agents under ATOL/ABTA and insurance cover

The Company adopts a prudent approach to the identification, definition, and control of impaired debts, including chargebacks An impairment provision is made where there is clear evidence that any merchant has financial difficulties, or debts are overdue, which may impact its ability to repay any amounts owing to the Company including future chargebacks

An analysis of the credit quality of the Company's receivables is presented below The assessment of the risk level of trade and other receivables which are neither past due nor impaired is derived from information presented to the Company's management

	2011	2010
	£'000	£'000
Trade and other receivables which are neither past due nor impaired		
High quality	**201,121**	119,454
Good quality	**5,864**	4,561
Satisfactory	**-**	-
Lower quality	**-**	-
Total	**206,985**	124,015
Trade and other receivables which are past due but not impaired		
Past due up to 30 days	**1,163**	367
Past due 30 to 60 days	**420**	532
Past due 60 to 90 days	**410**	148
Past due 90 to 180 days	**1,205**	402
Total	**3,198**	1,449
Impaired trade and other receivables		
Impaired trade and other receivables assessed on an individual basis	**216**	579
Total	**216**	579
Total trade and other receivables gross of impairment allowances	**210,399**	126,043
Allowance for impairment losses	**(968)**	(1,009)
Total trade and other receivables	**209,431**	**125,034**

Notes to the financial statements (continued)

For the year ended 31 December 2011

16. Financial risk management (continued)

16 3 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due This is not considered to be a significant risk to the Company as collection from the scheme is completed before payment to the merchant This is further supported by the Company being primarily funded by the shareholders (Lloyds TSB Bank plc and FDR Limited)

The table below analyses financial liabilities of the Company on an undiscounted future cash flows basis according to contractual maturity into relevant maturity groupings based on the remaining period at the balance sheet date

As at 31 December 2011

	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	£	£	£	£	£
Amounts owed to merchants	381,910	2,704	479	353	385,446
Amounts owed to card schemes	103	2	-	-	105
Other creditors and accruals	3,171	195	9	1	3,376
Amounts owed to related parties	1,796	1,724	(994)	-	2,526
Financial liabilities	386,980	4,625	(506)	354	391,453

As at 31 December 2010

	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	£	£	£	£	£
Amounts owed to merchants	305,319	641	450	-	306,410
Amounts owed to card schemes	-	-	-	-	-
Other creditors and accruals	1,271	597	73	66	2,007
Amounts owed to related parties	1,798	1,191	-	-	2,989
Financial liabilities	308,388	2,429	523	66	311,406

The Company has sufficient funding to meet liquidity needs as there is a current funding arrangement between Lloyds TSB Bank plc and Cardnet Merchant Services Limited

16 4 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the re-pricing of financial assets and liabilities The Company is not subject to any significant interest rate risk

Exposure to interest rate risk within the Company's activities is managed within the policies laid down by the Group Balance Sheet Management Department of Lloyds Banking Group The Company's policy operates within guidelines set by the parent company

16 5 Foreign currency risk

Currency risk is the risk of financial loss arising from fluctuations in foreign currency exchange rates The currency risk that the Company faces arises from running multi-currency operations on the Omnipay platform Generally the risk is minimised because the liability to merchants is funded from receipts from payment schemes in the same currency In addition to this, the short term settlement period limits the exposure to liquidity risk to a few days

16 6 Geographical and sector concentrations of risk

The Company operates primarily within the UK There is an exposure to particular sectors arising where there is a long period of time elapsing between payment and the provision of goods/services The resulting risk is closely monitored and controlled with agreed parameters set by the Company's credit policy

Notes to the financial statements (continued)

For the year ended 31 December 2011

17 Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements

The Company's shareholders (Lloyds TSB Bank plc, FDR Limited and Lloyds Bank Subsidiaries Limited) manage the Company's capital structure and advise the board of Directors to consider making adjustments to it in the light of changes to economic and other conditions In order to maintain or adjust the capital structure, the board may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity The Company receives its funding requirements from its shareholders and does not raise funding externally

18. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2011 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Amendments to IAS 1 Presentation of financial statements [1]	Requires entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently Additionally, requires tax associated with items presented before tax to be shown separately for each of the two groups of OCI items	Annual periods beginning on or after 1 July 2012
IFRS 13 Fair value Measurement [1]	Sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements	Annual periods beginning on or after 1 January 2013
IFRS 9 Financial Instruments Classification and Measurement [1 & 2]	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument The available-for sale financial asset and held-to-maturity categories in existing IAS 39 will be eliminated The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2015

1 At the date of this report these pronouncements are awaiting EU endorsement.

2 IFRS 9 is the initial stage of the project to replace IAS 39 Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting Until all stages of the replacement project are complete it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39

The full impact of these pronouncements is being assessed by the Company However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements