Cardnet Merchant Services Limited

Annual report and accounts
for the year ended 31 December 2015

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

00735844

Current directors

P R Grant
T Nash
H O'Donoghue
D Zaplata

Company Secretary

M A A Johnson

Directors' report

For the year ended 31 December 2015

The directors present their annual report and the audited financial statements of Cardnet Merchant Services Limited ("the Company") for the year ended 31 December 2015.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 00735844).

The Company is a joint venture between Lloyds Bank plc, FDR Limited and Lloyds Bank Subsidiaries Limited. The principal activity during the year was the provision of services to merchants enabling the acceptance, authorisation and clearing of plastic card transactions. Lloyds Bank plc and Lloyds Bank Subsidiaries Limited are members of Lloyds Banking Group ("the Group").

Dividends

A dividend of £35,242,000, representing a dividend of £27,089 (2014: £28,373) per share, was declared and paid during the year (2014: £36,913,000).

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 have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors

The current directors of the Company are shown on the front cover.

The following changes have taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

R C Neagle	(resigned 28 July 2015)
H O'Donoghue	(appointed 28 July 2015)
P Campbell	(resigned 9 February 2016)
D Zaplata	(appointed 9 February 2016)
A Walsh	(resigned 27 April 2016)
P A Gordon	(appointed 27 April 2016, resigned 13 June 2016)
T Nash	(appointed 13 June 2016)

Company Secretary

The following changes have taken place during the year or since the year end:

R Vásquez	(resigned 19 November 2015)
M A A Johnson	(appointed 19 November 2015)

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Key performance indicators and Future outlook that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on page 3.

Directors' indemnities

Lloyds Banking Group plc has granted to Mr P Grant, Mr P Gordon, Mr T Nash and Ms A Walsh, the directors of the Company appointed by and representing the Group, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

Directors' report (continued)

For the year ended 31 December 2015

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, 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 International Financial Reporting Standards ("IFRSs") as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

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 they ought to have taken as a director in order to make themselves 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.

Approved by the board of directors and signed on its behalf by:

P R Grant
Director

23 June 2016

Strategic report

For the year ended 31 December 2015

The directors present their Strategic report of the Company for the year ended 31 December 2015.

Business overview

The Company's results for the year show a Profit before tax of £52,000,000 (2014: £43,000,000) and Net fees and commission income of £67,000,000 (2014: £54,000,000).

The directors aim to continue the development of the business by recruiting new merchants and leveraging Lloyds Banking Group plc corporate relationships with the existing customer base.

Principal risks and uncertainties

The directors consider that the principal area of risk is counterparty credit risk, but there is also exposure to liquidity risk, interest rate risk, foreign exchange risk, geographical and sector concentrations of risk and business risk. The Company has counterparty 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 to the prior year. This is monitored separately between Credit cards and Debit cards.

Credit cards
During the year ended 31 December 2015 the Company processed £14,728,000,000 (2014: £13,967,000,000) transactions by value, an increase of 5.5% and 183,000,000 (2014: 155,000,000) credit card transactions by volume, an increase of 18.1%.

Debit cards
During the year ended 31 December 2015 the Company processed £44,910,000,000 (2014: £42,993,000,000) transactions by value, an increase of 4.5% and 814,000,000 (2014: 680,000,000) debit card transactions by volume, an increase of 19.7%:

Future outlook

The environment in which the Company operates remains competitive. The Company has written a good level of new business in the year, and a consistent level of new business is expected to be written in the foreseeable future. The directors are supporting a strategy designed to ensure that the Company's interest and other charges fully reflect the risks associated with its core products whilst maintaining competitiveness.

Approved by the board of directors and signed on its behalf by:

P R Grant
Director

23 June 2016

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

Report on the financial statements

Our opinion

In our opinion, Cardnet Merchant Services Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and accounts (the "Annual Report") comprise:

- the Balance sheet as at 31 December 2015;
- the Statement of comprehensive income for the year then ended;
- the Cash flow statement for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of directors

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) ("ISAs (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 member 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

23 June 2016

Statement of comprehensive income

For the year ended 31 December 2015

	Note	**2015 £m**	2014 £m
Interest income		**8**	10
Interest expense		**-**	(1)
Net interest income	3	**8**	9
Fees and commission income		**313**	306
Fees and commission expense		**(246)**	(252)
Net fees and commission income	4	**67**	54
Other operating expenses	5	**(23)**	(20)
Profit before tax		**52**	43
Taxation	8	**(11)**	(9)
Profit for the year attributable to the equity shareholders, being total comprehensive income		**41**	34

The accompanying notes to the financial statements are an integral part of these financial statements.

Balance sheet

As at 31 December 2015

	Note	2015 £m	Reclassified 31 December 2014 £m	Reclassified 1 January 2014 £m
ASSETS				
Cash and cash equivalents		**6**	20	55
Other current assets	9	**546**	572	531
Total assets		**552**	592	586
LIABILITIES				
Borrowed funds	10	**3**	2	2
Other current liabilities	11	**508**	559	520
Provision for liabilities and charges	12	**3**	1	2
Current tax liability		**11**	9	38
Total liabilities		**525**	571	562
EQUITY				
Share capital	13	**-**	-	-
Retained earnings		**27**	21	24
Total equity		**27**	21	24
Total equity and liabilities		**552**	592	586

The accompanying notes to the financial statements are an integral part of these financial statements.

The 2014 comparatives have been reclassified as explained in note 20.

The financial statements were approved by the board of directors and were signed on its behalf by:

P R Grant
Director

23 June 2016

Statement of changes in equity

For the year ended 31 December 2015

	Share capital	Retained earnings	Total
	£m	£m	£m
At 1 January 2014	-	24	24
Profit for the year being total comprehensive income	-	34	34
Dividend paid to equity holders of the Company	-	(37)	(37)
At 31 December 2014	**-**	**21**	**21**
Profit for the year being total comprehensive income	-	41	41
Dividend paid to equity holders of the Company	-	(35)	(35)
At 31 December 2015	**-**	**27**	**27**

The accompanying notes to the financial statements are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2015

	2015 £m	Reclassified 2014 £m
Cash flows generated from/(used in) operating activities		
Profit before tax	**52**	43
Adjustments for:		
- Interest income	**(8)**	(10)
- Interest expense	**-**	1
Changes in operating assets and liabilities:		
- Net decrease/(increase) in Other current assets	**26**	(41)
- Net (decrease)/increase in Other current liabilities	**(51)**	39
- Increase in Provision for liabilities and charges	**2**	-
Cash generated from operations	**21**	32
Paid to UK tax authorities	**-**	(20)
Group relief paid	**(9)**	(20)
Net cash generated from/(used in) operating activities	**12**	(8)
Cash flows generated from investing activities		
Interest income	**8**	10
Net cash generated from investing activities	**8**	10
Cash flows used in financing activities		
Interest expense	**-**	(1)
Dividends paid	**(35)**	(37)
Net cash used in financing activities	**(35)**	(38)
Change in cash and cash equivalents	**(15)**	(36)
Cash and cash equivalents at beginning of year	**18**	54
Cash and cash equivalents at end of year	**3**	18
Cash and cash equivalents comprise		
Cash at bank	**6**	20
Bank overdrafts (see note 10)	**(3)**	(2)
Cash and cash equivalents	**3**	18

The accompanying notes to the financial statements are an integral part of these financial statements.

The 2014 comparatives have been reclassified as explained in note 20.

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 in 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 IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The following new IFRS pronouncement relevant to the Company has been adopted in these financial statements:

Annual improvement to IFRSs (issued December 2013). A collection of amendments to IFRSs from the 2011 - 13 cycle of the annual improvements projects.

The application of this pronouncement 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 2015 and which have not been applied in preparing these financial statements are given in note 21. No standards have been early adopted.

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

Interest income and expense

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Fees and commission income and expense

Fees and commission are recognised on an accruals basis when the service has been provided. These services comprise initialisation and ongoing fees for services delivered to merchants. Revenue is recognised net of chargebacks and commission clawbacks.

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

Valuation of foreign currency

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 resulting from the settlement of such transactions are recognised in the Statement of comprehensive income.

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 Financial assets and liabilities

Financial assets comprise Cash and cash equivalents, Amounts owed by related undertakings, Amounts owed by card schemes, Amounts owed by merchants and Other trade receivables. Financial liabilities comprise Bank overdraft with related undertaking, Amounts owed to merchants, Other creditors and accruals and Amounts owed to related undertakings. Derivative contracts can be either financial assets or financial liabilities.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired.

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

1. Accounting policies (continued)

1.4 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the Income statement.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

1.5 Property, plant and equipment

Property, plant and equipment is 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 is calculated using the straight line method to allocate the difference between the cost and expected residual value over the period of the lease. The useful life of all items of Property, plant and equipment is 3 to 8 years.

Future rates of depreciation are reassessed each year in light of changes to anticipated residual values, and are amended as required.

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.

1.6 Dividends

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

1.7 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents and Bank overdraft with related undertaking comprise balances with maturities of less than three months.

1.8 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 substantively 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 in the Company or the Group 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.

1.9 Trade and other receivables

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

1.10 Trade and other payables

Trade and other payables are measured at amortised cost.

1. Accounting policies (continued)

1.11 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.

Provision for chargebacks and fraud

This provision relates to the risk of customer fraud and 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.

Terminal clawback provision

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.

Dormant clients provision

This provision is for refunding charges made to clients that were charged for inactive accounts over a period of time. These charges are considered to be excessive and a provision has been made for returning these charges to clients.

Payment Cards Industry Data Security Standard ("PCI DSS") provision

Due to European union regulations merchants have to comply with industry standards relating to the protection of customer data. The fees charged by the Company for this compliance is considered to be excessive and a provision has been made to return these charges to merchants.

3. Net interest income

	2015 £m	2014 £m
Interest income	**8**	10
Interest expense	**-**	(1)
Net interest income	**8**	9
Representing:		
Lloyds Bank plc (see note 15)	**8**	9

4. Net fees and commission income

	2015 £m	2014 £m
Fees and commission income		
Service charges	**301**	293
Commission receivable	**12**	13
Fees and commission expense		
Other fees and commission payable	**(246)**	(252)
Net fees and commission income	**67**	54

Included with Other fees and commission payable is £17,000,000 (2014: £16,000,000) payable to the related undertaking, FDR Limited (see note 15).

5. Other operating expenses

	2015 £m	2014 £m
Recharges relating to salary and other related costs (see note 15)	**13**	12
Change in provision, operational losses and fraud	**5**	1
Charges payable to Lloyds Bank plc (see note 15)	**1**	2
Other expenses	**4**	5
	23	20

Charges payable to Lloyds Bank plc are comprised of expenses incurred in Lloyds Bank plc on behalf of the Company which are recharged to the Company. Fees payable to the Company's auditors for the audit of the financial statements are £30,000 (2014: £27,000).

6. Staff costs

The Company did not have any employees during the year (2014: none). Staff who manage the affairs of the Company are employed by two of the shareholders, Lloyds Bank plc and FDR Limited. The costs of these employees are recharged to the Company.

7. Directors' emoluments

The amounts paid to the directors in respect of services to the Company were £nil (2014: £nil). The amounts paid to the directors in respect of compromise agreements were £nil (2014: £nil). No director accrued pensions under a defined benefit scheme operated by Lloyds Bank plc (2014: none). No director received shares under long term incentive plans during the year (2014: none). None of the directors exercised share options (2014: none).

Full disclosure in respect of pensions in accordance with IAS 19 "Employee Benefits" and shares received under long term incentive plans can be found in the financial statements of Lloyds Bank plc, one of the Company's shareholders.

8. Taxation

	2015 £m	2014 £m
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**11**	9

Corporation tax is calculated at a rate of 20.25% (2014: 21.50%) of the taxable profit for the year.

8. Taxation (continued)

b) Factors affecting the tax charge for the year

Where taxation on the Company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 20.25% (2014: 21.50%), the differences are explained below:

	2015 £m	2014 £m
Profit before tax	**52**	43
Tax charge thereon at UK corporation tax rate of 20.25% (2014: 21.50%)	**11**	9
Tax charge on profit on ordinary activities	**11**	9
Effective rate	**20.3%**	21.5%

The Finance Act 2013 which was substantively enacted on 2 July 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

9. Other current assets

	2015 £m	Reclassified 2014 £m
Amounts owed by related undertakings (see note 15)	**341**	370
Amounts owed by card schemes	**178**	173
Amounts owed by merchants	**2**	2
Other trade receivables	**1**	1
Accrued income	**24**	26
	546	572

Amounts owed by related undertakings are interest bearing at the average rate of net interest earned during the year was 1.83% (2014: 1.88%). The fair value of Other current assets is equal to its carrying value. No provisions have been recognised in respect of these amounts. Further analysis of Amounts owed by card schemes, Amounts owed by merchants and Other trade receivables is given in note 17.1. Amounts owed by related undertakings are repayable on demand, although there is no expectation such a demand would be made. All other balances are due within one year.

10. Borrowed funds

	2015 £m	2014 £m
Bank overdraft with group undertaking (see note 15)	**3**	2

Bank overdraft with related undertaking is unsecured and repayable on demand, although there is no expectation that such a demand would be made. Bank overdraft with related undertaking is interest bearing at variable rates based on LIBOR.

11. Other current liabilities

	2015 £m	Reclassified 2014 £m
Amounts owed to merchants	**498**	550
Other creditors and accruals	**5**	4
Amounts owed to related undertakings (see note 15)	**3**	5
Other trade payables	**2**	-
	508	559

Amounts owed to related undertakings is non-interest bearing, unsecured and repayable on demand, although there is no expectation such a demand would be made. The fair value of Other current liabilities is equal to its carrying value.

12. Provision for liabilities and charges

	2015 £m	2014 £m
At 1 January	**1**	2
Provisions made during the year	**5**	-
Amounts utilised during the year	**(3)**	(1)
At 31 December	**3**	1

Information on the nature of provisions is disclosed in note 2.

13. Share capital

	2015 £m	2014 £m
Allotted, issued and fully paid		
650 'A' ordinary shares of £1 each	-	-
651 'B' ordinary shares of £1 each	-	-
1,300 deferred shares of £1 each	-	-
	-	-

At 31 December 2015, the authorised share capital of the Company was £2,601 divided into 650 'A' shares of £1 each, 651 'B' shares of £1 each and 1,300 deferred shares of £1 each.

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 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.

14. Ordinary dividends

	2015 £m	2015 £ per share	2014 £m	2014 £ per share
Amounts paid in respect of preceding years:				
Second interim dividend	21	16,308	24	18,622
Amounts paid in respect of current years:				
First interim dividend	14	10,781	13	9,751
	35	27,089	37	28,373

15. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

	2015 £m	2014 £m
Amounts owed by related parties		
Lloyds Bank plc (see note 9)	**341**	370
Amounts owed to related undertakings		
FDR Limited (see note 11)	**3**	5
Cash and cash equivalents held with related undertakings		
Lloyds Bank plc	**6**	2
Bank overdraft held with related undertaking		
Lloyds Bank plc (see note 11)	**3**	2
Interest income		
Lloyds Bank plc	**8**	10
Interest expense		
Lloyds Bank plc	**-**	(1)
Net interest income (see note 3)	**8**	9
Fees and commission expense		
FDR Limited (see note 4)	**17**	16
Recharges relating to salary and other related costs		
Lloyds Bank plc (see note 5)	**13**	12
Amounts charged by related undertakings		
Lloyds Bank plc (see note 5)	1	2

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Statement of comprehensive income.

For certain merchants, the risk of irrecoverable chargebacks is underwritten by Lloyds Bank plc. The credit risk underwritten by Lloyds Bank plc amounted to £115,000,000 (2014: £121,000,000).

Deposits with Lloyds Bank plc are placed on normal commercial terms.

15. Related party transactions (continued)

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management is comprised of the directors of the Company and the members of the Lloyds Banking Group plc board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group or FDR Limited and consider that their services to the Company are incidental to their other activities within those groups.

UK Government

In January 2009, the UK government through HM Treasury became a related party of Lloyds Banking Group plc, following its subscription for ordinary shares issued under a placing and open offer. HM Treasury's interest fell below 20% on 11 May 2015. As a consequence, HM Treasury is no longer considered to have a significant influence and ceased to be a related party of the Company for IAS 24 Related Party Disclosures purposes at that date.

16. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, foreign exchange risk, geographical and sector concentrations of risk and business risk; it is not exposed to any significant market risk or interest rate risk.

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 Bank plc and FDR Limited.

A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

16.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. 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.

Credit risk mitigation

- The Company maintains and adheres to credit policy document in compliance with policies established by the Group Risk Management department within the Group.
- Credit principles and policy: Lloyds Banking Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.
- Credit scoring: 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 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.

16. Financial risk management (continued)

16.1 Credit risk (continued)

Credit risk mitigation (continued)

- The Company adopts a prudent approach to the identification, definition and control of impaired debts, including chargeback. 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.

- Stress testing and scenario analysis: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

Trade and other receivables – maximum exposure

	2015 £m	2014 £m
Cash and cash equivalents	**6**	20
Amounts owed by related undertakings	**341**	370
Trade and other receivables	**181**	176
Maximum credit exposure	**528**	566

Trade and other receivables which are neither past due nor impaired

	2015 £m	2014 £m
High quality	**179**	174
Good quality	**1**	-
Satisfactory quality	-	-
Lower quality	-	-
Below standard, but not impaired	-	-
Total	**180**	174

High quality lending comprises those balances with a low probability to default rating assigned. Receivables of high quality are those amounts owed by card schemes, merchants and other receivables generated in the normal course of business. In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default.

Trade and other receivables which are past due but not impaired

	2015 £m	2014 £m
Past due up to 30 days	-	-
Past due from 30-60 days	**1**	1
Past due from 60-90 days	**1**	-
Past due from 90-180 days	-	1
Total	**2**	2

Past due is defined as failure to make a payment when it falls due.

16. Financial risk management (continued)

16.1 Credit risk (continued)

Impaired trade and other receivables

	2015 £m	2014 £m
Impaired trade and other receivables assessed on an individual basis	**-**	-
Total trade and other receivables gross of impairment allowances	**182**	176
Allowance for impairment losses	**(1)**	-
At 31 December	**181**	176

16.2 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 funded by the shareholders (Lloyds Bank plc and FDR Limited).

The Company is funded entirely by the shareholders, Lloyds Bank plc and FDR Limited. The table below sets out the undiscounted cash flows payable by the Company in respect of financial liabilities, according to contractual maturity into relevant maturity groupings based on the remaining period at the balance sheet date.

As at 31 December 2015

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	**Total £m**
Amounts owed to merchants	510	-	-	-	**510**
Other creditors and accruals	2	3	-	-	**5**
Amounts owed to related parties	2	1	-	-	**3**
Financial liabilities	**514**	**4**	**-**	**-**	**518**

As at 31 December 2014

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Total £m
Amounts owed to merchants	559	-	-	-	559
Other creditors and accruals	1	2	1	-	4
Amounts owed to related parties	2	2	1	-	5
Financial liabilities	562	4	2	-	568

The Company has sufficient funding to meet liquidity needs as there is a current funding arrangement with Lloyds Bank plc.

16.3 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.

16. Financial risk management (continued)

16.4 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy. In assessing business risk consideration is given to internal and external factors such as products, funding, resource capability and economic, political and regulatory factors.

Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary.

16.5 Foreign currency risk

Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The currencies mainly giving rise to this risk are Euros and US Dollars.

The Company uses currency swaps to manage its foreign exchange risk. Currency swaps generally involve the exchange of obligations denominated in different currencies; the exchange of principal can be notional or actual. The cross currency swap provider is Lloyds Bank plc, an internal swap counterparty.

The total notional principal amount of the outstanding forward exchange contracts at 31 December 2015 is £14,000,000 (2014: £nil).

16.6 Financial strategy

The Company uses financial instruments to mitigate foreign exchange risk. However, the Company does not trade in financial instruments.

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 parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors 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 fellow group undertakings and does not raise funding externally.

18. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2014: £nil).

19. Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements.

20. Reclassification of comparatives

The following items have been reclassified in the 2014 comparatives. Details of amounts and account items affected are provided below.

	Restated	Adjustment	Previously reported
	£m	£m	£m
Balance sheet			
At 1 January 2014			
Other current assets	**531**	(10)	541
Other current liabilities	**520**	(10)	530
At 31 December 2014			
Other current assets	**572**	(10)	582
Other current liabilities	**531**	(10)	541

In 2014, a balance for Amounts due to merchants and a balance for Amounts due from merchants were presented on a gross basis; in 2015 these are disclosed on a net basis.

The reclassification has had £nil impact on the Profit before or after tax, £nil impact on net assets and £nil impact on the Cash flow statement. There has been no change in Total equity.

21. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2015 and have not been applied in preparing these financial statements.

Pronouncement	**Nature of change**	**Effective date**
Annual improvement to IFRSs (issued September 2014)	A collection of amendments to IFRSs from the 2012 - 2014 cycle of the annual improvements projects.	Annual periods beginning on or after 1 January 2016
Annual improvement to IFRSs (issued December 2013)	A collection of amendments to IFRSs from the 2010 - 12 cycle of the annual improvements projects.	Annual periods beginning on or after 1 February 2015
Amendment to IAS 16 ,'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation	The amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated.	Annual periods beginning on or after 1 January 2016
Amendments to IAS 1 'Disclosure Initiative'	The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.	Annual periods beginning on or after 1 January 2016

21. Future developments (continued)

Pronouncement	Nature of change	Effective date
IFRS 9 'Financial Instruments' [1]	Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised costs, 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 instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.	Annual periods beginning on or after 1 January 2018

1. At the date of this report, this pronouncement was awaiting EU endorsement.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

22. Other information

The terms of the contractual agreement between the shareholders are such that the Company is accounted for as a joint venture under the requirement of IAS 31 Interests in Joint Ventures and therefore does not have an ultimate parent undertaking.