

# **Cardnet Merchant Services Limited**

## **Annual report and accounts for the year ended 31 December 2014**

### **Registered office**

25 Gresham Street  
London  
EC2V 7HN

### **Registered number**

735844

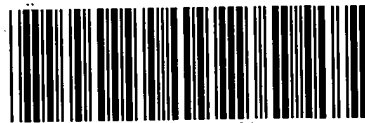
### **Directors**

P Campbell  
P R Grant  
R C Neagle  
A Walsh

### **Company Secretary**

R Vásquez

THURSDAY



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COMPANIES HOUSE

Member of Lloyds Banking Group

## Directors' report

For the year ended 31 December 2014

The directors present their report and the audited financial statements of Cardnet Merchant Services Limited ("the Company") for the year ended 31 December 2014.

### 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. Its principal activity during the year was the provision of services to merchants enabling the acceptance, authorisation and clearing of plastic card transactions.

### Dividends

Dividends of £36,913,000 (2013: £40,157,000), representing dividends of £28,373 (2013: £30,866) per share were 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.

There have been no changes to directors during the year or since the year end.

### Information included in the Strategic report

The disclosures for Principal risks and uncertainties and Future developments that would otherwise be required to be disclosed in the Directors' report and which is incorporated into this report by reference can be found in the Strategic report on page 3.

### Directors' indemnities

The Group has granted to Mr P Grant 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 at the date of approval of the financial statements and throughout the financial year ended 31 December 2014. 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. The deed for existing directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

### 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.

## Directors' report (continued)

For the year ended 31 December 2014

### Disclosure of information to auditors

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

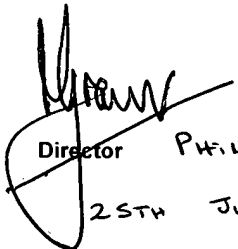
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's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



Director PHILIP GRANT  
25TH JUNE 2015

## Strategic report

For the year ended 31 December 2014

The directors present their Strategic report of the Company for the year ended 31 December 2014.

### **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 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 notes 2 and 19 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 Credit cards and Debit cards.

#### **Credit cards**

During the year ended 31 December 2014 the Company processed £13,967 million (2013: £12,628 million) transactions by value, an increase of 11% and 154,833,000 (2013: 129,266,000) credit card transactions by volume, an increase of 20%.

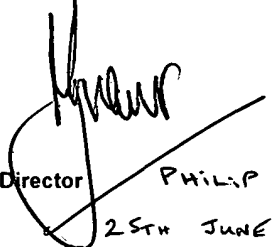
#### **Debit cards**

During the year ended 31 December 2014 the Company processed £42,933 million (2013: £34,290 million) transactions by value, an increase of 25% and 679,925,000 (2013: 445,063,000) debit card transactions by volume, an increase of 53%.

### **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:



Director PHILIP GRANT  
25th JUNE 2015

# **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 2014 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**

Cardnet Merchant Services Limited's financial statements comprise:

- the Balance sheet as at 31 December 2014;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Cash flow statement 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 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.

### **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 1, 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 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.

### **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 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

25 June 2015

## Statement of comprehensive income

For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Interest income		9,947	10,808
Interest expense		(1,190)	(2,720)
<b>Net interest income</b>	4	<b>8,757</b>	8,088
Fees and commission income		306,037	273,717
Fees and commission expense		(252,241)	(214,520)
<b>Net fees and commission income</b>	5	<b>53,796</b>	59,197
Other operating expenses	6	(19,349)	(18,026)
<b>Profit before tax</b>		<b>43,204</b>	49,259
Taxation	9	(9,303)	(11,468)
<b>Profit for the year attributable to the equity shareholders, being total comprehensive income</b>		<b>33,901</b>	37,791

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

## Balance sheet

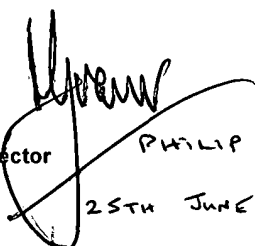
As at 31 December 2014

	Note	2014 £'000	Reclassified 31 December 2013 £'000	Reclassified 1 January 2013 £'000
<b>ASSETS</b>				
Cash and cash equivalents		20,476	55,391	52,999
Other current assets	10	581,735	540,764	460,032
Property, plant and equipment	11	-	-	-
Deferred tax asset	12	13	16	18
<b>Total assets</b>		<b>602,224</b>	<b>596,171</b>	<b>513,049</b>
<b>LIABILITIES</b>				
Borrowed funds	13	2,201	1,551	-
Other current liabilities	14	568,021	529,606	454,861
Provision for liabilities and charges	15	1,473	1,574	3,848
Current tax liability		9,301	39,200	27,734
<b>Total liabilities</b>		<b>580,996</b>	<b>571,931</b>	<b>486,443</b>
<b>EQUITY</b>				
Share capital	16	3	3	3
Retained earnings		21,225	24,237	26,603
<b>Total equity</b>		<b>21,228</b>	<b>24,240</b>	<b>26,606</b>
<b>Total equity and liabilities</b>		<b>602,224</b>	<b>596,171</b>	<b>513,049</b>

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

The 2013 comparatives have been restated to reflect the reclassification explained in note 23.

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

  
 Director PHILIP GRANT  
 25TH JUNE 2015



## Statement of changes in equity

For the year ended 31 December 2014

	Share capital £'000	Retained earnings £'000	Total £'000
<b>At 1 January 2013</b>	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 (see note 17)	-	(40,157)	(40,157)
<b>At 31 December 2013</b>	3	24,237	24,240
Profit for the year being total comprehensive income	-	33,901	33,901
Dividend paid to equity holders of the Company (see note 17)	-	(36,913)	(36,913)
<b>At 31 December 2014</b>	3	21,225	21,228

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

## Cash flow statement

For the year ended 31 December 2014

	2014 £'000	Reclassified 2013 £'000
<b>Cash flows generated from operating activities</b>		
Profit before tax	43,204	49,259
Adjustments for:		
- Interest income	(9,947)	(10,808)
- Interest expense	1,190	2,720
Changes in operating assets and liabilities:		
- Net increase in Other current assets	(40,971)	(80,732)
- Net increase in Other current liabilities	38,415	74,745
- Decrease in Provision for liabilities and charges	(101)	(2,274)
<b>Cash generated from operations</b>	<b>31,790</b>	<b>32,910</b>
Interest paid	(1,190)	(2,720)
Interest received	9,947	10,808
Paid to UK tax authorities	(19,594)	-
Group relief paid	(19,605)	-
<b>Net cash generated from operating activities</b>	<b>1,348</b>	<b>40,998</b>
<b>Cash flows used in financing activities</b>		
Dividends paid	(36,913)	(40,157)
<b>Net cash used in financing activities</b>	<b>(36,913)</b>	<b>(40,157)</b>
<b>Change in Cash and cash equivalents</b>	<b>(35,565)</b>	<b>841</b>
Cash and cash equivalents at beginning of year	53,840	52,999
<b>Cash and cash equivalents at end of year</b>	<b>18,275</b>	<b>53,840</b>
<b>Cash and cash equivalents comprise</b>		
Cash at bank	20,476	55,391
Bank overdrafts	(2,201)	(1,551)
<b>Cash and cash equivalents</b>	<b>18,275</b>	<b>53,840</b>

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

The 2013 comparatives have been restated to reflect the reclassification explained in note 23.

# Notes to the financial statements

For the year ended 31 December 2014

## 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 pronouncements relevant to the Company have been adopted in these financial statements:

- (i) Amendment to IAS 32 Financial instruments: Presentation on Offsetting financial assets and financial liabilities. Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement.
- (ii) IFRS 11 Joint Arrangements. 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 these pronouncements have 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 2014 and which have not been applied in preparing these financial statements are given in note 24. 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 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 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.

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.

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 1. Accounting policies (continued)

#### 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 and Bank overdraft with related undertaking 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.

### 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 2. Risk management policy (continued)

#### 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 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.
- 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).

#### 2.3 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.

#### 2.4 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.

#### 2.5 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.

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

Where the structure of contracts relies on a longer settlement period, increased currency volatility is managed by use of foreign exchange swaps. Details of foreign exchange swaps are provided in note 19.3.

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 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.

#### 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.

### 4. Net interest income

	2014 £'000	2013 £'000
Interest income	9,947	10,808
Interest expense	(1,190)	(2,720)
<b>Net interest income</b>	<b>8,757</b>	<b>8,088</b>
Representing:		
Lloyds Bank plc (see note 18)	8,754	8,084
Third parties	3	4
	<b>8,757</b>	<b>8,088</b>

### 5. Net fees and commission income

	2014 £'000	2013 £'000
<b>Fees and commission income</b>		
Service charges	292,720	255,886
Commission receivable	13,317	17,831
<b>Fees and commission expense</b>		
Other fees and commission payable	(252,241)	(214,520)
<b>Net fees and commission income</b>	<b>53,796</b>	<b>59,197</b>

Included within Other fees and commission payable is £15,545,000 (2013: £14,372,000) payable to the related undertaking, FDR Limited (see note 18).

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 6. Other operating expenses

	2014 £'000	2013 £'000
Recharges relating to salary and other related costs (see note 18)	11,590	11,333
Marketing	428	649
Change in provisions, operational losses and fraud	704	794
Communications	119	83
Charges payable to Lloyds Bank plc (see note 18)	1,644	1,135
Other expenses	4,864	4,032
	<b>19,349</b>	<b>18,026</b>

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 of £27,000 (2013: £29,000) are included within Other operating expenses.

### 7. Staff costs

The Company did not have any employees during the year (2013: 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.

### 8. Directors' emoluments

The amounts paid to the directors in respect of services to the Company were £nil (2013: £nil). The amounts paid to the directors in respect of compromise agreements were £nil (2013: £nil). No director accrued pensions under a defined benefit scheme operated by Lloyds Bank plc (2013: none). No director received shares under long term incentive plans during the year (2013: none). None of the directors exercised share options (2013: 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.

### 9. Taxation

	2014 £'000	2013 £'000
<b>a) Analysis of charge for the year</b>		
UK corporation tax:		
- Current tax on taxable profit for the year	9,300	11,466
UK deferred tax:		
- Origination and reversal of timing differences	3	-
- Effect of reduction in tax rate and related impacts	-	2
Deferred tax charge	3	2
	<b>9,303</b>	<b>11,468</b>

Corporation tax is calculated at a rate of 21.50% (2013: 23.25%) of the taxable profit for the year.

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 9. 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 21.50% (2013: 23.25%), the differences are explained below:

	2014 £'000	2013 £'000
Profit before tax	43,204	49,259
Tax charge thereon at UK corporation tax rate of 21.50% (2013: 23.25%)	9,289	11,453
Factors affecting charge:		
- Non-allowable and non-taxable items	14	13
- Effect of reduction in tax rate and related impacts	-	2
Tax on profit on ordinary activities	9,303	11,468
Effective rate	21.5%	23.3%

### 10. Other current assets

	2014 £'000	2013 £'000
Amounts owed by related undertakings (see note 18)	370,290	334,422
Amounts owed by card schemes	172,916	172,303
Amounts owed by merchants	11,519	9,860
Other trade receivables	1,214	1,913
Accrued income	25,796	22,266
	581,735	540,764

Amounts owed by related undertakings are interest bearing and the average rate of net interest earned during the year was 1.88% (2013: 2.32%). The fair value of Other current assets is equal to its carrying value. No provisions have been recognised in respect of these amounts.

### 11. Property, plant and equipment

	2014 £'000	2013 £'000
<b>Cost</b>		
At 1 January and 31 December	217	217
<b>Accumulated depreciation</b>		
At 1 January and 31 December	217	217
<b>Balance sheet amount at 31 December</b>	-	-

### 12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2014 £'000	2013 £'000
Brought forward	16	18
Charge for the year (see note 9)	(3)	(2)
	13	16



## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 12. Deferred tax asset (continued)

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

	2014 £'000	2013 £'000
Accelerated capital allowances	(3)	(2)

	2014 £'000	2013 £'000
Deferred tax asset comprises:		
Accelerated capital allowances	13	16

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

### 13. Borrowed funds

	2014 £'000	Reclassified 2013 £'000
Bank overdraft with related undertaking (see note 18)	2,201	1,551

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.

### 14. Other current liabilities

	2014 £'000	2013 £'000
Amounts owed to merchants	559,419	522,716
Other creditors and accruals	3,802	3,028
Amounts owed to related undertakings (see note 18)	4,800	3,862
	<b>568,021</b>	<b>529,606</b>

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.

### 15. Provision for liabilities and charges

	2014 £'000	2013 £'000
At 1 January	1,574	3,848
Provisions made during the year	451	280
Amounts utilised during the year	(552)	(2,554)
<b>At 31 December</b>	<b>1,473</b>	<b>1,574</b>
Provision for chargebacks and fraud	771	707
Terminal commission clawback	702	867
	<b>1,473</b>	<b>1,574</b>

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

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 16. Share capital

	2014 £'000	2013 £'000
<b>Allotted, issued and fully paid</b>		
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
	<b>3</b>	<b>3</b>

At 31 December 2014, 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.

### 17. Ordinary dividends

	2014 £'000	2014 £ per share	2013 £'000	2013 £ per share
Amounts paid in respect of preceding years:				
Second interim dividend	24,227	18,622	26,594	20,441
Amounts paid in respect of current years:				
First interim dividend	12,686	9,751	13,563	10,425
	<b>36,913</b>	<b>28,373</b>	<b>40,157</b>	<b>30,866</b>

### 18. 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.

	2014 £'000	Reclassified 2013 £'000
<b>Amounts owed by related undertakings</b>		
Lloyds Bank plc (see note 10)	<b>370,290</b>	334,422
<b>Amounts owed to related undertakings</b>		
FDR Limited (see note 14)	<b>4,800</b>	3,862
<b>Cash and cash equivalents held with related undertakings</b>		
Lloyds Bank plc	<b>1,711</b>	44,604
<b>Bank overdraft held with related undertaking</b>		
Lloyds Bank plc	<b>2,201</b>	1,551

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 18. Related party transactions (continued)

	2014 £'000	2013 £'000
<b>Interest income</b>		
Lloyds Bank plc	9,944	10,804
<b>Interest expense</b>		
Lloyds Bank plc	(1,190)	(2,720)
Net interest income (see note 4)	8,754	8,084
<b>Fees and commission expense</b>		
FDR Limited (see note 5)	15,545	14,372
<b>Recharges relating to salary and other related costs</b>		
Lloyds Bank plc (see note 6)	11,590	11,333
<b>Amounts charged by related undertakings</b>		
Lloyds Bank plc (see note 6)	1,644	1,135

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 £120,985,000 (2013: £115,907,000).

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.

#### 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 2014, 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 2014.

There were no material transactions between the Company and HM Treasury during the year (2013: £nil) that were not made in the ordinary course of business or that are unusual in their nature or conditions. In addition, the Company have entered into transactions with HM Treasury on an arm's length basis including, but not exclusively in relation to, the payment of corporation tax, employment tax and value added tax. Owing to the volume and diversity, such transactions are not disclosed.

### 19. 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 19. Financial risk management (continued)

#### 19.1 Credit risk

	2014 £'000	Reclassified 2013 £'000
Cash and cash equivalents	20,476	55,391
Amounts owed by related undertakings	370,290	334,422
Trade and other receivables	185,649	184,076
<b>Maximum credit exposure</b>	<b>576,415</b>	<b>573,889</b>

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

	2014 £'000	2013 £'000
High quality	174,258	174,583
Good quality	9,351	7,900
Satisfactory quality	-	-
Lower quality	-	-
Below standard, but not impaired	-	-
<b>Total</b>	<b>183,609</b>	<b>182,483</b>

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

	2014 £'000	2013 £'000
Past due up to 30 days	304	908
Past due from 30-60 days	1,117	801
Past due from 60-90 days	95	72
Past due from 90-180 days	934	177
<b>Total</b>	<b>2,450</b>	<b>1,958</b>

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

#### Impaired trade and other receivables

	2014 £'000	2013 £'000
Impaired trade and other receivables assessed on an individual basis	107	137
<b>Total trade and other receivables gross of impairment allowances</b>	<b>186,166</b>	<b>184,578</b>
Allowance for impairment losses	(517)	(502)
<b>At 31 December</b>	<b>185,649</b>	<b>184,076</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 19. Financial risk management (continued)

#### 19.2 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 2014

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Amounts owed to merchants	559,419	-	-	-	559,419
Other creditors and accruals	1,248	1,881	498	175	3,802
Amounts owed to related parties	1,519	2,144	1,137	-	4,800

<b>Financial liabilities</b>	<b>562,186</b>	<b>4,025</b>	<b>1,635</b>	<b>175</b>	<b>568,021</b>
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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
Other creditors and accruals	2,159	119	750	-	3,028
Amounts owed to related parties	1,255	2,607	-	-	3,862

<b>Financial liabilities</b>	<b>526,130</b>	<b>2,726</b>	<b>750</b>	<b>-</b>	<b>529,606</b>
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The Company has sufficient funding to meet liquidity needs as there is a current funding arrangement with Lloyds Bank plc.

#### 19.3 Foreign currency risk

The Company limits foreign currency risk by structuring normal business operations accordingly. Where foreign currency risk exceeds risk levels set by management, the Company uses forward foreign exchange contracts to reduce the risk to set levels. The Company had no open derivative positions as at 31 December 2014 (2013: none).

#### 19.4 Financial strategy

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

### 20. 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.

### 21. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2013: £nil).

### 22. Post balance sheet events

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

## Notes to the financial statements (continued)

For the year ended 31 December 2014

### 23. Reclassification of comparatives

The following items have been restated in the 2013 comparatives.

	Reclassified £'000	Adjustment £'000	Previously reported £'000
<b>Balance sheet</b>			
<b>At 1 January 2013</b>			
Cash and cash equivalents	52,999	-	52,999
Borrowed funds - Bank overdrafts with related undertakings	-	-	-
<b>At 31 December 2013</b>			
Cash and cash equivalents	55,391	1,551	53,840
Borrowed funds - Bank overdrafts with related undertakings	1,551	1,551	-

In 2013, Cash and cash equivalent balances and Bank overdrafts with related undertakings were presented on a net basis; in 2014 these are disclosed on a gross 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.

### 24. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2014 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Annual improvement to IFRSs (issued December 2013)	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.
Amendment to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets', on depreciation and amortisation <sup>1</sup>	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
IFRS 9 Financial Instruments: Classification and Measurement <sup>1</sup>	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 were 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.

### 25. 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.