

Cardnet Merchant Services Limited

Directors' report and financial statements For the year ended 31 December 2013

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

735844

Directors

P Campbell
P R Grant
R C Neagle
A Walsh

Company Secretary

R Vásquez

Member of Lloyds Banking Group



Directors' report

For the year ended 31 December 2013

The directors present their report and the audited financial statements of Cardnet Merchant Services Limited ("the Company") for the year ended 31 December 2013.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 735844).

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

Dividends

A dividend of £40,157,000 (2012: £40,838,000), representing a dividend of £30,866 (2012: £31,389) per share was declared and paid during the year to A and B shareholders.

Going concern

The directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on the cover.

The following changes have taken place during the year:

A Walsh	(appointed 19 June 2013)
A R England	(resigned 19 June 2013)
M C Regnier	(resigned 19 June 2013)
P Campbell	(appointed 21 June 2013)
S D Bonham	(resigned 21 June 2013)
D J S Oldfield	(appointed 19 June 2013, resigned 28 October 2013)
P R Grant	(appointed 28 October 2013)

Company Secretary

The following changes have taken place during the year:

S N Slattery	(resigned 19 June 2013)
R Vásquez	(appointed 19 June 2013)

Directors' report (continued)

For the year ended 31 December 2013

Statement of directors' responsibilities

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

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

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

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

Disclosure of information to auditors

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

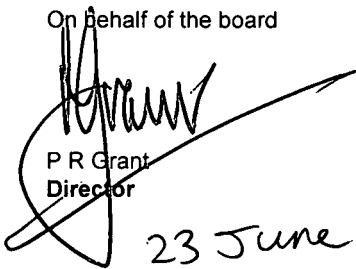
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's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

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

Independent auditors

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

On behalf of the board



P R Grant
Director

23 June 2014

Strategic report

For the year ended 31 December 2013

The directors present their Strategic report of the Company for the year ended 31 December 2013.

Business overview

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 areas of risk are 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 notes 2 and 18 to the financial statements.

Key performance indicators ("KPIs")

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

Sterling platform

During the year ended 31 December 2013 the Company processed 14.4% (2012: 13.4%) more transactions by value and 20.8% (2012: 13.7%) more transactions by volume than during the year ended 31 December 2012 on the Sterling platform.

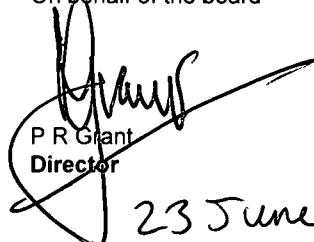
Multicurrency platform

During the year ended 31 December 2013 the Company processed 63.3% (2012: 17.5%) more transactions by value and 56.9% (2012: 12.2%) more transactions by volume than during the year ended 31 December 2012 on the Multicurrency platform.

Future outlook

The environment within which the Company operates remains competitive. The Company has written a satisfactory level of new business in the year and this is expected to continue 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.

On behalf of the board



P R Grant
Director

23 June 2014

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

Report on the financial statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements for the year ended 31 December 2013, which are prepared by Cardnet Merchant Services Limited, comprise:

- the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the Cash flow statement;
- the accounting policies; and
- related notes.

The financial reporting framework that has been applied in their preparation comprises 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & 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.

In addition, we read all the financial and non-financial information in the Directors' report, Strategic report and financial statements 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report and Strategic 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.

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

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.

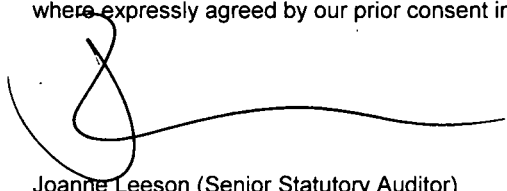
Responsibilities for the financial statements and the audit

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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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



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 2014

Statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Interest income		10,808	13,942
Interest expense		(2,720)	(3,331)
Net interest income	4	8,088	10,611
Fees and commission income		273,717	249,002
Fees and commission expense		(214,520)	(186,481)
Net fees and commission income	5	59,197	62,521
Other operating expenses	6	(18,026)	(18,153)
Profit before tax		49,259	54,979
Taxation	9	(11,468)	(13,488)
Profit for the year attributable to equity shareholders, being total comprehensive income		37,791	41,491

The notes on pages 10 to 21 are an integral part of these financial statements.

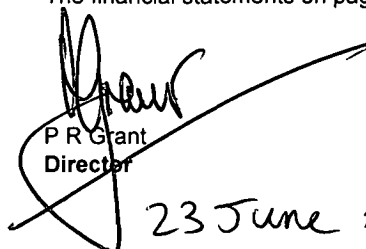
Balance sheet

As at 31 December 2013

	Note	2013 £'000	2012 £'000
ASSETS			
Cash and cash equivalents		53,840	52,999
Other current assets	10	540,764	460,032
Property, plant and equipment	11	-	-
Deferred tax asset	12	16	18
<hr/>			
Total assets		594,620	513,049
<hr/>			
LIABILITIES			
Other current liabilities	13	529,606	454,861
Provision for liabilities and charges	14	1,574	3,848
Current tax liability		39,200	27,734
<hr/>			
Total liabilities		570,380	486,443
<hr/>			
EQUITY			
Share capital	15	3	3
Retained profits		24,237	26,603
<hr/>			
Total equity		24,240	26,606
<hr/>			
Total equity and liabilities		594,620	513,049

The notes on pages 10 to 21 are an integral part of these financial statements.

The financial statements on pages 6 to 21 were approved by the board of directors and were signed on its behalf by:


P R Grant
Director
23 June 2014

Statement of changes in equity

For the year ended 31 December 2013

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2012	3	25,950	25,953
Profit for the year being total comprehensive income	-	41,491	41,491
Dividend paid to equity holders of the Company	-	(40,838)	(40,838)
At 31 December 2012	3	26,603	26,606
Profit for the year being total comprehensive income	-	37,791	37,791
Dividend paid to equity holders of the Company	-	(40,157)	(40,157)
At 31 December 2013	3	24,237	24,240

The notes on pages 10 to 21 are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2013

	2013 £'000	2012 £'000
Cash flows generated from operating activities		
Profit before tax	49,259	54,979
Adjustments for:		
- Interest income	(10,808)	(13,942)
- Interest expense	2,720	3,331
- Depreciation	-	1
- (Decrease)/increase in Provision for liabilities and charges	(2,274)	318
Changes in operating assets and liabilities:		
- Net increase in Other current assets	(80,732)	(63,642)
- Net increase in Other current liabilities	74,745	63,408
Cash generated from operations	32,910	44,453
Interest received	10,808	13,942
Interest paid	(2,720)	(3,331)
Net cash generated from operating activities	40,998	55,064
Cash flows used in financing activities		
Dividends paid	(40,157)	(40,838)
Net cash used in financing activities	(40,157)	(40,838)
Net increase in cash and cash equivalents	841	14,226
Cash and cash equivalents at beginning of year	52,999	38,773
Cash and cash equivalents at end of year	53,840	52,999
Cash and cash equivalents comprise		
Cash at bank	53,840	52,999
Cash and cash equivalents	53,840	52,999

The notes on pages 10 to 21 are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2013

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 International Financial Reporting Standards - Interpretations Committee ("IFRS - IC") and its predecessor body.

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

- (i) Improvements to IFRSs (issued May 2012). These amendments include amendments to IFRSs as part of the annual improvements process. Most amendments clarify existing practice. The application of this pronouncement has not had any impact for amounts recognised in these financial statements.
- (ii) IFRS 13 Fair value measurement. The amendment sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements. The application of this pronouncement has not had any impact for amounts recognised in these financial statements.
- (iii) IFRS 11 Joint Arrangements. The amendment provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. 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 2013 and which have not been applied in preparing these financial statements are given in note 22.

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 expenses 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 commissions 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 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.

Notes to the financial statements (continued)

For the year ended 31 December 2013

1. Accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets consist of Cash and cash equivalents, Amounts owed by related undertakings, Amounts owed by card schemes, Amounts owed by merchants and Other trade receivables. Financial liabilities consist of Amounts owed to merchants, Amounts owed to card schemes, Other creditors and Amounts owed to related undertakings. 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 liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

1.4 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.

1.5 Dividends

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

1.6 Cash and cash equivalents

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

1.7 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 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.

1.8 Trade and other receivables

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

1.9 Trade and other payables

Trade and other payables are measured at amortised cost.

1.10 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.

Notes to the financial statements (continued)

For the year ended 31 December 2013

2. Risk management policy

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

2.1 Credit risk

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 a credit policy document in compliance with policies established by the Group Risk Management Department within the Lloyds Banking Group.
- Credit principles and policy: Lloyds Banking Group Risk sets out the credit principles and policy according to which credit risk is managed, which in turn is the basis for the Company's credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Principles and 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.
- 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.
- 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.

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

2.4 Foreign exchange risk

Foreign exchange risk is the risk of financial loss arising from fluctuations in foreign currency exchange rates. The foreign exchange risk that the Company faces arises from running multi-currency operations.

Notes to the financial statements (continued)

For the year ended 31 December 2013

2. Risk management policy (continued)

2.5 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.

2.6 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.

3. Critical accounting estimates and judgements in applying accounting policies

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

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

Provision 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 provision is against merchant and customer fraud which is inherent due to the nature of the business. The amount held is based on the value of related transactions and the likelihood of chargebacks.

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.

4. Net interest income

	2013 £'000	2012 £'000
Interest income	10,808	13,942
Interest expense	(2,720)	(3,331)
Net interest income	8,088	10,611
Representing:		
Lloyds Bank plc (see note 17)	8,084	10,603
Third parties	4	8
	8,088	10,611

Notes to the financial statements (continued)

For the year ended 31 December 2013

5. Net fees and commission income

	2013 £'000	2012 £'000
Fees and commission income		
Service charges	255,886	227,518
Commission receivable	17,831	21,484
Fees and commission expense		
Other fees and commission payable	(214,520)	(186,481)
Net fees and commission income	59,197	62,521

Included within Other fees and commission payable is £14,372,000 (2012: £12,218,000) payable to the related undertaking, FDR Limited.

6. Other operating expenses

	2013 £'000	2012 £'000
Recharges relating to salary and other related costs (see note 17)	11,333	11,714
Depreciation (see note 11)	-	1
Marketing	649	522
Change in provisions, operational losses and fraud (see note 3)	794	1,530
Communications	83	94
Charges payable to Lloyds Bank plc (see note 17)	1,135	1,044
Other operating expenses	4,032	3,248
	18,026	18,153

Charges payable to Lloyds Bank plc are comprised of expenses incurred by 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 of £29,000 (2012: £29,000) are included within Other operating expenses.

7. Staff costs

The Company did not employ any persons during the year (2012: none). Staff who manage the affairs of the Company are employed by one of the shareholders, Lloyds Bank plc. The costs of these employees are recharged to the Company.

8. Directors' emoluments

The amounts paid to the directors in respect of services to the Company were £nil (2012: £1,000). The amounts paid to the directors in respect of compromise agreements were £nil (2012: £150,000). These prior year payments were made to one director only and are comprised of both cash and defined benefit pension scheme contribution payments. No director accrued pensions under a defined benefit scheme operated by Lloyds Bank plc (2012: 1). No director received shares under long term incentive plans during the year (2012: 1). None of the directors exercised share options (2012: 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.

Notes to the financial statements (continued)

For the year ended 31 December 2013

9. Taxation

	2013 £'000	2012 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	11,466	13,468
- Adjustments in respect of prior years	-	(112)
Current tax charge	11,466	13,356
UK deferred tax:		
- Origination and reversal of timing differences	-	9
- Adjustments in respect of prior years	-	121
- Impact of deferred tax rate change	2	2
Deferred tax charge (see note 12)	2	132
	11,468	13,488

Corporation tax is calculated at a rate of 23.25% (2012: 24.50%) of the taxable profit for the year.

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 23.25% (2012: 24.50%), the differences are explained below:

	2013 £'000	2012 £'000
Profit before tax	49,259	54,979
Tax charge thereon at UK corporation tax rate of 23.25% (2012: 24.50%)	11,453	13,470
Factors affecting charge:		
- Non-allowable and non-taxable items	13	7
- Adjustments in respect of prior years	-	9
- Effect of reduction in tax rate	2	2
Tax on profit on ordinary activities	11,468	13,488
Effective rate	23.3%	24.5%

10. Other current assets

	2013 £'000	2012 £'000
Amounts owed by related undertakings (see note 17)	334,422	280,393
Amounts owed by card schemes	172,303	148,829
Amounts owed by merchants	9,860	10,089
Other trade receivables	1,913	1,464
Accrued income	22,266	19,257
	540,764	460,032

Amounts owed by related undertakings are interest bearing and the average rate of net interest earned during the year was 2.32% (2012: 3.19%). The fair value of Other current assets is equal to its carrying value. No provisions have been recognised in respect of these amounts.

Notes to the financial statements (continued)

For the year ended 31 December 2013

11. Property, plant and equipment

	2013 £'000	2012 £'000
Cost		
At 1 January and 31 December	217	217
Accumulated depreciation		
At 1 January	217	216
Charge for the year (see note 6)	-	1
At 31 December	217	217
Balance sheet amount at 31 December	-	-

12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2013 £'000	2012 £'000
Brought forward	18	150
Charge for the year (see note 9)	(2)	(132)
	16	18

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

	2013 £'000	2012 £'000
Accelerated capital allowances	(2)	(8)
Other temporary differences	-	(124)
	(2)	(132)

	2013 £'000	2012 £'000
Deferred tax asset comprises:		
Accelerated capital allowances	16	18

The Finance Act 2012, which was substantively enacted on 3 July 2012 included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013. The Finance Act 2013, which was substantively enacted on 2 July 2013 further reduces the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015, and as such, deferred tax has been calculated at a rate of 20%.

The change in the main rate of corporation tax from 23% to 20% has resulted in a reduction in the Company's net Deferred tax asset at 31 December 2013 of £2,000 and a £2,000 charge included in the Statement of comprehensive income.

Notes to the financial statements (continued)

For the year ended 31 December 2013

13. Other current liabilities

	2013 £'000	2012 £'000
Amounts owed to merchants	522,716	448,814
Amounts owed to card schemes	-	2
Other creditors and accruals	3,028	2,717
Amounts owed to related undertakings (see note 17)	3,862	3,328
	529,606	454,861

Amounts owed to related undertakings are non-interest bearing. The fair value of Other current liabilities is equal to their carrying value.

14. Provision for liabilities and charges

	2013 £'000	2012 £'000
At 1 January	3,848	3,530
Provisions made during the year	280	1,796
Amounts utilised during the year	(2,554)	(1,478)
At 31 December	1,574	3,848
Provision for chargebacks and fraud	707	1,673
Terminal commission clawback	867	2,175
	1,574	3,848

Information on the nature of provisions is disclosed in note 3.

15. Share capital

	2013 £'000	2012 £'000
Allotted, issued and fully paid		
650 'A' ordinary shares of £1 each	1	1
651 'B' ordinary shares of £1 each	1	1
1,300 deferred shares of £1 each	1	1
	3	3

At 31 December 2013, the authorised share capital of the Company was £2,601 divided into 650 'A' shares of £1 each, 651 'B' ordinary 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.

Notes to the financial statements (continued)

For the year ended 31 December 2013

16. Ordinary dividends

	2013 £'000	2013 £ per share	2012 £'000	2012 £ per share
Amounts paid in respect of preceding years:				
Second interim dividend	26,594	20,441	25,941	19,939
Amounts paid in respect of current years:				
First interim dividend	13,563	10,425	14,897	11,450
	40,157	30,866	40,838	31,389

17. 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.

	2013 £'000	2012 £'000
Amounts owed by related undertakings		
Lloyds Bank plc (see note 10)	334,422	280,393
Amounts owed to related undertakings		
FDR Limited (see note 13)	3,862	3,328
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	44,604	35,289
Interest income		
Lloyds Bank plc	10,804	13,934
Interest expense		
Lloyds Bank plc	(2,720)	(3,331)
Net interest income (see note 4)	8,084	10,603
Fees and commission expense		
FDR Limited (see note 5)	14,372	12,218
Recharges relating to salary and other related costs		
Lloyds Bank plc (see note 6)	11,333	11,714
Amounts charged by related undertakings		
Lloyds Bank plc (see note 6)	1,135	1,044

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 £115,907,000 (2012: £92,882,000).

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

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Key management personnel are employed by Lloyds Bank plc or FDR Limited and consider that their services to the Company are incidental to their other activities within those organisations.

Directors' emoluments information is disclosed in note 8. There were no transactions between the Company and key management personnel during the current or preceding year.

Notes to the financial statements (continued)

For the year ended 31 December 2013

17. Related party transactions (continued)

UK Government

In January 2009, the UK Government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. As at 31 December 2013, HM Treasury retained a significant interest in Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of the Company during the year ended 31 December 2013.

18. Financial risk management

A description of the nature and mitigation of key risks facing the Company is provided in note 2. A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

18.1 Credit risk

	2013 £'000	2012 £'000
Cash and cash equivalents	53,840	52,999
Amounts owed by related undertakings	334,422	280,393
Trade and other receivables	184,076	160,382
Maximum credit risk exposure	572,338	493,774

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

Trade and other receivables which are neither past due nor impaired

	2013 £'000	2012 £'000
High quality	174,583	150,715
Good quality	7,900	7,248
Satisfactory quality	-	-
Lower quality	-	-
Below standard, but not impaired	-	-
Total	182,483	157,963

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. Receivables of good quality are those under investigation by the Company.

Trade and other receivables which are past due but not impaired

	2013 £'000	2012 £'000
Past due up to 30 days	908	965
Past due from 30-60 days	801	1,221
Past due from 60-90 days	72	217
Past due from 90-180 days	177	601
Total	1,958	3,004

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

Notes to the financial statements (continued)

For the year ended 31 December 2013

18. Financial risk management (continued)

18.1 Credit risk (continued)

Impaired trade and other receivables

	2013 £'000	2012 £'000
Impaired trade and other receivables assessed on an individual basis	137	272
Total	137	272
Total trade and other receivables gross of impairment allowances	184,578	161,239
Allowance for impairment losses	(502)	(857)
Total Trade and other receivables	184,076	160,382

18.2 Liquidity risk

The Company is entirely funded 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 2013

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Amounts owed to merchants	522,716	-	-	-	522,716
Amounts owed to card schemes	-	-	-	-	-
Other creditors and accruals	2,159	119	750	-	3,028
Amounts owed to related parties	1,255	2,607	-	-	3,862
Financial liabilities	526,130	2,726	750	-	529,606

As at 31 December 2012

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Amounts owed to merchants	448,814	-	-	-	448,814
Amounts owed to card schemes	2	-	-	-	2
Other creditors and accruals	1,838	879	-	-	2,717
Amounts owed to related parties	1,892	1,436	-	-	3,328
Financial liabilities	452,546	2,315	-	-	454,861

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

18.4 Foreign currency risk

Generally the risk is minimised because the liability to merchants is funded from receipts from payment schemes in the same currency. In addition to this, the short term settlement period limits the exposure to liquidity risk to a few days.

Notes to the financial statements (continued)

For the year ended 31 December 2013

19. 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.

The Company's shareholders manage the Company's capital structure and advise 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 related undertakings and does not raise funding externally.

20. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2012: £nil).

21. Post balance sheet events

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

22. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2013 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued December 2013) ¹	A collection of amendments to IFRSs from the 2010 - 12 and 2011 - 13 cycle of the annual improvements projects.	Annual periods beginning on or after 1 July 2014.
IFRS 9 Financial Instruments: Classification and Measurement ^{1 & 2}	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2018.

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

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

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

23. 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.