Cardnet Merchant Services Limited

Annual Report and Financial Statements

2022

Strategic report

For the year ended 31 December 2022

The directors present their Strategic report and the audited financial statements of Cardnet Merchant Services Limited (the "Company") for the year ended 31 December 2022.

Business overview

The Company is a private limited company incorporated in the United Kingdom, registered and domiciled in England and Wales (registered number: 00735844). The Directors in office during 2022 are listed in the Directors' report and the Company Secretary is A E Mulholland.

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

The directors aim to continue the development of the business by recruiting new merchants and leveraging Lloyds Banking Group plc ("LBG") corporate relationships with the existing customer base. All clients sales will be for Card Acquiring either Point of Sale or On-line (Gateway) with the option of taking terminal services from Cardnet or providing their own equipment. We offer acquiring to the majority of business services, subject to Lloyds Banking Group Credit / Ethical Policies with the most significant new sales in 2022 split between Food & Drink, Entertainment, Retail, and Services.

Review of the business

The Company's results for the year shows a profit before tax of £39m (2021: £43m) and net fees and commission income of £60m (2021: £57m). The net income for 2022 has seen an increase year on year. This can be directly attributed to the last remaining lockdown measures in place in the UK during the 2021 financial year, which were in contrast not in place in 2022.

Profit before tax has seen a decrease year on year due to increased operating expenses of £26m (2021: £18m). This consists of £6m of investment spend as part of the Strategic Investment Programme.

Future outlook

Growth is expected through investment via the Strategic Investment Programme along with more normalised trading patterns including overseas visitors to the UK.

The business is also conscious of the continuing impact on consumer cost of living increases and the rising interest rate environment, negatively impacting on consumer discretionary spend in Retail and Travel & Hospitality sectors.

Principal risks and uncertainties

The directors consider that the principal area of risk is counterparty credit risk to chargebacks that must be covered by the business in the event of a client failure and a customer does not receive their goods or service. Counterparty credit risk has been actively managed to reduce exposures where appropriate and client engagement with key risk names has been increased to understand latest business performance, with particular focus on those noted on a watchlist of high risk merchants.

Post COVID-19, trading returned to near normalised levels.

Russian invasion of Ukraine
The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This has had significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Company's results of operations, financial conditions or prospects. The Company will continue to monitor the situation and risks to the business.

Details of the Company's risk management policy are contained in note 17 to the financial statements.

Key performance indicators ("KPIs")

The Company's two main KPIs are the number of transactions processed and the sterling (£) aggregate value of those transactions, monitored versus prior year and budget and forecast. Activity can also be monitored separately between credit cards and debit cards. This transactional activity is the main driver of the profitability in Cardnet and allows for the monitoring of the financial progress of the business and market share in the UK Acquiring market.

Credit cards

During the year ended 31 December 2022 the Company processed £15,124m (2021: £12,231m) transactions by value, an increase of 23.7% and 181m (2021: 140m) credit card transactions by volume, an increase of 29.3%.

Debit cards

During the year ended 31 December 2022 the Company processed £44,029m (2021: £53,769m) transactions by value, a decrease of 18.1% and 948m (2021: 922m) debit card transactions by volume, an increase of 2.8%.

2022 overall acquiring activity levels, showed an underlying uplift as the impact of COVID-19 was largely negated, however several key client losses in Cardnet partly negated this uplift.
Credit activity showed growth with return of activity within the travel sector (Airlines, Hotels & Cruises), however debit growth impacted primarily by the key client losses of Financial Institution clients.

Overall activity will have been boosted by an increase of c.5.9m transactions in the Travel sector, £2.4bn by value, primarily using credit cards, whilst debit growth is negatively impacted by loss of 21m transactions and £10bn by value of key FI client exits - this activity would have almost all been debit card related due to the nature of the transactions.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the 'Act'), for the year ended 31 December 2022, the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of Engagement with Employees and Other Stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Financial statements and Reports) Regulations 2008, the following statement also provides details on how the directors have engaged with, and had regard to, the interest of key stakeholders and employees. The Company is controlled by Lloyds Bank plc, a wholly owned subsidiary of LBG. As such, the Company follows many of the processes and practices of the Group whilst being mindful of the requirements of FDR Limited, LLC which holds approximately 49% of the Company's issued share capital.

Strategic report (continued)

For the year ended 31 December 2022

Customers

The Directors ensure the Company as a joint venture between LBG and FDR Limited, LLC strives to achieve the ambitions and behaviours of both Groups, with an emphasis on treating customers correctly and fairly. The Directors agree customer plans, reviewing customer behaviour and getting feedback to ensure these aims are adhered to. Customer pricing is regularly reviewed and where applicable Scheme changes are passed on to clients. The Company strives to bring innovative Card payment solutions to our clients, working with the major Card Schemes and other payment organisations. The business regularly benchmarks its performance and uses insight along with a range of both internal and external research to ensuring ongoing improvement in client experience.

Shareholders

The Company is owned by Lloyds Bank Plc, Lloyds Bank Subsidiaries Limited (both of which are wholly owned subsidiary of LBG), and by FDR Limited, LLC. The Company and the shareholders are party to a shareholders' agreement which sets out the overall objectives of the arrangement and the respective obligations of each of the parties in terms of meeting those objectives. The directors ensure that the strategy, priorities, processes and practices of the Company are aligned to the requirements of the shareholders' agreement and, where required, to those of LBG as the Company's controlling shareholder.

The directors consider that the principal area of risk is counterparty credit risk to chargebacks that must be covered by the business in the event a client fails and a customer does not receive their goods or service.

Further information in respect of the relationship of LBG with its shareholders is included within the Strategic report within the LBG Annual Report and Financial statements for 2022, which does not form part of this report, available on the LBG website.

Communities and the Environment

Whilst the Company has a limited physical presence and direct impact on communities and the environment, it does support initiatives within both parent companies including LBG "Helping Britain Prosper". Employees take part in many company related charitable activities on a local and national level, benefiting from parent Company initiatives including LBG Matched donations.

The business recruits new clients and leverages from the LBG client base to provide innovative payment solutions with both face to face and online/telephony based options.

Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Financial statements for 2022, which does not form part of this report. Additional information on LBG's Helping Britain Prosper Plan is available on the LBG website.

Regulators

As set out within the customer section above, a key focus for the Company is treating customers fairly. The approach of the Group, including that of the Company, to managing regulatory change is detailed on page 21 of the LBG Annual Report and Financial statements for 2022, which does not form part of this report, available on the LBG website.

How stakeholder interest has influenced decision making

The directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to the shareholders' agreement, is to effectively manage its customer base to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct.

A number of changes to the Company's board of directors were made in the year, in order to ensure that the Company benefits from the wider backgrounds and sector experience that exist in the Group and to increase financial control and facilitate transparent reporting.

Strategic report (continued)

For the year ended 31 December 2022

General

The directors do not consider there to be any further material issues which need to be included in the Strategic report.

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

S J Everett

28th June 2023

S J Everett
Director

Directors' report

For the year ended 31 December 2022

The directors present their report and the audited financial statements for the year ended 31 December 2022.

Dividends

A dividend of £53m (2021: nil) representing a dividend per ordinary share of £0.04m (2021: nil), was declared and paid during the year.

Going concern

The directors are satisfied that it is the intention of LBG that the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future, and, accordingly, the financial statements have been prepared on a going concern basis.

The business continued to operate on a profitable basis as the impact on the economy of COVID-19 receded. The business is now delivering income growth following the subsequent broader re-opening of the economy into 2022.

Counterparty credit risk has been actively managed to reduce exposures where appropriate and client engagement with key risk names has been increased to understand their latest business performance. As at the end of 2022, the business had retained earnings of £68m.

In the event that material chargeback loss events occur, and where Cardnet is unable to cover any losses over and above the profits it holds, the directors are of the view that LBG will inject further capital into the business. This will work alongside the Letter of support LBG provides to all of its subsidiaries.

Post Balance Sheet events

Since the balance sheet date the Directors have recommended a dividend of £34.9m. The aggregate amount of the proposed dividend was paid in May 2023 out of retained earnings as at the 31st December 2022, and not recognised as a liability at year end.

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 below:

A P White
S J Everett
M G Pieri
Z I Treloar

The following are changes to directors that have taken place between the beginning of the reporting period and the approval of the Annual report and financial statements:

G D Gould	(resigned 31 January 2022)
A P White	(appointed 21 March 2022)
Z I Treloar	(appointed 12 December 2022)
M Shernoff	(resigned 12 December 2022)

Registered address

The Company's registered address is 25 Gresham Street, London EC2V 7HN.

Information included in the Strategic report

The disclosures for Principal risks and uncertainties and Future outlook that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on pages 1-4.

Climate Change

The Company is out of scope of the Streamlined Energy and Carbon Reporting ("SECR"). This means it does not have to report on SECR in its own Director's report as it is included in the Group SECR statement of the UK Group report. Further information in respect of SECR is included within the LBG Annual Report and Accounts for 2022 (page 136), which does not form part of this report, available on the LBG website.

Directors' indemnities

LBG has granted to A P White and S J Everett, the LBG 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 deeds were in force during the whole of the financial year and at the date of approval of the financial statements. LBG directors no longer in office but who served on the board of the Company at any time in the financial year have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the LBG directors to the maximum extent permitted by law. The deed for current LBG directors is available for inspection at the registered office of the Group. In addition, the Group has in place appropriate LBG directors and officers liability insurance cover which was in place throughout the financial year.

FDR Limited, LLC has granted to MG Pieri and Z Treloar, directors of the Company, appropriate Directors and Officers Liability and Company Reimbursement Liability Insurance. This was in force during the whole of the financial year and at the date of approval of the financial statements.

Directors' report (continued)

For the year ended 31 December 2022

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Financial risk management

The key risks surrounding credit, liquidity, markets and operations are set out in note 17.

Statement of disclosure of information to auditor

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date of the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have 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 auditor is aware of that information.

Independent auditor

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Cardnet Merchant Services Limited are deemed re-appointed for each financial year unless the Directors of the Company resolve to terminate their appointment. Following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the Cardnet Merchant Services Limited for accounting periods ending on or after 31 December 2022.

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

S J Everett

28th June 2023

S J Everett
Director

Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	**2022 £'m**	2021 £'m
Interest income		**6**	6
Interest expense		**(1)**	(2)
Net interest income	3	**5**	**4**
Fees and commission income		**325**	275
Fees and commission expense		**(265)**	(218)
Net fee and commission income	4	**60**	57
Other operating expenses	5	**(26)**	(18)
Profit before tax		**39**	43
Taxation	8	**(7)**	(8)
Profit for the year, being total comprehensive income		**32**	35

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

Balance Sheet

As at 31 December 2022

	Note	**2022** **£'m**	2021 £'m
ASSETS			
Cash and cash equivalents		**10**	5
Trade and other receivables	9	**616**	516
Intangible assets	10	**1**	1
Total assets		**627**	522
LIABILITIES			
Borrowed funds	11	**2**	3
Trade and other payables	12	**549**	422
Provision for liabilities and charges	13	**1**	1
Current tax liability		**7**	8
Total liabilities		**559**	434
EQUITY			
Share capital	14	**-**	-
Retained earnings		**68**	89
Total equity		**68**	89
Total equity and liabilities		**627**	523

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

The financial statements on pages 7-22 were approved by the board of directors and were signed on its behalf by:

S J Everett

28th June 2023

S J Everett
Director

Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital £'m	Retained earnings £'m	Total equity £'m
At 1 January 2021	-	54	54
Profit for the year being total comprehensive income	-	35	35
Dividend paid to equity holders of the Company	-	-	-
At 31 December 2021	**-**	**89**	**89**
Profit for the year being total comprehensive income	-	32	32
Dividend paid to equity holders of the Company	-	(53)	(53)
At 31 December 2022	**-**	**68**	**68**

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

Cash Flow Statement

For the year ended 31 December 2022

	2022 £'m	2021 £'m
Cash flows generated from operating activities		
Profit before tax	**39**	43
Adjustments for:		
- Interest income	**(6)**	(6)
- Interest expense	**1**	2
Changes in operating assets and liabilities:		
- Net (increase)/decrease in Trade and other receivables	**(100)**	2
- Net increase in Trade and other payables	**127**	21
Cash generated from operations	**61**	62
Tax paid	**(8)**	(5)
Net cash generated from operating activities	**53**	57
Cash flows generated from investing activities		
Interest income	**6**	6
Net cash generated from investing activities	**6**	6
Cash flows used in financing activities		
Interest expense	**(1)**	(2)
Dividends paid	**(53)**	-
Net cash used in financing activities	**(54)**	(2)
Change in Cash and cash equivalents	**5**	59
Cash and cash equivalents/(net bank overdrafts) at beginning of year	**1**	(58)
Cash and cash equivalents at end of year	**7**	1
Cash and cash equivalents comprise		
Cash at bank	**10**	5
Bank overdraft (see note 11)	**(2)**	(3)
Cash and cash equivalents	**8**	2

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

Notes to the financial statements

For the year ended 31 December 2022

1. Accounting policies

1.1 Basis of preparation

Cardnet Merchant Services Limited (the Company) is a private Company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England & Wales. The registered office can be found in the directors report and its principal activity is included in the strategic report.

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 United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and requirements of the Companies Act 2006.

There are no new IFRS pronouncements relevant to the Company requiring adoption in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2022 and which have not been applied in preparing these financial statements are given in note 21. No standards have been early adopted.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

1.2 Income recognition

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.

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

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

Interest income and expense

Interest income and expense are recognised in the Statement of comprehensive income through Lloyds Banking Group treasury who manage the internal interest process, this is based on the net position of the flow of funds between card schemes (Visa and Mastercard), Cardnet and Cardnet's clients.

1.3 Financial assets and liabilities

Financial assets comprise Cash and cash equivalents, Amounts due from group undertakings, Amounts owed by card schemes, Amounts owed by merchants, Other trade receivables and Accrued income. Financial liabilities comprise Bank overdraft with group undertakings, 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 2022

1. Accounting policies (continued)

1.4 Dividends paid

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

1.5 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents and Bank overdrafts with group undertakings comprise balances with original maturities of less than three months.

1.6 Taxation

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the statement of comprehensive income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the statement of comprehensive income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the Balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by His Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the Balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

1.7 Trade and other receivables

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

1. Accounting policies (continued)

1.8 Intangible assets

Expenses incurred for software product development are expensed as incurred unless the technical and commercial feasibility of the project is demonstrated, future economic benefits are probable, the Company has an intention and ability to complete and use or sell the software and the costs can be measured reliably. Such expenses and advances paid for software development which is not yet ready for the intended use as at the Balance sheet date are recognised as Intangible assets. Once they are completed for the intended use, the Intangible assets are carried at historical costs less accumulated amortisation, and are amortised over a period of 5 years using the straight line method.

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. In line with IAS 37 an event is only considered probable, and therefore a provision raised in the Cardnet business, if the probability of a loss occurring is deemed 'more likely than not' to happen.

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

1.11 Impairment of financial assets

The Company has not adopted the simplified expected credit loss model for its financial assets, as followed by IFRS9, paragraph 5.5.15. Instead, the general expected credit loss model has been applied to financial assets.

2. Critical accounting estimates and key sources of estimation uncertainty

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which 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.

In the course of preparing these financial statements, no critical judgements or estimates have been made in the process of applying the Company's accounting policies.

Notes to the financial statements (continued)

For the year ended 31 December 2022

3. Net interest income

	2022 £'m	2021 £'m
Group interest income (see note 16)	**6**	6
Group interest expense (see note 16)	**(1)**	(2)
	5	4

4. Net fee and commission income

	2022 £'m	2021 £'m
Fee and commission income		
Service charges	**313**	265
Commission receivable	**12**	10
	325	275
Fee and commission expense		
Other fees and commission payable	**(265)**	(218)
	60	57

Included in Other fees and commission payable is £8m (2021: £12m) payable to the related undertaking, FDR Limited, LLC (see note 16).

5. Other operating expenses

	2022 £'m	2021 £'m
Recharges relating to salary and other related costs (see note 6 and 16)	**14**	11
Change in provision, operational losses and fraud	**2**	3
Charge payable to Lloyds Bank plc (see note 16)	**3**	3
Other expenses	**7**	2
	26	19

Charges payable to Lloyds Bank plc are 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 £0.03m (2021: £0.03m) have been borne by a fellow group company and are recharged to the Company. Non-audit fees for 2022 are nil (2021: nil).

Notes to the financial statements (continued)

For the year ended 31 December 2022

6. Staff costs

The Company did not have any employees during the year (2021: none). Staff who manage the affairs of the Company are employed by two of the shareholders, Lloyds Bank plc and FDR Limited, LLC. The costs of these employees are recharged to the Company.

7. Directors' emoluments

The amounts paid to the directors in respect of services to the Company were £nil (2021: £nil). The amounts paid to the directors in respect of compromise agreements were £nil (2021: £nil). No director received accrued pensions under a defined benefit scheme operated by Lloyds Bank plc (2021: none). No director received shares under long term incentive plans during the year (2021: none). None of the directors exercised share options (2021: none).

8. Taxation

	2022 £'m	2021 £'m
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**7**	8
Tax charge	**7**	8

Corporation tax is calculated at a rate of 19.00% (2021: 19.00%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

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

	2022 £'m	2021 £'m
Profit before tax	**39**	43
Tax charge thereon at UK corporation tax rate of 19.00% (2021: 19.00%)	**7**	8
Tax charge	**7**	8
Effective rate	**19.1%**	18.6%

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

9. Trade and other receivables

	2022 £'m	2021 £'m
Amounts due from group undertakings (see note 16)	**296**	304
Amounts owed by card schemes	**291**	187
Other trade receivables	**1**	1
Accrued income	**28**	23
	616	516

Amounts due from group undertakings is non-interest bearing and repayable on demand, although there is no expectation such a demand would be made. The fair value of trade and other receivables is equal to its carrying value.

10. Intangible assets

	Software £'m
Cost	
At 1 January 2021	1
Additions	-
Disposals	-
At 31 December 2021	1
Additions	-
Disposals	-
At 31 December 2022	1
Amortisation	
At 1 January 2021	-
Charge for the year (see note 5)	-
At 31 December 2021	-
Charge for the year (see note 5)	-
Disposals	-
At 31 December 2022	-
Balance sheet amount at 31 December 2022	**1**
Balance sheet amount at 31 December 2021	1

The Company's Intangible assets relate to Software enhancement costs.

Notes to the financial statements (continued)
For the year ended 31 December 2022

11. Borrowed funds

	2022	2021
	£'m	£'m
Bank overdraft with group undertakings (see note 16)	**2**	3

Bank overdraft with group undertakings is unsecured and repayable on demand, although there is no expectation that such a demand would be made. Bank overdraft with group undertakings is interest bearing at variable rates funded over 5 years, previously based on LIBOR, replaced by SONIA in 2022.

12. Trade and other payables

	2022	2021
	£'m	£'m
Amounts owed to merchants	**533**	409
Other creditors and accruals	**12**	9
Amounts owed to related undertakings (see note 16)	**4**	3
	549	422

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 Trade and other payables is equal to its carrying value.

13. Provision for liabilities and charges

	Total
	£'m
At 1 January 2021	1
Charge for the year	3
Utilised during the year	(3)
At 31 December 2021	1
Charge for the year	1
Utilised during the year	(1)
At 31 December 2022	**1**

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 generally relate to counterparty credit and fraud-related losses incurred in the normal course of business.

14. Share capital

	2022 £'m	2021 £'m
Allotted, issued and fully paid		
650 (2020: 650) "A" ordinary shares of £1 each	-	-
651 (2020: 651) "B" ordinary shares of £1 each	-	-
1,300 (2020: 1,300) deferred shares of £1 each	-	-
	-	-

At 31 December 2022, the authorised share capital of the Company was £2,601 divided into 650 'A' ordinary shares of £1 each and 651 'B' ordinary shares of £1 each and 1,300 deferred shares of £1 each.

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, LLC holds 650 'A' ordinary shares, Lloyds Bank plc holds 637 'B' ordinary shares and Lloyds Bank Subsidiaries Limited holds 14 'B' ordinary shares. Lloyds Banking Group plc holds 1,300 deferred shares.

15. Dividends

	2022 £'m	2022 £ per share	2021 £'m	2021 £ per share
	53	40,796	-	-

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: 99.00% amongst the ordinary shareholders and 1.00% amongst the deferred shareholders.

16. 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 is set out below.

	2022 £'m	2021 £'m
Amounts due from group undertakings		
Lloyds Bank plc (see note 9)	296	304
Amounts owed to related undertakings		
FDR Limited (see note 12)	4	3
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	10	5
Bank overdraft held with group undertaking		
Lloyds Bank plc (see note 11)	2	3
Interest income		
Lloyds Bank plc (see note 3)	6	6

16. Related party transactions (continued)

	2022 £'m	2021 £'m
Interest expense		
Lloyds Bank plc (see note 3)	**1**	2
Fees and commission expense		
FDR Limited (see note 4)	**8**	12
Recharge relating to salary and other related costs		
Lloyds Bank plc (see note 5)	**14**	11
Amounts charged by group undertakings		
Lloyds Bank plc (see note 5)	**3**	3
Dividend paid		
FDR Limited, LLC	**26**	-
Lloyds Bank plc	**26**	-
Lloyds Bank Subsidiaries Limited	**1**	-
Total Dividend paid (see note 15)	**53**	-

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. Accordingly, key management comprises of the directors of the Company, the directors of FDR Limited and the members of the LBG board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group or FDR Limited and consider that their services to the Company are incidental to their other activities within those corporations.

17. Financial risk management

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

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

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

17.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from extending credit in all forms, where there is a possibility that a counterparty may default. The Company is committed to a strong credit culture that recognises the need to ensure that risk assets are of high quality.

17. Financial risk management (continued)

17.1 Credit risk (continued)

Credit risk mitigation

- The primary Credit Risk for the Company arises from the chargeback rules of the card schemes under which the Company operates. Key sectors of concern from a chargeback perspective are: Travel, Tour Operators, Airlines and Cruise-lines.
- The Company maintains and adheres to credit policies in compliance with policies established by the Risk Division within the Group.
- Credit principles and policy: Group Risk sets credit principles and policy according to which credit risk is managed. 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: The Company employs credit scoring to support new business underwriting, with additional checks where necessary to meet the Group's credit risk standards.
- Know Your Customer (KYC) and Know Your Business (KYB): Full KYC and KYB checks are undertaken in line with the Group's anti-money laundering standards.
- Risk Mitigation: Where required, risk mitigation, for example the taking of guarantees (including from Lloyds Bank plc), cash collateral or deferral of settlement funds to the merchant, is considered to ensure the credit standards of the Company are met.
- During the year the Company had gross credit risk exposure (across all merchants) of between £2bn and £2.5bn. This was offset by credit risk underwritten by Lloyds Bank plc under the Bank's Credit Risk Responsibility (CRR) arrangement amounting to £78m and specific cash collateral held of £64.1m as at 31 December 22.

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	2022	2021
	£'m	£'m
Cash and cash equivalents	**10**	5
Amounts due from group undertakings	**296**	304
All other Trade and other receivables	**320**	213
	626	522

Credit risk is not considered to be significant to the Company as Cash and cash equivalents represent bank accounts with another Group subsidiary, Lloyds Bank plc, which had a credit rating of A+ (2020:A+) per Standard and Poor's at the end of the year. Amounts due from group undertakings also represent balances owed by Lloyds Bank plc. Given the credit rating of Lloyds Bank plc, management does not expect the counterparty to fail to meet its obligations.

For All other Trade and other receivables, credit risk arises from Amounts owed by card schemes, Amounts owed by merchants, Other trade receivables and Accrued income. The credit risk associated with these balances is considered good quality with a lower probability of default.

17. Financial risk management (continued)

17.2 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 merchants. This is further supported by the Company being funded by the shareholders (Lloyds Bank plc and FDR Limited, LLC).

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 2022

	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Amounts owed to merchants	533	-	-	-	533
Other creditors and accruals	9	3	-	-	12
Amounts owed to related parties	4	-	-	-	4
Borrowed funds	2	-	-	-	2
	548	3	-	-	551

As at 31 December 2021

	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	£'m	£'m	£'m	£'m	£'m
Amounts owed to merchants	409	-	-	-	409
Other creditors and accruals	4	3	-	-	7
Amounts owed to related parties	4	-	-	-	4
Borrowed funds	3	-	-	-	3
	420	3	-	-	423

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

17.3 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 and services. The resulting risk is closely monitored and controlled with agreed parameters set by the Company's credit policy.

17.4 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.

17.5 Financial strategy

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

Notes to the financial statements (continued)

For the year ended 31 December 2022

18. Capital disclosures

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

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, sell assets, or request a revolving credit facility from Lloyds Banking Group Plc.

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

19. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the Balance Sheet date (2021: £nil).

20. Post balance sheet events

Dividends

Since the balance sheet date the Directors have recommended a dividend of £34.9m. The aggregate amount of the proposed dividend was paid in May 2023 out of retained earnings at the 31st December 2022, and not recognised as a liability at year end.

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

21. Future developments

The following pronouncement is not applicable for the year ending 31 December 2022 and has not been applied in preparing these financial statements. Save as disclosed below, the impact of this accounting change is still being assessed by the Company and reliable estimates cannot be made at this stage.

With the exception of certain minor amendments, as at 31 December 2022 this pronouncement has been endorsed for use in the United Kingdom.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company.	1 January 2021 and 1 January 2022

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company.

22. Ultimate parent undertaking and controlling party

The terms of the contractual agreement between the shareholders are such that the Company is accounted for under the requirements of IFRS 10 Consolidated Financial Statements.

The Company's ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has published consolidated accounts for the year to 31 December 2022 and copies may be obtained from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN and are available for download from www.lloydsbankinggroup.com.

Independent auditor's report to the members of Cardnet Merchant Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Cardnet Merchant Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31/12/2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Tobias de Villiers (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
28th June 2023