

# **CARDNET MERCHANT SERVICES LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

### **Registered number**

735844

### **Registered office**

25 Gresham Street  
London  
EC2V 7HN

### **Directors**

R M Dallas (Chairman)  
S D Bonham  
S L Warner  
N R Leacock

### **Company Secretary**

S Slattery



1

**Member of Lloyds Banking Group**

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2009

### Principal activity

Cardnet Merchant Services Limited (‘the Company’) is a limited company incorporated and resident in England and Wales (registered number 735844). The Company is a joint venture between Lloyds TSB Bank plc and FDR 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.

### Review of business and future developments

The profit before tax for the financial year ended 31 December 2009 amounted to £50,097,000 (2008: £50,210,000), as detailed in the statement of comprehensive income on page 5. The Directors aim to continue the development of the business by recruiting new merchants and leveraging Lloyds Bank plc corporate relationships within the existing customer base.

### Dividends

A dividend of £25,900 per share (2008: £25,586 per share) amounting to £33,696,527 (2008: £33,287,732) was paid in July 2009 to the A & B shareholders.

No further dividends have been proposed relating to 2009 (2008: £21,596,148).

Further details are shown in note 15.

### Financial risk management

The Directors consider that the principal area of risk is counter-party credit 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 3 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.

During the year ended 31 December 2009 the Company processed 13.3% (2008: 11.9%) more transactions by value and 15.4% (2008: 12.3%) more transactions by volume than during the year ended 31 December 2008 on the sterling platform. The multicurrency platform processed 7.1% (2008: 9.05%) more transactions by value and 22.2% (2008: 128.3%) more transactions by volume than during the year ended 31 December 2008.

### Directors

The names of the current Directors of the Company are shown on page 1.

The following changes in Directors took place during the year:

	Appointed	Resigned
C D Walsh (Chairman)		19 March 2009
R M Dallas (Chairman)	19 March 2009	

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)

### 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 elected to prepare 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 estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRS) 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.

### Auditors and audit information

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.

### Policy and practice on payment of creditors

The Company follows 'The Better Payment Practice Code' published by the Department for Business, Innovation and Skills (BIS), regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref. URN 04/606.

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 2009, the number of days required to be shown in this report to comply with the provisions of the Companies Act 2006, is 26 days (2008: 33 days).

On behalf of the board

 24/6/2010

Richard Dallas  
Chairman and Director  
2010

## **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 2009 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 Directors' responsibilities statement set out on page 3, 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 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 sections 495 and 496 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.

### **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 2009 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.



Craig Gentle (Senior Statutory Auditor)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
31 Great George Street  
Bristol BS1 5QD

24 June 2010

**Statement of comprehensive income**  
for the year ended 31 December 2009

	Note	2009 £'000	Restated 2008 £ 000
Fee and commission income	4	182 323	176 168
Fee and commission expense		(121 851)	(115,752)
<b>Net fee and commission income</b>		<b>60,472</b>	<b>60,416</b>
Net finance income	5	5 201	4 616
Other operating expenses	6	(15 576)	(14 822)
<b>Profit before tax</b>		<b>50,097</b>	<b>50,210</b>
Taxation	7	(14 178)	(14 284)
<b>Profit after tax, being total comprehensive income</b>		<b>35,919</b>	<b>35,926</b>

The 2008 comparatives have been restated. This restatement has not impacted on previously reported profit before tax but the impact on presentation is explained in note 18.

The results for the year arise wholly from continuing operations and are attributable to the equity shareholders.

The accompanying notes 1 to 19 on pages 9 to 21 are an integral part of these financial statements.

## Balance sheet

as at 31 December 2009

	Note	2009 £'000	2008 £'000
<b>Non current assets</b>			
Property, plant and equipment	8	3	9
Deferred income tax asset	9	41	82
		<u>44</u>	<u>91</u>
<b>Current assets</b>			
Trade and other receivables	10	112,502	91,676
Amounts owed by group undertakings	16 (b)	167,206	118,487
Cash and cash equivalents	11	18,569	8,005
		<u>298,277</u>	<u>218,168</u>
<b>Total assets</b>		<u><b>298,321</b></u>	<u><b>218,259</b></u>
<b>Current liabilities</b>			
Trade and other payables	12	(256,619)	(185,953)
Amounts owed to related parties	16 (c)	(1,201)	(1,786)
Current tax liabilities		(14,182)	(7,130)
		<u>(272,002)</u>	<u>(194,869)</u>
<b>Non current liabilities</b>			
Provisions for other liabilities and charges	13	(2,488)	(1,781)
		<u>(2,488)</u>	<u>(1,781)</u>
<b>Total liabilities</b>		<u><b>(274,490)</b></u>	<u><b>(196,650)</b></u>
<b>Net assets</b>		<u><b>23,831</b></u>	<u><b>21,609</b></u>
<b>Equity</b>			
Share capital	14	3	3
Retained earnings		23,828	21,606
<b>Total shareholders' equity</b>		<u><b>23,831</b></u>	<u><b>21,609</b></u>

The financial statements on pages 5 to 21 were approved by the board of Directors on **24 June** 2010 and signed on its behalf by



Richard Dallas  
Chairman and Director

The accompanying notes 1 to 19 on pages 9 to 21 are an integral part of these financial statements

**Statement of changes in equity**  
for the year ended 31 December 2009

	Share capital £'000	Retained earnings £'000	Total £'000
<b>Balance at 1 January 2008</b>	<b>3</b>	<b>18,968</b>	<b>18,971</b>
Total comprehensive income for the year	-	35,926	35 926
Dividends (see note 15)	-	(33,288)	(33 288)
<b>Balance at 31 December 2008 and 1 January 2009</b>	<b>3</b>	<b>21,606</b>	<b>21,609</b>
Total comprehensive income for the year	-	35,919	35 919
Dividends (see note 15)	-	(33 697)	(33,697)
<b>Balance at 31 December 2009</b>	<b>3</b>	<b>23,828</b>	<b>23,831</b>

The accompanying notes 1 to 19 on pages 9 to 21 are an integral part of these financial statements

## Cash flow statement

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	17	46,145	46,120
Taxes paid		(7,085)	(13,868)
<b>Net cash generated from operating activities</b>		<b>39,060</b>	<b>32,252</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		-	(1)
Finance income received		5,201	4,616
<b>Net cash generated from investing activities</b>		<b>5,201</b>	<b>4,615</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(33,697)	(33,288)
<b>Net cash used in financing activities</b>		<b>(33,697)</b>	<b>(33,288)</b>
<b>Net increase in cash and cash equivalents</b>		<b>10,564</b>	<b>3,579</b>
Cash and cash equivalents at beginning of year		8,005	4,426
<b>Cash and cash equivalents at end of year</b>		<b>18,569</b>	<b>8,005</b>

The accompanying notes 1 to 19 on pages 9 to 21 are an integral part of these financial statements

## Notes to the financial statements for the year ended 31 December 2009

### 1. Accounting policies

These financial statements have been prepared using applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

- i) IAS 1 (revised) 'Presentation of financial statements' The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Company has elected to present one statement – a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements, the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements.
- ii) Amendments to IFRS 7 'Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments' The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the amendments only result in additional disclosures, the amendments have not had any impact for amounts recognised in these financial statements.

Details of those IFRS pronouncements which will be relevant to the Company but which were not effective at 31 December 2009 and which have not been applied in preparing these financial statements are given in note 19.

The financial statements have been prepared on a going concern basis and under the historical cost convention.

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

#### a) Revenue recognition

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

Finance income comprises interest and is recognised in the statement of comprehensive income for all interest-bearing financial instruments, using the effective interest rate method.

#### b) Expenses

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

During the year the Directors have reconsidered the classification of income and expenditure items and consider that the scheme fees, previously classified as Other Operating Expenses are directly attributable to the merchant acquiring business and therefore have been reclassified as Fee and Commission Expense, further explanation is provided in note 18.

#### c) Property, plant and equipment

Property, plant and equipment are included at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to allocate the difference between the historical cost and the expected residual value over their estimated economic useful lives, as follows:

- Equipment 3-8 years

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

**Notes to the financial statements for the year ended 31 December 2009 (continued)**

**1. Accounting policies (continued)**

**c) Property, plant and equipment (continued)**

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.

**d) Taxation, including deferred taxation**

Current income tax which is payable or receivable on taxable profits or losses is recognised as an expense or income 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 announced by the balance sheet date that are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred and current tax assets and liabilities are offset where there is both a legal right of offset and the intention to settle on a net basis or to realise the assets and settle the liability simultaneously.

**e) Provisions for other 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.

**f) Dividends**

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

**g) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from external banks with a maturity of less than three months.

**h) 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 using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

**2. Capital management**

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

The Company's shareholders (Lloyds TSB Bank plc and FDR 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.

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 2 Capital management (continued)

The Company's capital comprises all components of equity, movements in which appear in the statement of changes in equity on page 7. The Company received most of its funding requirements from its shareholders and does not raise funding externally.

### 3. 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.

#### a) Measurement basis of assets and liabilities

All assets and liabilities are held at amortised cost.

#### b) 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.

	2009 £'000	2008 £'000
Amounts owed by group undertakings	167,206	118,487
Trade and other receivables	112,502	91,676
<b>Maximum credit risk exposure</b>	<b>279,708</b>	<b>210,163</b>

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.

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 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, property security and deferral of funds to the merchant. The Company also takes into account the availability of bonding 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 on the next page. The assessment of the risk level of trade and other receivables which are neither past due nor impaired is according to the information presented to the Company's management.

Notes to the financial statements for the year ended 31 December 2009 (continued)

3. Financial risk management (continued)

b) Credit risk (continued)

	2009 £'000	2008 £ 000
<b>Trade and other receivables which are neither past due nor impaired</b>		
High quality	112,166	91,012
Good quality	-	-
Satisfactory	-	-
Lower quality	-	-
	<u>112,166</u>	<u>91,012</u>
<b>Trade and other receivables which are past due but not impaired</b>		
Past due up to 30 days	193	172
Past due 30 to 60 days	169	267
Past due 60 to 90 days	107	204
Past due 90 to 180 days	392	276
	<u>861</u>	<u>919</u>
<b>Impaired trade and other receivables</b>		
Impaired trade and other receivables assessed on an individual basis	261	429
	<u>261</u>	<u>429</u>
Total trade and other receivables gross of impairment allowances	113,288	92,360
Allowance for impairment losses	(786)	(684)
<b>Total trade and other receivables</b>	<u>112,502</u>	<u>91,676</u>

c) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. However, as the Company is primarily funded by the shareholders (Lloyds TSB Bank plc and FDR Limited), this is not considered to be a significant risk to the Company.

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.

At 31 December 2009	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Amounts owed to merchants	252,770	262	1,033	-	254,065
Amounts owed to card schemes	77	9	2	-	88
Other creditors and accruals	1,454	712	300	-	2,466
Amounts owed to related parties	369	832	-	-	1,201
Current tax liabilities	-	-	14,182	-	14,182
<b>Total financial liabilities</b>	<u>254,670</u>	<u>1,815</u>	<u>15,517</u>	<u>-</u>	<u>272,002</u>
At 31 December 2008	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Amounts owed to merchants	179,988	208	-	-	180,196
Amounts owed to card schemes	1,018	6	-	-	1,024
Other creditors and accruals	4,178	479	76	-	4,733
Amounts owed to related parties	560	1,226	-	-	1,786
Current tax liabilities	3,586	3,544	-	-	7,130
<b>Total financial liabilities</b>	<u>189,330</u>	<u>5,463</u>	<u>76</u>	<u>-</u>	<u>194,869</u>

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.

**Notes to the financial statements for the year ended 31 December 2009 (continued)**

**3. Financial risk management (continued)**

**d) 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.

**e) 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.

**f) 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.

**4 Fee and commission income**

	2009 £'000	Restated 2008 £'000
Service charges	166,664	159,562
Other fee and commission income	15,659	16,606
	<u>182,323</u>	<u>176,168</u>

2008 fee and commission income has been restated. See note 18 for further details and a reconciliation of December 2008 Statement of comprehensive income.

**5 Net finance income**

	2009 £'000	Restated 2008 £'000
Interest receivable	9,204	8,104
Interest payable	(4,003)	(3,488)
	<u>5,201</u>	<u>4,616</u>
Representing		
Lloyds TSB Bank plc	5,179	4,526
Third parties	22	90
	<u>5,201</u>	<u>4,616</u>

2008 Net finance income has been restated. See note 18 for further details and a reconciliation of December 2008 Statement of comprehensive income.

**Notes to the financial statements for the year ended 31 December 2009 (continued)**

**6. Other operating expenses**

	2009 £'000	Restated 2008 £'000
Recharges relating to salary and other related costs	8 858	7,790
Other administrative expenses		
Processing costs	103	152
Depreciation	6	16
Marketing	471	356
Impairment operational losses and fraud	2,576	2,226
Communications	171	497
Charges in	1,270	1,482
Other	2 121	2,303
	6 718	7 032
<b>Total other operating expenses</b>	<b>15 576</b>	<b>14 822</b>

Included in other operating expenses are fees payable to the Company's auditors for the audit of the financial statements of £33 000 (2008 £32 000)

Other operating expense categories in 2008 have been restated to reflect a more accurate allocation of costs that were previously classified as processing costs

The Company has no employees (2008 nil), 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

The 2008 comparatives have been restated as explained in note 18

**Pensions and share-based payments**

Full disclosure in respect of pensions and share-based payments in accordance with IAS19 "Employment Benefits" and IFRS2 "Share Based Payments" respectively can be found in the financial statements of Lloyds TSB Bank plc the parent company, and FDR Limited

**Directors' emoluments**

The amounts paid to the directors in respect of services to the Company were £194 968 (2008 £152,419) This comprised basic pay of £144 968 (2008 £140,801) plus share options of £50,000 (2008 £11 618)

Retirement benefits are accruing to one Director under a defined benefit pension scheme operated by Lloyds TSB Bank plc (2008 two) No share options were exercised by the Directors of the Company in either the current or preceding year

**Notes to the financial statements for the year ended 31 December 2009 (continued)**

**7 Taxation**

**a) Analysis of charge for the year**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£ 000</b>
UK corporation tax		
- Current tax on profits for the year	14,065	14,310
- Adjustments in respect of prior year	72	(41)
Current tax charge	<u>14,137</u>	<u>14,269</u>
Deferred tax		
- (Credit)/charge in respect of current year	(24)	15
- Adjustments in respect of prior year	65	-
	<u>14,178</u>	<u>14,284</u>

The charge for tax on the profit for the year is based on the UK corporation tax rate of 28% (2008 28.5% as the standard rate of corporation tax rate changed from 30% to 28% on 1 April 2008)

**b) Factors affecting the tax charge for the year**

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge for the year is given below

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£ 000</b>
Profit before tax	50,097	50,210
Tax charge thereon at UK corporation tax rate of 28% (2008 28.5%)	<u>14,027</u>	<u>14,310</u>
Factors affecting charge		
Disallowed and non taxable items	14	15
Adjustments in respect of prior years	137	(41)
Tax on profit on ordinary activities	<u>14,178</u>	<u>14,284</u>
Effective rate	28.3%	28.4%

**Notes to the financial statements for the year ended 31 December 2009 (continued)**

**8. Property, plant and equipment**

	Equipment £ 000
<i>Cost</i>	
At 1 January 2008	216
Additions	1
At 31 December 2008 and 1 January 2009	217
Additions	-
<b>At 31 December 2009</b>	<b>217</b>
<i>Accumulated depreciation</i>	
At 1 January 2008	192
Depreciation charge	16
At 31 December 2008 and 1 January 2009	208
Depreciation charge	6
<b>At 31 December 2009</b>	<b>214</b>
<i>Balance sheet amount</i>	
<b>At 31 December 2009</b>	<b>3</b>
At 31 December 2008	9

**9. Deferred taxation**

The movement in the net deferred tax balance is as follows

	2009 £'000	2008 £ 000
At 1 January	82	97
Charge for the year	(41)	(15)
At 31 December	41	82

The deferred tax charge in the statement of comprehensive income comprises the following temporary differences

	2009 £'000	2008 £'000
Accelerated depreciation allowances	(1)	2
Short-term timing differences	42	13
	41	15

The deferred income tax asset is comprised as follows

	2009 £'000	2008 £ 000
Accelerated capital allowances	18	17
Other temporary differences	23	65
	41	82

**Notes to the financial statements for the year ended 31 December 2009 (continued)**

**10. Trade and other receivables**

	<b>2009</b> <b>£'000</b>	2008 £'000
Amounts owed by card schemes	91,977	63,668
Amounts owed by merchants	5,463	12,984
Other receivables	271	2,670
Accrued income	14,791	12,354
	<u>112,502</u>	<u>91,676</u>

No interest is receivable on these balances. The fair values of trade and other receivables are equal to their carrying amounts.

**11. Cash and cash equivalents**

Cash and cash equivalents are interest bearing and the average rate of interest earned during the year was 0.13% (2008: 1.40%). The fair value of amounts held is equal to their carrying amounts.

**12. Trade and other payables**

	<b>2009</b> <b>£'000</b>	2008 £'000
Amounts owed to merchants	254,065	180,196
Amounts owed to card schemes	88	1,024
Other creditors and accruals	2,466	4,733
	<u>256,619</u>	<u>185,953</u>

**13. Provisions for other liabilities and charges**

	<b>2009</b> <b>£'000</b>	2008 £'000
At 1 January	1,781	1,226
Provisions made during the year	2,604	1,583
Amounts written off during the year	(1,897)	(1,039)
Amounts written back during the year	-	11
At 31 December	<u>2,488</u>	<u>1,781</u>

	<b>2009</b> <b>£'000</b>	2008 £'000
Provisions for chargebacks and fraud	1,085	619
Terminal commission clawback	1,403	1,162
	<u>2,488</u>	<u>1,781</u>

*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.

In line with the deterioration in the economy the Company's portfolio has seen an increase in company failures which has necessitated the need for a significant increase in provisions. During 2009 the Company also experienced a significant increase in attempted fraud, again linked to the economic climate.

*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 for the year ended 31 December 2009 (continued)**

**14 Share capital**

	2009 £	2008 £
Authorised, issued and fully paid		
650 'A' ordinary shares of £1 each	650	650
651 "B" ordinary shares of £1 each	651	651
1,300 deferred shares of £1 each	1,300	1,300
	<u>2,601</u>	<u>2,601</u>

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.

**15. Ordinary dividends**

	2009 £'000	£ per share	2008 £'000	£ per share
Amounts paid in respect of preceding years				
Second interim dividend	21,596	16.599	14,067	10.812
Final dividend	-	-	4,891	3.759
Amounts paid in respect of current year				
First interim dividend	12,101	9.301	14,330	11.015
	<u>33,697</u>	<u>25.900</u>	<u>33,288</u>	<u>25.586</u>

**16. 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.

**Notes to the financial statements for the year ended 31 December 2009 (continued)**

**16. Related party transactions (continued)**

**a) Transactions with key management personnel**

Directors' emoluments information is disclosed in note 6

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

**b) 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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£ 000</b>
<b>Lloyds TSB Bank plc</b>		
At 1 January	118 487	141 402
Expenses recharged	(14,986)	(14,263)
Dividend paid	(16,861)	(16 657)
Net cash flows including settlement transactions	80,566	8 005
At 31 December	<u>167,206</u>	<u>118 487</u>

The dividend paid includes a dividend of £362,607 (2008 £358,208) in relation to Lloyds Bank Subsidiaries Limited in respect of 14 'B' ordinary shares held

Amounts owed by Lloyds TSB Bank plc are interest-bearing and the average rate of net interest earned during the year was 5.25% (2008 4.85%). 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 £64,800,000 at 31 December 2009 (2008 £54,300,000).

**c) Amounts owed to related parties**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>FDR Limited</b>		
At 1 January	(1,786)	2 134
Expenses recharged	(2 530)	(1 457)
Fees charged	(6,141)	(8,495)
Commissions earned	3,120	3,084
Dividend paid	(16 836)	(16,631)
Net payments during the year	<u>22,972</u>	<u>19 579</u>
At 31 December	<u>(1,201)</u>	<u>(1,786)</u>

Fees charged by FDR Limited include contractual credits received of £5,000,000 (2008 £4,800,000)

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

**Notes to the financial statements for the year ended 31 December 2009 (continued)**

**17. Reconciliation of profit before tax to cash generated from operations**

	2009 £'000	2008 £ 000
Profit before tax	50 097	50,210
Less finance income receivable	(5 201)	(4,616)
Add back depreciation	6	16
(Increase)/decrease in amounts owed by group undertakings	(48 719)	22,915
Increase in trade and other receivables	(20 826)	(24,148)
Increase/(decrease) in trade and other payables	70 666	(2 732)
(Decrease)/increase in amounts owed to related parties	(585)	3 920
Increase in provisions for other liabilities and charges	707	555
	<u>46,145</u>	<u>46 120</u>
Cash generated from operations	<u>46,145</u>	<u>46 120</u>

**18. Prior year restatements - statement of comprehensive income**

The purpose of this note is to show restatements made in respect of prior year

Statement of comprehensive income	As previously presented £ 000	Movements £'000	Restated £'000
<b>As at 31 December 2008</b>	<u>£ 000</u>	<u>£'000</u>	<u>£'000</u>
Fee and commission income (2 & 3)	176 287	(119)	176,168
Fee and commission expense (1 & 2)	(110 586)	(5,166)	(115,752)
<b>Net fee and commission income</b>	<u>65,701</u>	<u>(5,285)</u>	<u>60,416</u>
Net finance income (2)	4 526	90	4,616
Other operating income (3)	21	(21)	-
Other operating expenses (1)	(20,038)	5,216	(14 822)
<b>Profit before tax</b>	<u>50,210</u>	<u>-</u>	<u>50,210</u>
Taxation	(14,284)	-	(14 284)
<b>Profit after tax, being total comprehensive income</b>	<u>35,926</u>	<u>-</u>	<u>35,926</u>

Through the year the Directors have considered the classification of the income / expenditure accounts which form the basis of the financial statements. As a result the following restatements have been made to the 2008 comparatives

- 1 Scheme fees (£5 216,000), which were previously classified as other operating expense have been reclassified above the line as fee and commission expense as these are directly attributable costs to the core merchant acquiring business,
- 2 External interest income (£140,000) and expense (£50,000) have been reclassified to net interest income from fee and commission income/expense as this is considered to better reflect the nature of the charge
- 3 Chargeback fees (£21,000) received by the Company have been reclassified as fee and commission income as they are considered directly attributable to the core merchant acquiring business

**Notes to the financial statements for the year ended 31 December 2009 (continued)**

**19. Future developments**

The following pronouncements will be relevant to the Company but were not effective at 31 December 2009 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>	Provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative)	Annual periods beginning on or after 1 July 2009
Improvements to IFRSs (issued April 2009)	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010
IAS24 <i>Related Party Disclosures</i>	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011

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

