

**R. RAPHAEL & SONS PLC**

**REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 28 FEBRUARY 2015**

Company Number: 01288938

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# R. RAPHAEL & SONS PLC

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# R. RAPHAEL & SONS PLC

## DIRECTORS AND OFFICERS

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Registered office: 19-21 Shaftesbury Avenue  
London  
W1D 7ED

Hon. President: Firoz Tejani

Directors: John Quitter (Chairman)  
Anthea Frost  
Trevor Johnson  
Kerry Penfold  
Tony Pooley  
Miles Roberts  
Mike Smith  
John Tattersall  
Richard Wells

Secretary: Kerry Penfold

Auditor: KPMG LLP  
Registered Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

# R. RAPHAEL & SONS PLC

## DIRECTORS' REPORT

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The Directors present their report together with financial statements for the year ended 28 February 2015.

### **Principal Activities**

R Raphael & Sons plc ('Bank' or 'Company') is engaged in the business of banking and related financial services. This principally includes the issuance of prepaid cards in the UK and Europe, the provision of lending in the form of loans and hire purchase facilities, ATM machines at high street and major gateway destinations, as well as offering savings accounts to retail customers. The Bank is a principal member of MasterCard, Visa and the LINK network. Its immediate parent is Lenlyn Holdings Plc (together with its subsidiaries, the 'Lenlyn Group'), which is incorporated in England. Fellow subsidiaries of Lenlyn Group include International Currency Exchange Plc (ICE), one of the world's leading providers of retail Bureau de Change and online foreign exchange services.

### **Results and Dividends**

The profit for the year after taxation amounted to £1,541k (2014: £1,436k). The Directors have not paid any interim ordinary dividend (2014: £1,870k) and are not recommending a further dividend (2014: £nil).

### **Going Concern**

In preparing the financial statements the Directors have satisfied themselves that it is reasonable for them to conclude it appropriate to adopt the going concern basis in accordance with the Financial Reporting Council's guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009'. The Company's forecasts and projections show that the Company will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. After making due enquiries the Directors are satisfied that the Company has adequate resources to continue its business for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements.

### **Disclosure of Information to the Auditor**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

### **Auditor**

Pursuant to Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

### **Financial Risk Management**

Information regarding the financial risk management objectives and policies are set out within the strategic report.

### **Political Donations**

No political donations were made during the year (2014: £nil).

### **Post balance sheet events**

There are no post balance sheet events.

# R. RAPHAEL & SONS PLC

## DIRECTORS' REPORT

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### Directors

The Directors who held office during the year or who hold office at the date of this report are as follows;

John Quitter	-	Non – Executive Director and Chairman
David Beale	-	Resigned 28 February 2015
Anthea Frost	-	Non – Executive Director
Trevor Johnson	-	Non – Executive Director
Kerry Penfold	-	Appointed 18 March 2015
Tony Pooley		
Miles Roberts		
Mike Smith		
John Tattersall	-	Non – Executive Director and Chair, Audit and Risk Committee
Richard Wells		

The Directors have no interests in any shares of the Company or in any other fellow subsidiary.

By order of the Board.



Kerry Penfold  
Secretary

28 May 2015

# R. RAPHAEL & SONS PLC

## STRATEGIC REPORT

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The Directors present the Strategic Report of the Company in accordance with Companies Act 2006, section 414C.

### **Business Review**

The Bank is a UK Credit Institution authorised by the Prudential Regulation Authority ('PRA') (reference 161302) and regulated by the Financial Conduct Authority and the PRA, and is engaged in the business of banking and related financial services. This principally includes the issuance of prepaid cards in the UK and Europe, the provision of lending in the form of loans and hire purchase facilities, ATM machines at high street and major gateway destinations primarily in the UK, as well as offering savings products to UK personal customers. For some of the prepaid card programmes in Europe, the Bank is also subject to host state regulations. The Bank is a principal member of MasterCard, Visa and the LINK network.

During the year the Bank has brought in-house (from the Lenlyn Group of companies) most of its support functions on a stand-alone basis, a process which was fully completed by May 2015.

### **Card Services**

The Bank has maintained its position at the forefront of the UK prepaid card industry with over 4.9 million (2014: 3.8 million) cards now in issue, in the UK and across a number of other European countries. The growth seen over the year has come from both existing partners and new relationships. Total customer balances have increased by over 19% in this past financial year. Prepaid card balances are held either in the form of demand deposits with major banks, in government or equivalent securities or in money market funds. A large proportion of our cardholder liabilities are in currencies other than sterling, for which the equivalent bank balance or investment is held in the same currency to ensure a matched position. The Bank expects to achieve further growth within the division in the coming years.

### **Lending**

The Lending division remains active in the provision of hire purchase facilities for motor vehicles, together with the more niche markets of mobility scooters and wheelchair adapted vehicles. During the year the division has added hire purchase facilities for purpose built hackney carriages and SME asset finance. The division has been active over the past three years in developing new lending areas. This has included sport season ticket loans, student support loans, medical loans and professional firms' short-term funding. In each of these cases, the loans are administered by a third party and the Bank has arrangements in place whereby the third party will buy back balances in arrears as noted in the section of this report on credit risk. The small credit card lending agreement has ended and is in orderly wind-down. The level of serious arrears and bad debt within the division has improved, leading to a 22% reduction in the provision for bad debts. This contributed towards the division achieving a very good level of profitability for the year. The division will continue to be grown cautiously over the coming year, both in its traditional market and through further expansion into niche sectors of the finance market. The Directors are confident that these initiatives will make a significant contribution to the division's profitability in the future.

### **ATMs**

The ATM division operates in conjunction with a number of third parties, including other members of the Lenlyn Group. The division has seen a significant growth in the estate of machines, with the Lenlyn Group being awarded the contract to supply ATMs to the London Underground which has increased the number of machines by over 150 to approximately 350. The estate also includes partnerships with well known high street names. New contracts with other Lenlyn Group companies were agreed in May 2014 reflecting the current division of work in running the estate, including the transfer of the ATM operations team to the Bank. The division remains profitable and continues to operate ATMs in the UK, Jersey and Gibraltar. It also launched its first ATMs with Euro as their base currency in the Republic of Ireland in March 2015, as well as continuing to site further machines at suitable locations in the UK.

# R. RAPHAEL & SONS PLC

## STRATEGIC REPORT

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### **Banking**

The division's main activity is to offer a range of savings and deposit products to the retail market in support of the growth in lending activity within the Bank. The Bank continues to be successful in growing the deposit base in accordance with planned liquidity targets and increased its peak deposit balance during the year to £101m from £73m in the previous fiscal year.

### **Risk Management Objectives and Policies**

The Bank operates in an environment that exposes it to a wide range of risks. To mitigate these risks, the Board has continued to develop and refine its Enterprise Risk Management ('ERM') framework over the past year, which is used to identify the types and quantum of risks to which the Bank is prepared to be exposed and how those risks are to be mitigated and managed.

Some of the key elements of the Bank's ERM framework are:

- The use of risk appetite and tolerance statements throughout the business;
- The use of risk registers to identify key risks and ensure they are actively monitored and managed;
- The maintenance of up to date policies and procedures, including fully tested Business Continuity Plans; and
- The delegation to various committees of the oversight of how well the Bank manages risk. The main committees in this respect are the Audit and Risk Committee, the Executive Committee (EXCO), and the Asset & Liability Committee (ALCO).

Ultimate responsibility for the overall framework and the risk management strategy continues to reside with the Board and all aspects of the ERM framework are reviewed, amended where appropriate and approved at least annually by the Board to ensure they remain in line with best practice and are consistent with the Bank's overall strategic objectives.

### **Capital Adequacy**

Implementation of the new Capital Requirements Directive ('CRD IV') took place initially on 1 January 2014. A number of the requirements of the CRD IV are being phased in over the course of the next four years, although the Bank has implemented changes already where this is necessary. The CRD requires the Bank to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process (ICAAP). Through the application of the ICAAP the Board is satisfied that the Bank holds a level of capital more than sufficient to satisfy both the CRD's minimum capital requirements under Pillar 1 and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures required under the CRD, and approved by the Board, will be made available on the Bank's website [www.raphaelsbank.com](http://www.raphaelsbank.com).

# R. RAPHAEL & SONS PLC

## STRATEGIC REPORT

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### Principal Risks and Uncertainties

The principal risks to which the Bank is exposed and an outline of the principal means by which those risks are managed are set out below:

**Credit risk:** the risk that a loss will be incurred if a customer or counterparty fails to meet its obligations. Credit risk arises principally from the Bank's hire purchase facilities and other loans and advances to customers and group companies, the investment of liquid assets with treasury counterparties or in short-term securities, and amounts due to the Bank in the settlement of ATM disbursements. In the case of sports season ticket loans, student support loans, medical loans, professional firms short-term funding and credit cards, an important mitigant of the credit risk is the fact that the Bank has an arrangement whereby a third party will buy back outstanding balances that are more than three months in arrears. In the event of any failure of these third parties, the Bank would take over administration of the loans directly. All activities that give rise to credit risk are undertaken in accordance with the Board's approved policies, and the risk is actively monitored by the EXCO and/or the ALCO.

**Operational risk:** the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events arising from day-to-day operating activities. The Bank seeks to mitigate this risk through a variety of measures including maintaining up-to-date policies and procedures for all key internal processes, ensuring its staff receive ongoing training, investing in appropriate systems, having documented and tested business continuity plans and, wherever possible, ensuring that it has a diversified spread of counterparties, business partners and suppliers. The EXCO is the Bank's principal forum for monitoring operational risk which it does through a variety of means including the use of risk registers, operational loss databases, control self assessments and regular reviews of operational divisions and functional areas by Compliance and Internal Audit.

The Bank recognises conduct risk as a specific sub-set of operational risk. Raphaels defines conduct risk as "the risk that, through Raphaels' actions or inactions, one or more of its products and services fail to deliver fair outcomes to its customers". The conduct risk governance framework mirrors other aspects of the Bank's ERM framework and is being actively managed at all levels within the Bank through training, the establishment of risk appetite and tolerances and the use of appropriate Key Risk Indicators ("KRI") and other management information.

**Liquidity risk:** the risk that the Bank either does not have available cash or cannot obtain sufficient financial resources to enable it to meet its obligations as they fall due, or only secure such resources at an excessive cost. The Bank's policy is to maintain liquid assets at all times which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due both in business-as-usual and stressed scenarios. The Liquidity Policy details liquidity risk limits set by the Board and day-to-day responsibility for ensuring these are adhered to rests with the ALCO. The Bank completes an Individual Liquidity Adequacy Assessment ("ILAA") at least annually to assess its compliance with the liquidity systems and controls requirements as detailed in the PRA Handbook. The availability of funds to the Bank on the retail deposit market is supported by the Financial Services Compensation Scheme's coverage of the Bank's deposit liabilities to retail customers and could be jeopardised if this coverage was in question, but this risk is regarded by the Board as remote.

**Interest rate risk:** the risk of reductions in income arising from unfavourable movements in interest rates and/or reductions in the fair value of financial instruments. This risk is managed within approved limits set by the Board and is monitored by the ALCO. Details of the Bank's interest rate sensitivity are set out in Note 22 of these financial statements.

**Foreign exchange risk:** the risk of loss arising from unfavourable movements in currency exchange rates. The principal area of the Bank's business where foreign exchange risk arises is within the ATM division, where Euro and US Dollar notes are held in ATMs prior to them being dispensed. Additionally the Bank is exposed to foreign exchange risk when ATM transactions are settled in a differing currency to the original transaction. This risk is managed within approved limits set by the Board and is monitored by the ALCO. While a large proportion of card services cardholder liabilities are in currencies other than sterling, the equivalent bank balance or investment is held in the same currency to ensure a matched position and to mitigate any foreign exchange risk. Details of the Bank's net foreign currency assets and liabilities are set out in Note 22 of these financial statements.



# R. RAPHAEL & SONS PLC

## STRATEGIC REPORT

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**Regulatory risk:** the risk that the Bank does not adhere to the changing regulatory environment in which it operates thereby threatening the achievement of the firm's goals and objectives, possibly damaging its reputation and, in extreme cases, giving rise to it being censured or fined by a regulator. The Bank seeks to mitigate such risks by ensuring there is a suitable level of expertise within each of its operating divisions which is then supported by a strong central compliance team and the use of risk-based compliance monitoring plans to monitor and ensure the Bank's ongoing adherence to relevant laws and regulations. Finally and reflecting the three lines of defence model employed by the Bank, at least annually, Internal Audit also undertakes a review of the Bank's overall management of regulatory risk.

### Key Financial Data

A summary of key financial data used to manage the business is set out below:

	2015 £'000	2014 £'000
Profit after tax	1,541	1,436
Cost / income ratio	89.9%	88.8%
Net interest margin	2.50%	2.43%
Return on capital	8.6%	8.6%
Total assets	344,432	284,474
Net amounts receivable under hire purchase agreements and finance leases	42,610	33,807
Loans and advances to customers	24,476	22,096
Cardholder liabilities	188,050	157,746
Retail deposits	88,921	69,506
Shareholders' funds	23,710	22,169
Growth in total assets	21%	33%

### Profit after tax

The Board sees the total profitability of the Bank as an important measure in its performance. The profit improvement in the year was driven by the growth in the Lending and Card Services divisions and the revised contracts and expansion in the ATM division.

### Cost / income ratio

The Board aims to ensure that costs are contained at an appropriate level. The current cost/income ratio remains high, in large part because of the level of investment in staff and systems seen in the past few years.

### Net interest margin

The net interest margin represents the ratio of net interest receivable to average interest bearing assets. With a significant proportion of the Bank's net interest generating business relating to lending (mainly consumer loans) and borrowing (mainly retail deposits), it is important to measure the interest margin.

### Return on capital

The Bank's return on capital expresses the profit for the year before taxation as a percentage of capital resources. With capital being a scarce resource, it is important to recognise the returns being earned from these resources. This ratio, together with its component elements for each division and product type, are measured monthly.

### Total assets

Key parts of the Bank's business are the volume of new lending as well as the number of prepaid card accounts, with total asset growth this year of 21%. The main drivers behind this were the development of new lending products, new programmes within the Card Services division and further steady growth in traditional lending and existing card programmes.

# R. RAPHAEL & SONS PLC

## STRATEGIC REPORT

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### **Net amounts receivable under hire purchase agreements and finance leases**

Total balances have increased by £8.8m or 26% in the year (2014: £3.2m or 10%) as a result of continued growth in new lending.

### **Loans and advances to customers**

Total loans have increased by £2.4m (2014: £15.7m). This growth relates primarily to activities undertaken within the Lending division, including sport season tickets, medical loans, professional firms short-term funding and student support loans.

### **Cardholders liabilities**

These represent amounts outstanding on prepaid cards. The increase of £30.3m represents a 19% growth (2014: £27.9m, 22%) and is due to a combination of new programmes launched in the year and further steady growth in existing programmes.

### **Retail deposits**

The bank raises retail deposits, mainly in the form of fixed rate and term deposits to fund its lending activities, provide working capital for ATMs and to fund its liquidity buffers. The increase of £19.4m or 28% (2014: £22.2m or 47%) is due mainly to the need to fund the growth in lending and hire purchase loans noted above (£11.2m) and to provide the liquidity buffers.

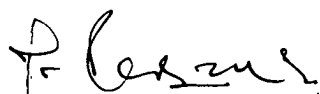
### **Shareholders' funds**

Shareholders' funds comprise the Bank's share capital, share premium account, and any reserves. Over the course of the year, the Bank earned net profits of £1.5m resulting after tax in an increase in shareholders funds. The Bank's solvency remains very strong, with a Tier 1 ratio of over 19%.

### **Management Changes**

After a career in banking spanning over 40 years, 15 of which has been within the Lenlyn Group, the Bank's Operations Director David Beale announced his retirement on 28 February 2015. David's successor in this role, Kerry Penfold, was appointed on 18 March 2015. Kerry had previously held senior roles in the Bank and the wider Lenlyn Group.

By order of the Board.



Miles Roberts  
Chief Executive Officer

28 May 2015

# R. RAPHAEL & SONS PLC

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE STRATEGIC REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 for that period. In preparing the Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF R RAPHAEL & SONS PLC

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## **Independent auditor's report to the members of R Raphael & Sons Plc**

We have audited the financial statements of R Raphael & Sons Plc for the year ended 28 February 2015 set out on pages 11 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

## **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 9, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## **Opinion on financial statements**

In our opinion the financial statements:

- Give a true and fair view of the state of the Company's affairs as at 28 February 2015 and of the profit for the year then ended;
- Have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

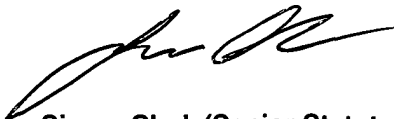
## **Opinion on other matter prescribed by the Companies Act 2006**

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

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Company 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; or



**Simon Clark (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

29 May 2015

# R. RAPHAEL & SONS PLC

## PROFIT AND LOSS ACCOUNT YEAR ENDED 28 FEBRUARY 2015

	Notes	2015 £'000	2014 £'000
Interest receivable		8,789	7,074
Interest payable		<u>(2,231)</u>	<u>(1,759)</u>
		6,558	5,315
Fees and commissions receivable		11,715	7,652
Fees and commissions payable		<u>(6,081)</u>	<u>(6,560)</u>
		5,634	1,092
Other operating income		<u>10,360</u>	<u>9,405</u>
<b>Total income</b>			
Continuing operations		22,411	15,355
Discontinued operations	3	141	457
Administration expenses		(19,335)	(13,704)
Depreciation	12	(930)	(333)
Provision for bad and doubtful debts	6	<u>(248)</u>	<u>(123)</u>
		<u>(20,513)</u>	<u>(14,160)</u>
<b>Operating profit on ordinary activities before taxation</b>	2		
Continuing operations		1,898	1,888
Discontinued operations	3	141	(236)
Profit on disposal of CFX business		-	250
<b>Profit on ordinary activities before taxation</b>		<u>2,039</u>	<u>1,902</u>
Tax charge on profit on ordinary activities	7	(498)	(466)
<b>Profit for the financial year</b>		<u><u>1,541</u></u>	<u><u>1,436</u></u>

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year, and their historical cost equivalents.

There were no recognised gains or losses other than the profit for the year.

The notes on pages 14 to 30 form part of these financial statements.

# R. RAPHAEL & SONS PLC

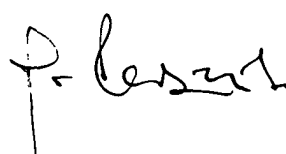

## BALANCE SHEET AS AT 28 FEBRUARY 2015

	Notes	2015 £'000	Reclassified* 2014 £'000
<b>Assets</b>			
Cash and balances with central bank		50,014	20,930
Short term investments		77,671	46,389
Loans and advances to banks	8	133,074	145,304
Loans and advances to customers	9	24,476	22,096
Net amounts receivable under hire purchase agreements and finance leases	10	42,610	33,807
Tangible fixed assets	12	3,481	3,798
Investments	13	228	228
Debtors and prepayments	15	12,668	7,718
Other debtors - group undertakings		73	4,117
- deferred tax	14	137	87
<b>Total assets</b>		<b>344,432</b>	<b>284,474</b>
<b>Liabilities</b>			
Loans and advances from banks		-	5,000
Customer accounts	16	276,971	227,252
Creditors and accruals	17	43,502	30,053
Corporation tax liability		249	-
		<b>320,722</b>	<b>262,305</b>
Called up share capital	18	13,600	13,600
Share premium		900	900
Profit and loss account		9,210	7,669
<b>Shareholders' funds</b>	19	<b>23,710</b>	<b>22,169</b>
<b>Total liabilities and equity shareholders' funds</b>		<b>344,432</b>	<b>284,474</b>
Commitments	23	2,097	60

The notes on pages 14 to 30 form part of these financial statements.

The financial statements were approved by the Board of Directors on 28 May 2015.

\* Reclassified, see note 1 on page 14.

Miles Roberts		Chief Executive Officer
Richard Wells		Finance Director

# R. RAPHAEL & SONS PLC

## CASH FLOW STATEMENT YEAR ENDED 28 FEBRUARY 2015

	Notes	2015 £'000	2014 £'000
<b>Cash flow statement:</b>			
Cash flow from operating activities	21	49,036	49,408
Taxation		(299)	(402)
<b>Net cash inflow from operating activities</b>		<u>48,737</u>	<u>49,006</u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(615)	(2,761)
Sale of tangible fixed assets		3	-
<b>Net cash outflow from capital expenditure and financial investment</b>		<u>(612)</u>	<u>(2,761)</u>
<b>Financing</b>			
Dividends paid		-	(1,870)
<b>Increase in cash and cash equivalents</b>	20	<u>48,125</u>	<u>44,375</u>

The notes on pages 14 to 30 form part of these financial statements.

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

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### 1 PRINCIPAL ACCOUNTING POLICIES

#### BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention as modified to include the revaluation of freehold properties in accordance with UK Generally Accepted Accounting Practice and the Companies Act 2006.

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Lenlyn Holdings plc, which are publicly available.

The Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

#### Reclassification of 2014 balances:

During the year, the Directors have reviewed the presentation of certain items within the balance sheet. As a result of this review certain changes have been made to the presentation of these items. The reclassification has no impact on the profit and loss amount. As a result of the exercise, for 2014, net amounts receivable under hire purchase and leasing agreements has decreased by £1,548k and debtors and prepayments have increased by £1,548k.

#### PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies of the Bank are set out below. The Directors have reviewed the accounting policies adopted and consider them to be the most appropriate.

The Bank has not adopted FRS26 Financial Instruments: Recognition and Measurement.

#### TANGIBLE FIXED ASSETS

##### Depreciation

Depreciation is calculated to write down the cost less residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates generally applicable are:

Fixtures, fittings and office equipment	20%
Motor vehicles	20%
Computer software	20%

Freehold property is not depreciated as it is considered to have a remaining useful economic life in excess of 50 years.

##### Revaluation of Properties

Individual properties are revalued every three years. The surplus or deficit on book value is transferred to the revaluation reserve, except where a deficit is in excess of any previously recognised surplus over depreciated costs relating to the same property, then reversal of such a deficit is charged to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss accounts regardless of any such previous surplus.

#### INVESTMENTS AND SHARES IN SUBSIDIARY UNDERTAKINGS

Investments (which represent scheme membership fees) and shares in subsidiaries are held at cost less provision for impairment. Any impairment is charged to the profit and loss account.



# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

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### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### SHORT TERM INVESTMENTS

Debt securities are intended for use on a continuing basis and are as such classified as financial fixed assets. Marketable debt securities are included in the accounts at cost adjusted for accrued interest contained in the purchase price. Where the adjusted cost price varies from the maturity value, any premium or discount is amortised in equal instalments up to maturity. Any amounts so amortised are charged / credited to the profit and loss account for the relevant financial years. Other securities are included in the accounts at cost. Interest on short term investments is credited to the profit and loss account as earned.

#### FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the exchange rates ruling at the balance sheet date. All translation differences are taken to the profit and loss account, within administration expenses.

#### PENSIONS

The Bank operates a defined contribution pension scheme. Contributions are accrued in the profit and loss account as they become payable.

#### TAXATION

Current tax is provided at the amount expected to be paid (or recovered) using the tax rate and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on all timing differences where the transactions or events that give the Bank an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted by the balance sheet date.

#### LOANS AND ADVANCES

##### Loans and advances to banks

Loans and advances to banks represent cash in bank accounts and are stated gross of accrued interest at balance sheet date.

##### Loans and advances to customers

Loans and advances to customers are stated gross of interest accrued but not yet paid as at the balance sheet date.

#### CASH AND BALANCES WITH CENTRAL BANK

Cash includes all currencies in hand and in ATMs. Foreign currencies are valued at their equivalent value in reporting currency based on the exchange rates ruling at the year. Balances with central bank is the balance held with the Bank of England.

#### Net receivables under hire purchase and finance leases

In accordance with Statement of Standard Accounting Practice No 21 the minimum payments receivable from hire purchase agreements, less appropriate future income arising from finance charges, are included in debtors. Amounts recoverable in respect of finance lease advances are included on the balance sheet as net amounts receivable under hire purchase agreements and finance leases on the basis of the net investment in finance lease advances.

#### Income recognition – hire purchase and finance lease agreements

Interest less introducers' commission is apportioned on the sum of the digits basis throughout the term of the agreement. Balances are stated net of unearned finance charges.

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

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### 1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### **Interest receivable / Interest payable**

Interest receivable and interest payable are accrued on a day-to-day basis. In relation to the Card Services business, interest receivable is shared with partners.

#### **Provision for bad & doubtful debts**

Provisions for losses are based upon a year-end appraisal of loans, advances and other assets. Specific provisions are made in respect of loans and other assets that are in arrears, together with the Directors' appraisal of individual loans where appropriate. General provisions are made where it is considered that there is impairment in the value of assets at the year-end that is not already covered by specific provisions. Loans, advances and other receivables are written down to estimated realisable value when there is no realistic prospect of recovery.

#### **Deferred revenue**

This represents the element of interest on hire purchase agreements and finance leases, attributable to future accounting periods. Introducers' commission is amortised over the life of the loan, to match income, unless settled early.

#### **FEES & COMMISSIONS**

Fees and commissions are recognised in the profit and loss account when unconditionally payable or when work is completed and the fee is agreed, except where those fees are an adjustment to the yield on the related asset, in which case they are amortised over the life of the agreement. Fees and commissions on ATMs, Card Services and CFX are recognised on an accruals basis.

#### **OPERATING LEASES**

Rentals under operating leases are charged to administrative expenses on a straight line basis over the period of the lease.

#### **IMPAIRMENT OF ASSETS**

The carrying amounts of the Bank's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 2 OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit before taxation results from activities mainly within the United Kingdom.

	2015 £'000	2014 £'000
<b>Operating profit on ordinary activities before taxation is stated after charging:</b>		
Remuneration of the auditor and its associates, excluding VAT was as follows:		
Fees payable to the Company's auditor for the audit of the annual accounts	85	60
Fees payable to the Company's auditor and its associates for other services:		
Taxation compliance services	15	15
Other assurance services	-	-
	<u>100</u>	<u>75</u>
Operating leases - land and buildings	58	60
Depreciation	930	333
Foreign exchange translation charge	419	171
(Profit) / loss on sale of fixed assets	<u>(1)</u>	<u>13</u>

### 3 DISCONTINUED OPERATIONS

On the 1 July 2013 the Bank disposed of its CFX business to Cambridge Mercantile Corp. (UK) Limited. On this date the CFX customers of the Bank were transferred to Cambridge Mercantile Corp. (UK) Limited. Depending on the value of new transactions undertaken by Cambridge Mercantile with these customers up to 30 July 2016, Raphaels will receive further income.

	2015			2014		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Total income	22,411	141	22,552	15,355	457	15,812
Administration expenses	(19,335)	-	(19,335)	(13,011)	(693)	(13,704)
Depreciation	(930)	-	(930)	(333)	-	(333)
Provision for bad and doubtful debts	(248)	-	(248)	(123)	-	(123)
Operating profit / (loss)	<u>1,898</u>	<u>141</u>	<u>2,039</u>	<u>1,888</u>	<u>(236)</u>	<u>1,652</u>

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 4 SEGMENTAL REPORTING

Segmental disclosures for the year ended 28 February 2015 are as follows;

	ATM £'000	Card Services £'000	Lending £'000	Central £'000	Total for Reportable Segments £'000
<b>Profitability</b>					
Net interest receivable	(316)	201	6,418	255	6,558
Other income	13,532	2,872	(493)	83	15,994
Total income	13,216	3,073	5,925	338	22,552
Attributable administration expenses	(11,481)	(1,687)	(1,912)	-	(15,080)
Provisions	-	-	(248)	-	(248)
Segment profit	1,735	1,386	3,765	338	7,224
Common expenses	-	-	-	(5,185)	(5,185)
Operating (loss) / profit before tax				(4,847)	2,039
<b>Balance Sheet</b>					
Assets	14,073	207,706	70,763	51,890	344,432
Liabilities	(5,281)	(205,477)	(53,695)	(56,269)	(320,722)
Net assets / (liabilities)	8,792	2,229	17,068	(4,379)	23,710

Comparative segmental disclosures for the year ended 28 February 2014 are as follows;

	ATM £'000	Card Services £'000	Lending £'000	Central £'000	Total for Reportable Segments £'000
<b>Profitability</b>					
Net interest receivable	(66)	133	5,196	52	5,315
Other income	8,010	2,272	(139)	354	10,497
Total income	7,944	2,405	5,057	406	15,812
Attributable administration expenses	(7,414)	(1,670)	(2,031)	(693)	(11,808)
Provisions	-	-	(123)	-	(123)
Segment profit / (loss)	530	735	2,903	(287)	3,881
Common expenses	-	-	-	(2,229)	(2,229)
Operating (loss) / profit before tax				(2,516)	1,652
<b>Balance Sheet</b>					
Assets	20,345	175,641	59,176	29,312	284,474
Liabilities	(12,090)	(173,222)	(44,279)	(32,714)	(262,305)
Net assets / (liabilities)	8,255	2,419	14,897	(3,402)	22,169

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 5 DIRECTORS AND EMPLOYEES

	2015 £'000	2014 £'000
Wages, salaries and performance related remuneration	3,534	2,523
Social security costs	500	366
Pension costs	136	100
Directors' remuneration	856	657
Directors' fees	98	79
Other benefits	55	45
	<b>5,179</b>	<b>3,770</b>

Average number of employees (including directors) employed by the Company during the year and analysed by category were as follows;

Lending	30	27
Banking	7	8
Commercial foreign exchange	-	8
ATM	8	-
Card services	22	19
Management and administration	33	9
	<b>100</b>	<b>71</b>

From 1 April 2014, a number of staff were transferred to the Company from International Currency Exchange plc ('ICE', a fellow Group undertaking of Lenlyn Holdings Plc).

Pension costs include £34k (2014: £26k) in respect of Directors. During the period 4 Directors (2014: 4) participated in money purchase pension schemes.

The emoluments of the highest paid Director amounted to £342k (2014: £217k) which includes pension contributions of £10k (2014: £8k).

During the year 4 directors of the Bank (2014: 4) received £217k (2014: £53k) from the parent company's medium term incentive scheme. As at 28 February 2015, these directors are due to receive £298k (2014: £518k). The scheme is settled directly by the parent company and not recognised in the profit and loss account of the Bank.

### 6 PROVISION FOR BAD AND DOUBTFUL DEBTS

	General £'000	Specific £'000	Total £'000
At 1 March 2013	50	1,367	1,417
Charge for the period	-	123	123
Utilised in the period	-	(359)	(359)
At 28 February 2014	50	1,131	1,181
Charge for the period	-	248	248
Utilised in the period	-	(509)	(509)
At 28 February 2015	<b>50</b>	<b>870</b>	<b>920</b>

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 7 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2015 £'000	2014 £'000
<b>Current taxation</b>		
UK corporation tax at 21.17% (2014: 23.08%)	530	405
Adjustment in respect of prior periods	18	(3)
<b>Total current tax</b>	<b>548</b>	<b>402</b>
<b>Deferred taxation</b>		
Origination and reversal of timing differences	(51)	31
Adjustment in respect of prior periods	1	15
Effect of tax rate change on opening balance	-	18
<b>Deferred tax charge</b>	<b>(50)</b>	<b>64</b>
<b>Tax charge on profit on ordinary activities</b>	<b>498</b>	<b>466</b>

The tax assessed for the period is higher (2014: lower) than that resulting from applying the standard rate of corporation tax in the UK of 21.17% (2014: 23.08%). The differences are explained below:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	2,039	1,902
Tax at 21.17% thereon (2014: 23.08%)	432	439
Effects of:		
Capital allowances in excess of depreciation	66	(71)
Expenses not deductible for tax purposes	36	1
Other short term timing differences	(4)	36
Adjustments to tax charge in respect of previous periods	18	(3)
<b>Current tax charge</b>	<b>548</b>	<b>402</b>

Reductions in the UK corporation tax rate from 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were enacted on 17 July 2013. The deferred tax asset at 28 February 2015 has been calculated based on the rate of 20% enacted at the balance sheet date.

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of CRD IV. The purpose of the regulations is to provide clarity on the source of the Bank's income and the location of its operations. The annual reporting requirements as at 28 February 2015 will be published on the Bank's website in due course at [www.raphaelsbank.com](http://www.raphaelsbank.com).

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 8 LOANS AND ADVANCES TO BANKS

	2015 £'000	2014 £'000
Repayable:		
On demand	130,379	142,620
Three months or less	2,695	2,684
	133,074	145,304

Included within amounts payable on demand are amounts of £122,795k (2014: £124,915k) which are held in designated accounts with banks under card programmes. These together with short term investments of £77,671k (2014: £46,389k) are used to cover liabilities under these programmes. The associated cardholder liabilities are shown in Note 16.

### 9 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances are repayable from the balance sheet date as follows:

	2015 £'000	2014 £'000
On demand	-	-
Three months or less	8,926	10,753
Between three months and one year	7,013	5,866
Between one and five years	8,445	5,383
In more than five years	92	94
	24,476	22,096

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 10 NET AMOUNTS RECEIVABLE UNDER HIRE PURCHASE AND LEASING AGREEMENTS

	2015 £'000	Reclassified 2014 £'000
Gross receivables	56,320	44,503
Deferred revenue	(12,790)	(9,515)
Net amounts receivable before allowance for impairment	43,530	34,988
Repayable:		
Three months or less	4,336	3,811
Between three months and one year	11,774	10,282
Between one and five years	27,420	20,895
	43,530	34,988
Allowances for impairment	(920)	(1,181)
Net amounts receivable under hire purchase and leasing agreements	42,610	33,807
Aggregate rentals received during the year in respect of finance leases and hire purchase contracts:		
Finance leases	-	1
Hire purchase contracts	26,022	24,508

The previous year balances have been restated by re-classifying £1,548k to debtors and prepayments.

### 11 SUBSIDIARY UNDERTAKINGS

Shares in subsidiary undertakings at the end of the year amounted to £1 (2014: £1). During the year Raphael Nominees Limited and Raphael Leasing Limited were dissolved.

The subsidiary undertakings and their activities are set out below:

Southern Finance Company Limited - Non-Trading

The subsidiary is wholly owned by the Company, is incorporated within the United Kingdom and the investments is all in ordinary shares.



# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 12 TANGIBLE FIXED ASSETS

	Freehold Property £'000	Computer Software £'000	Fixtures & Fittings £'000	Motor Vehicles £'000	Total £'000
Cost or valuation:					
At 1 March 2014	685	2,102	2,419	62	5,268
Additions	-	249	356	10	615
Disposals	-	(33)	(224)	(14)	(271)
At 28 February 2015	685	2,318	2,551	58	5,612
Depreciation:					
At 1 March 2014	-	1,349	77	44	1,470
Charge for the year	-	228	697	5	930
Disposals	-	(33)	(224)	(12)	(269)
At 28 February 2015	-	1,544	550	37	2,131
Net book values:					
At 28 February 2015	685	774	2,001	21	3,481
At 28 February 2014	685	753	2,342	18	3,798

The freehold land and buildings of the Bank is revalued every three years and was last revalued on an open market value for existing use basis at 28 February 2014 by David Menzies Associates at £685k.

### 13 INVESTMENTS

Investments represent the cost of LINK, Visa and MasterCard memberships acquired during previous years. These are held at cost subject to an annual impairment review. The value in use of these investments is higher than the cost of the investment and so no impairment is required.

### 14 DEFERRED TAX

	2015 £'000	2014 £'000
The movements in deferred tax asset were:		
Balance at start of period	87	151
Charge to profit and loss account	50	(64)
Balance at the end of the period	137	87
Comprising:		
Accelerated capital allowances	30	(24)
Other timing differences in relation to loan impairment provisions	107	111
	137	87

Reductions in the UK corporation tax rate from to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were enacted on the 17 July 2013. The deferred tax asset at 28 February 2015 has been calculated based on the rate of 20% enacted at the balance sheet date.

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 15 DEBTORS AND PREPAYMENTS

	2015 £'000	Reclassified 2014 £'000
Prepayments and other debtors	705	262
Trade debtors - Other	487	516
Trade debtors - Card Services	3,216	2,018
Trade debtors - Lending	2,219	1,548
Trade debtors - ATMs	6,041	3,374
	<b>12,668</b>	<b>7,718</b>

Trade debtors - Card Services: this represents amounts due from card programme managers in relation to prepaid card loads and expenses incurred on behalf of the card programme managers which are to be recharged.

Trade debtors – ATMs: this represents amounts due from LINK, Visa and MasterCard for settlement of withdrawals.

The previous year balances have been restated by re-classifying £1,548k from net amounts receivable under hire purchase and leasing agreements.

### 16 CUSTOMER ACCOUNTS

	2015 £'000	2014 £'000
Repayable:		
On demand	188,417	157,906
Within agreed maturity dates or periods of notice:		
Three months or less	20,343	9,044
Between three months and one year	55,606	37,576
Between one and five years	12,605	22,726
	<b>276,971</b>	<b>227,252</b>

Included in amounts payable on demand are amounts of £188,050k (2014: £157,746k) relating to cardholder liabilities in respect of cards issued by the Bank. These are not protected deposits under the Financial Services Compensation Scheme, but balances are held in designated accounts or securities to cover these liabilities and are disclosed separately in Note 8. Also included in amounts payable on demand are the amounts of £234k (2014: nil) relating to Lenlyn group companies.

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 17 CREDITORS AND ACCRUALS

	2015 £'000	2014 £'000
Accrued expenses	2,251	895
Deferred income and other creditors	1,351	804
Trade creditors - Other	533	637
Trade creditors - Card Services	36,882	25,118
Trade creditors - ATMs	2,485	2,599
	43,502	30,053

Trade creditors - Card Services: this represents amounts owed to Visa and MasterCard for net settlement of cardholder spend and prefunding of card schemes by the card programme managers.

Trade creditors – ATMs: this represents amounts owed to the ATM estate managers for cash settlements and other services performed under contractual agreements.

### 18 SHARE CAPITAL

	2015 £'000	2014 £'000
<b>Allotted, issued, called up and fully paid:</b>		
13,600,000 ordinary shares of £1 each	13,600	13,600

### 19 SHAREHOLDERS' FUNDS

	Issued share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 1 March 2013	13,600	900	8,103	22,603
Profit on ordinary activities after taxation	-	-	1,436	1,436
Dividends paid	-	-	(1,870)	(1,870)
At 28 February 2014	13,600	900	7,669	22,169
Profit on ordinary activities after taxation	-	-	1,541	1,541
Dividends paid	-	-	-	-
At 28 February 2015	13,600	900	9,210	23,710

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 20 ANALYSIS OF CASH AND CASH EQUIVALENTS

	2015 £'000	Movement £'000	2014 £'000
Loans and advances to banks	133,074	(12,230)	145,304
Short term investments	77,671	31,282	46,389
Less: loans and advances to banks on maturity terms more than one month	(2,695)	(11)	(2,684)
Accounts on demand	208,050	19,041	189,009
Cash and balances at central bank	50,014	29,084	20,930
Total cash and cash equivalents	258,064	48,125	209,939

### 21 NET CASH FLOW GENERATED FROM OPERATIONS

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation	2,039	1,902
Increase in debtors and prepayments	(4,950)	(3,075)
Increase in creditors and accruals	13,449	16,126
Depreciation	930	333
(Profit) / loss on sale of fixed assets	(1)	13
Increase in loans to customers	(2,380)	(15,664)
Increase in hire purchase and leasing	(8,803)	(1,680)
Increase in loans and advances to banks	(11)	(2,684)
(Decrease) / increase in loans and advances from banks	(5,000)	5,000
Increase in deposits from customers	49,719	50,163
Decrease / (Increase) in amounts due from group undertakings	4,044	(1,026)
Cash flow generated from operations	49,036	49,408

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

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### 22 FINANCIAL INSTRUMENTS

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Bank is a retailer of financial instruments, mainly in the form of loans, hire purchase facilities, savings products and prepaid cards. The Bank also has an estate of ATMs which provide cash for consumers.

The Bank uses wholesale financial instruments to invest liquid asset balances and may use them to raise wholesale funding and to manage certain risks arising from its operations. It is, and has been throughout the period under review, the Bank's policy that no trading in financial instruments shall be undertaken.

These financial instruments involve varying degrees of exposure to loss in the event of default by a counterparty ("credit risk"), exposure to future changes in interest rate ("interest rate risk"), exposure to changes in foreign exchange rates ("foreign exchange risk") and the ability to meet liabilities as they fall due ("liquidity risk").

The Board sets policies for the management of all risks to which the Bank is exposed. This includes risks associated with financial instruments used by the Bank. The day-to-day management of these risks is overseen primarily by the ALCO and the EXCO.

#### **Liquidity risk**

The Bank's policy is to maintain liquid assets at all times which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due both in business-as-usual and stressed scenarios. The Liquidity Policy details liquidity risk limits set by the Board and these are reviewed on an ongoing basis by the Bank's finance department and monitored each week by the ALCO.

#### **Credit risk**

Credit risk refers to the potential risk that a loss will be incurred if a customer or counterparty fails to meet its obligations. The risk arises from the Bank's loans and advances to customers, hire purchase agreements and finance leases, investment of liquid assets with treasury counterparties and in securities, and amounts due to the Bank in the settlement of ATM disbursements. Credit risk is the responsibility of the Board, who delegate the day to day responsibilities to the ALCO and EXCO, which actively monitor the risk on individual counterparties and, groups of interrelated counterparties. For the Bank's liquidity, credit limits have been established by the Board for individual treasury counterparties and these are monitored by the EXCO and/or ALCO.

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 22 FINANCIAL INSTRUMENTS (CONTINUED)

#### Foreign exchange risk

This risk is defined as the possibility of losses or reduced profits being incurred as a result of movements in currency exchange rates. The principal area of the Bank's business where foreign exchange risk arises is within the ATM division, where Euro and US Dollar notes are held in ATMs prior to them being dispensed. Additionally the Bank is exposed to foreign exchange risk when ATM transactions are settled in a differing currency to the original transaction

As at 28 February 2015 these exposures were as follows:

Functional currency	Net Foreign Currency Monetary Assets / (Liabilities) in £'000			
	Euro	US Dollar	Other	Total
Sterling equivalent	2,474	39	(0)	2,513

As at 28 February 2014 these exposures were as follows:

Functional currency	Net Foreign Currency Monetary Assets / (Liabilities) in £'000			
	Euro	US Dollar	Other	Total
Sterling equivalent	1,573	230	0	1,803

#### Interest rate risk

The Bank is exposed to movements in interest rates and manages this exposure on a continuing basis, within limits set by the Board and monitored by ALCO. The interest rate exposure of the financial assets and liabilities of the Bank at 28 February 2015 is as shown overleaf:

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 22 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate re- pricing 2015	Not more than 3 months	Over 3 and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>							
Loans to banks	131,753	-	-	-	-	1,321	133,074
Short term investments	35,873	27,937	13,861	-	-	-	77,671
Loans to customers	8,925	2,644	4,370	8,537	-	-	24,476
HP & leasing	4,244	4,045	7,480	26,841	-	-	42,610
Cash and central bank	45,732	-	-	-	-	4,282	50,014
Other assets	-	-	-	-	-	16,587	16,587
<b>Total assets</b>	<b>226,527</b>	<b>34,626</b>	<b>25,711</b>	<b>35,378</b>	<b>-</b>	<b>22,190</b>	<b>344,432</b>
<b>Liabilities</b>							
Loans from banks	-	-	-	-	-	-	-
Customer deposits	20,709	31,588	24,018	12,606	-	188,050	276,971
Other liabilities	-	-	-	-	-	43,751	43,751
Shareholders funds	-	-	-	-	-	23,710	23,710
<b>Total liabilities</b>	<b>20,709</b>	<b>31,588</b>	<b>24,018</b>	<b>12,606</b>	<b>-</b>	<b>255,511</b>	<b>344,432</b>
<b>Interest rate sensitivity gap</b>	<b>205,818</b>	<b>3,038</b>	<b>1,693</b>	<b>22,772</b>	<b>-</b>	<b>(233,321)</b>	
<b>Cumulative gap</b>	<b>205,818</b>	<b>208,856</b>	<b>210,549</b>	<b>233,321</b>	<b>233,321</b>	<b>-</b>	
Interest rate re- pricing 2014	Not more than 3 months	Over 3 and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Reclassified</b>							
<b>Assets</b>							
Loans to banks	139,568	-	-	-	-	5,736	145,304
Short term investments	17,237	29,152	-	-	-	-	46,389
Loans to customers	10,753	2,679	3,187	5,477	-	-	22,096
HP & leasing	3,682	3,503	6,432	20,190	-	-	33,807
Cash and central bank	16,794	-	-	-	-	4,136	20,930
Other assets	-	-	-	-	-	15,948	15,948
<b>Total assets</b>	<b>188,034</b>	<b>35,334</b>	<b>9,619</b>	<b>25,667</b>	<b>-</b>	<b>25,820</b>	<b>284,474</b>
<b>Liabilities</b>							
Loans from banks	5,000	-	-	-	-	-	5,000
Customer deposits	9,203	22,785	14,791	22,726	-	157,747	227,252
Other liabilities	-	-	-	-	-	30,053	30,053
Shareholders funds	-	-	-	-	-	22,169	22,169
<b>Total liabilities</b>	<b>14,203</b>	<b>22,785</b>	<b>14,791</b>	<b>22,726</b>	<b>-</b>	<b>209,969</b>	<b>284,474</b>
<b>Interest rate sensitivity gap</b>	<b>173,831</b>	<b>12,549</b>	<b>(5,172)</b>	<b>2,941</b>	<b>-</b>	<b>(184,149)</b>	
<b>Cumulative gap</b>	<b>173,831</b>	<b>186,380</b>	<b>181,208</b>	<b>184,149</b>	<b>184,149</b>	<b>-</b>	

The interest rate repricing for loans to banks and short term investments reflects the proportion of these balances that are interest bearing. Agreements with its prepaid card partners mean that a proportion of any such interest is shared.

# R. RAPHAEL & SONS PLC

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 28 FEBRUARY 2015

### 23 COMMITMENTS

The Company had the following commitments:

	2015 £'000	2014 £'000
<b>Operating lease rentals:</b>		
One year or less	329	60
Between one and five years	72	-
	401	60
<b>Other operational commitments:</b>		
One year or less	492	-
Between one and five years	1,204	-
	1,696	-
<b>Total</b>	<b>2,097</b>	<b>60</b>

### 24 CONTROLLING PARTIES

Lenlyn Holdings Plc, which is incorporated in England, is the Bank's immediate parent undertaking and ultimate controlling related party. Copies of the financial statements for Lenlyn Holdings Plc are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ. The largest group of undertakings for which accounts have been drawn up is that headed by Lenlyn Holdings Plc.

### 25 CONTINGENT LIABILITIES

The Company is part of the same VAT Group as other members of the Lenlyn Group. As such, it has a joint and several liability for any amounts due to HMRC by any of the other entities in this Group.

The Company is subject to extensive regulation in the conduct of its business. A failure to comply with applicable regulations could result in regulatory investigations, fines and restrictions on some of the Company's business activities or other sanctions. The Company seeks to minimise this risk through the adoption of compliance and other policies and procedures, continuing to refine controls over business practices and behaviour, employee training, the use of appropriate documentation, and the involvement of outside legal counsel where appropriate.

### 26 RELATED PARTY TRANSACTIONS

The Bank's immediate and ultimate parent undertaking, Lenlyn Holdings Plc, prepares consolidated financial statements which are publicly available. Accordingly, advantage is taken in these financial statements of the exemption available in FRS 8 for disclosure of other transactions with entities that are part of the Lenlyn Group or investees of group entities as related parties.

Included within Administration expenses are amounts of £6,077k (2014: £4,694k) which represent payments and profit share to ICE in respect of the services it provides in relation to management, property, hardware and site provision for the Bank's ATM estate.

During the year an amount of £46k (2014: £46k) was paid in rent to Turville Estates (UK) Limited for the use of the property in Aylesbury. At the balance sheet date, £nil was payable to Turville Estate (UK) Limited (2014: £Nil). Ms Anthea Frost is a Director of Turville Estates (UK) Limited as well as the Bank.