

Vocalink Limited

Annual Report and Financial Statements 31 December 2021

Registered number: 06119048



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Strategic Report for the year ended 31 December 2021

The Directors present their Strategic Report of Vocalink Limited (the 'Company') for the year ended 31 December 2021.

Principal activities

The Company provides managed services to support critical payments in the UK. The Company designs, builds and operates industry-leading bank account-based payment systems. Our technology powers the UK's real-time payments, settlements and direct debit systems, as well as networks of over 55,000 ATMs. The principal activity of the Company did not change during the year.

On 31 December 2020 the majority of non-UK national infrastructure services of Vocalink Limited (VLL) was transferred to Vocalink International Limited (VIL), a fellow subsidiary of Vocalink Holdings Limited (VHL). From 2021 the Company's sole focus is on UK national infrastructure and closely associated services which comprise:

- the central payment infrastructure services that support the three Bank of England supervised and recognised payments systems namely: (i) BACS; (ii) Faster Payments Services (FPS) and (iii) LINK (UK's largest cash machine network);
- certain services closely associated with the foregoing central payment infrastructure services which are specific to the UK payments market (including, without limitation, the Cash ISA Transfer Service and the Sort Code Checker);
- certain services supporting the UK government's 'Access to Cash' policy including certain services provided to the Post Office as well as ATM Managed Services; and
- the central payment infrastructure services which support the UK Cheque Imaging Clearing System.

This business continues to be: (i) operated by the Company as a designated infrastructure company under the Financial Services (Banking Reform) Act 2013 in respect of the recognised payment systems; and (ii) to the extent applicable, supervised by the Bank of England ("the Bank") under Part V of the Banking Act 2009.

The transfer of business to VIL was effective on the 31 December 2020 and therefore, the 2020 Statement of Comprehensive Income includes a full year of results for all business. See note 2 for further details.

Review of business and future outlook

The Company's ultimate parent undertaking and controlling party is Mastercard Incorporated. The Mastercard strategy is to grow and protect the core business, diversify the customer base and geographies, build new business areas through development and purposeful acquisitions; to which the Company is fully aligned.

The Company's strategy is solely focused on its existing customer relationships within the UK. Our mission is to remain the partner of choice for delivering critical payment services to the UK economy. Enhancing the Company's business remains a cornerstone of this strategy, with UK managed service operations continuing to deliver a key source of revenue allowing the Company to continue investment in maintaining the security, resilience and service quality of the services it operates.

The Company leverages assets and expertise from Mastercard to bring innovation to the UK payments market and develop and enhance its products and services. Together our mission is to power an inclusive, digital economy that benefits everyone, everywhere, by making transactions safe, simple, smart and accessible.

The total revenue arising from the Company's contracts with its customers in the financial year ended 31 December 2021 was £214.1m (2020: £214.1m). The external revenue was £166.0m (2020: £189.1m), a decrease of £23.1m. This is due to an increase of £0.2m in the VLL core products offset by the reduction of £23.3m for the 2021 revenue relating to products which transferred to VIL from the beginning of the year. Internal revenue was £48.1m (2020: £25.0m), an increase of £23.1m. 2021 is the first year of overhead charges totalling £42.1m to VIL for use of shared functions operated by VLL, partially offset by a reduction in revenue from IPCO 2012 Limited of £19.0m due to the impact of the business transferred to VIL.

The operating costs decreased by £107.5m to £182.5m (2020: £290.0m). The resulting operating profit of £31.6m (2020: operating loss £75.9m) was due to the business transfer to VIL. 2020 costs include the high level of investment in international managed services and applications; however, in 2021 all these costs are being incurred in VIL.

The profit before taxation for the financial year ended 31 December 2021 of £31.4m (2020: loss before taxation £84.8m) is reflective of the results of the UK core business in isolation for the first year; these products are in an advanced stage of their life cycle. In the prior year the loss was primarily due to VIL business being in the development stage of its life cycle which required a high level of investment while revenue generation was yet to be fully established. The profit after taxation was £23.9m (2020: loss after taxation £68.5m).

Strategic Report (continued) for the year ended 31 December 2021

Review of business and future outlook (continued)

The Company's defined benefit pension scheme surplus of £80.4m (2020: £23.8m). The surplus in the defined benefit pension scheme primarily resulted from improvements arising from positive investment returns on scheme assets combined with employer contributions to the scheme.

As part of the business transfer agreement, the Company's intercompany loan balances were novated to VHL through a financial restructuring transaction during 2020. The effect of the financial restructure has been to restore positive reserves in the Company. In addition, the business transferred to VIL, which has significant capital investment requirements, will improve the profitability and financial resilience of the Company going forward.

The impact of the financial restructure, and an operating profit has resulted in net assets at 31 December 2021 of £278.5m (2020: £213.6m) and net current assets of £116.0m (2020: £78.5m).

In relation to the future outlook, the Directors have carried out a detailed and comprehensive review of the business, its future prospects and any potential impact of current economic uncertainty. All high value customer contracts have now been successfully extended for a minimum period of five years.

The Company has been largely insulated from the effects of Covid-19 due to the nature of the services provided by the Company and its business continuity measures. Resilience by design across people, processes and technology has ensured continued operation of the functions and services of the Company.

The Vocalink Security team in partnership with Mastercard is monitoring the Russian invasion of Ukraine and the resulting immediate impact. The response so far has focussed on assessing the extent to which our people and third parties are impacted, the adherence to sanctions and the strength of our Information Security controls to mitigate an increase in broader geopolitical threats. Vocalink people and third parties are not located in Ukraine and therefore not at risk. Our critical and key suppliers also confirmed no utilization of any products or services directly or indirectly made, developed or supported by Russian/Belarussian/Ukrainian origin companies. The Company works with regulatory and government sources to identify and mitigate threats to UK Critical National Infrastructure (CNI). Enhanced monitoring and response measurements in line with National Cyber Security Centre (NCSC) guidance are in place. The Company currently does not expect any material direct financial impact on business.

Key performance indicators

The Company measures and monitors a number of key performance indicators. Key financial measures tracked for each area of the business are revenue and profit or loss; these are detailed above in the review of business section. Operational performance monitoring by the Company includes key metrics such as service availability, change success rates, and incident mean time to recovery, along with specific performance against contractual Service Level Agreements. The Company tracks key strategic business cases as well as the ongoing review of the output of the Company's risk and resiliency management processes. Non-financial key performance indicators such as employee involvement, environment and governance are discussed in the Directors Report and the principal risks and uncertainties section.

Financing and investment

The Company has continued its programme of investment in existing and new products and markets, including a significant focus on cyber protection. Operating costs include research and development expenditure of £7.0m (2020: £7.1m), which are charged to the Statement of Comprehensive Income in relation to new products and services. Investment continued in relation to both tangible and intangible asset development, with capital expenditure in the year totalling £35.5m (2020: £30.0m), which included the capitalisation of staff costs of £9.0m (2020: £18.5m); further information is contained in note 4.

The Company's defined benefit pension scheme contributions in the year were £14.7m (2020: £14.6m), made under a deficit reduction programme. The defined benefit pension scheme closed to new entrants on 31 July 2013; the Company operates a defined contribution scheme which is open to new members.

Strategic Report (continued) for the year ended 31 December 2021

Section 172 (1) Statement

The Directors have a duty to promote the success of the Company which is a key consideration when determining the Company's strategy. The Directors ensure they have suitable access to information to allow them to make informed business decisions and the Directors consider whether they possess sufficient information regarding the stakeholder interests which are affected by their actions. In instances when the Directors do not have all the information relevant to a decision, it is important to consider the expertise of others and care is taken to assess the source, quality and quantity of all information available.

The Company is subject to supervision by the Bank of England. The Bank has regular meetings with the Directors and senior management of the Company, as well as sharing and having access to Board or Company Committee papers, e.g. Risk and Internal Audit.

In 2020, as outlined above, a key decision was made to transfer the majority of the non-UK national infrastructure services from VLL to VIL.

The Directors ensure that key management personnel are consulted on any principal decisions, to ensure that all stakeholders are fairly considered. The Directors have utilised a number of communication methods with employees through the year, including townhalls, emails and employee engagement surveys. Employee engagement is measured annually, using an external anonymised tool. This enables the Directors to see and respond to anonymised feedback. A number of initiatives were implemented in response to the feedback, including the launch of Unlocked, Mastercard's AI-driven talent marketplace.

Every individual stakeholder within the Company is, indirectly, an asset to the shareholders. The Directors will continue to promote a culture which considers the interests of all stakeholders. Through the adoption of appropriate business strategy, the Directors will continue to foster the Company's business relationships with suppliers, customers, HM Revenue and Customs (HMRC) including partnering with businesses that share the values of the Company and the wider Mastercard group with a dedication to conducting business in a legal, ethical, and socially responsible manner, delivering the best possible value for the Company and mitigating the risks faced by the Company.

The Directors aim to attract and retain talented employees from diverse backgrounds and industries by building a world-class culture based on integrity, respect and inclusion in which people have opportunities to do purpose driven work that impacts customers, communities and co-workers.

The Company monitors its energy usage and associated CO₂ emissions annually in order to measure and reduce the impact of its operations on the environment. Starting from the year ended 31 December 2020, the Company has prepared a disclosure in accordance with the UK Streamlined Energy and Carbon Reporting regulations 2019 (see pages 8 to 9), disclosing 2021 Scope 1, 2 and 3 emissions during the year (covering energy consumption, purchased goods and services, waste and business/employee commuter travel). This shows that the Company procured 100% of its electricity from renewable sources in 2021 as part of the Company's (and the wider Mastercard group's) commitment to the Climate Group's RE100 campaign.

Principal risks and uncertainties

The Company adopts an enterprise-wide risk management approach to identify, assess, measure, manage and report across a wide range of business and operational risks in accordance with the Company's risk appetite. An annual programme of independent controls testing is performed to ensure the design and operation of key controls remains effective. Significant opportunities continue to arise in the payments market, and the Company continues to monitor and focus on the risks presented in the following areas:

- Strategic;
- Business Resilience, Recovery and Resolution;
- Information Security;
- Regulatory;
- Reputation; and
- Third Party

Strategic Report (continued) for the year ended 31 December 2021

Principal risks and uncertainties (continued)

Strategic Risk

Following the strategic decision for Vocalink Limited to focus on UK supervised payment services the organisation has reduced its risk exposure linked to international business development. A second line risk review concluded that the organisational change was performed within risk appetite and continuous monitoring confirmed throughout 2021 that the change did not threaten the safe and stable operation of supervised payment services and poses no ongoing residual operational risk.

As a result of the strategic change, the Company now generates its revenue through a small number of high value contracts. This removes a resilience risk by virtue of not being exposed to the international business and development activity but introduces an increased concentration risk. All high value contracts have been successfully extended for a minimum period of five years ensuring the strategic risk remains within appetite.

Pay.UK, a key client of the Company, restarted the New Payment Architecture (NPA) programme with a competitive tender process commencing in 2022. The outcome of this will not have an effect over the short term.

The Company is cognisant of the criticality of maintaining positive industry perceptions of its operations. The Company places specific attention upon the prevention of events which could result in any negative publicity or litigation that could affect its existing or new business opportunities.

Business Resilience, Recovery and Resolution Risk

The services provided by the Company requires a high level of dependability and continuous service availability. To achieve this, Vocalink adopts a resilience by design strategy supported by rigorous IT service management procedures. Resilience and the ability to recover is continuously assured through a Three Lines of Defence model which includes external certifications and standards assessment, and thorough Disaster Recovery testing and recovery simulations. Investment in technology, tools and people enable Vocalink to meet contractual performance commitments.

The UK financial industry has been subject to a new regulatory resilience policy which came into force on 31st March 2022, which requires Vocalink as a Specified Service Provider (SSP) to have in place sound, effective and comprehensive strategies, process and systems that enable it to adequately identify and address any risks to its ability to remain within the agreed impact tolerance for each Important Business Service (IBS). Vocalink's Operational Resilience policy provides a statement of Vocalink's commitment to ensure that Vocalink has the ability to prevent, as well as respond to and recover from extreme but plausible operational disruption of its IBS. A programme to meet these commitments has been completed with the increasing regulatory scrutiny requiring additional operational overhead. To meet increasing stakeholder expectations the CEO has enhanced Operational Resilience and Security governance to provide the Management Committee and Board independent assurance as to the effectiveness of these capabilities.

The continuation of the Covid-19 pandemic has resulted in the company operating its business continuity plans to protect staff and maintain the stability of its operations across the business. Throughout the lifespan of the pandemic the Company prioritised staff health and wellbeing with working practices adapted in line with Government guidelines.

Information Security Risk

Cyber Security remains a prevalent, fast evolving threat across many industries and particularly within financial and payment services. Global inter-connectivity and technological advancement is adding to the complexity of Cyber Security Risk and enabling more advanced methods to be employed by perpetrators.

The Company continues to work closely with customers, government, and the wider payment industry to understand and evaluate the nature of these threats, enabling the business to steer strategic and tactical risk decisions in line with the constantly evolving threat landscape. Vocalink is committed to the continued delivery of cyber resilience and will ensure it has the capability to resist and counter such threats through mature and robust layered defences; system monitoring and traffic analysis; and close alignment with Industry and International security standards.

Continual assessment and security testing is central to the safe provision and operation of payment services. In Q3 2020, a regulatory assessment identified several control weaknesses although no evidence of malicious activity and no related operational risk events crystallised. In response to the assessment, a remediation programme of work was commenced which continued throughout 2021 and into Q1 2022. Subsequently, following a further assessment the Company has embarked on a longer term programme of continuous improvement which is ongoing as part of a wider security roadmap.

Strategic Report (continued) for the year ended 31 December 2021

Principal risks and uncertainties (continued)

Regulatory Risk

The Company operates within a regulated environment. The Company was specified by HM Treasury in April 2018, under Part 5 of the Banking Act 2009, as a service provider to each of the operators of the Bacs, FPS and LINK payment systems and as a result the Company is subject to the supervision of the Bank. As a specified service provider, the Company is required, *inter alia*, to provide quarterly risk reporting information and documents, report specified events, and obtain the Bank's 'non-objection' to certain business changes and appointments.

The Company's enhanced governance framework ensures that it meets the Bank's expectations including through the decision-making authority of the Company's board, the roles performed by executive and non-executive Directors and board-level risk and audit committees.

The Company takes an active role in understanding the regulatory landscape and associated risks reporting these to Management, the Risk Committee and Board. In December 2021 the Payment Systems Regulator (PSR) published a regulatory framework that sets out the requirements on Vocalink, in the event that it is successful in its bid to be the central infrastructure services provider to the NPA. The purpose of the framework is to address risks to competition and innovation in the NPA ecosystem identified by the PSR.

Reputational Risk

The effective and ongoing management of the reputational standing of the Vocalink Group and its brand is of strategic importance.

The Vocalink Group is cognisant of the criticality of maintaining positive industry perceptions of its operations. The Vocalink Group places specific attention upon the prevention of events which could result in any negative publicity or litigation that could affect its existing or new business opportunities.

Third Party Risk

The Company operates the majority of its core infrastructure and uses partners only for selected activity such as supporting software development. In certain limited circumstances, specific third-party components are deployed within solutions.

Following implementation of a Supplier Management Framework, the Company is able to fully understand the dependencies, functionalities, and corresponding risks within its supply chain, and is able to demonstrate the controls around how suppliers are managed on an ongoing basis. Key risks are failure of critical or key third party supplier and adverse data security incident with a critical or key third party supplier.

Specific third party risks linked to security and silicon shortages remain areas of focus with controls implemented and risk level being monitored.

On behalf of the Board

E. Fullerton-Rome
E Fullerton-Rome (Sep 28, 2022 15:44 GMT+1)

Elizabeth Fullerton-Rome

Director

Date: 28th September 2022

Directors' Report for the year ended 31 December 2021

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2021.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Paul Stoddart (resigned on 1 April 2022)
Edward McLaughlin
Tim Neill (resigned on 21 July 2022)
David Boast
Sir John Gieve
Gregor Dobbie
Diana Brightmore-Armour
Benedicte Elisabeth Schilbred Fasmer
Kelly Devine
Elizabeth Fullerton-Rome (appointed on 27 June 2022)

Secretary

Jacqueline Panayi

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and to the date of signing these financial statements. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Dividends

The Directors do not recommend payment of a dividend (2020: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

Financial risk management

The Company has limited exposure to financial risk as all material financial instruments are with companies within the group headed by Mastercard Incorporated, its ultimate parent company.

Employees

Details on the number of persons employed and their gross remunerations are contained in note 6 to the financial statements.

The Company is committed to employee involvement as it believes its business objectives are best achieved if the Company's staff understand and support the Company strategy. Staff members are kept informed of performance through briefing meetings, supplemented by a range of internal communications. Regular calls with the executive team and management team take place to discuss matters of current interest with staff, business and strategy updates and the Company's financial performance.

Employee involvement

The Company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Company plays a major role in maintaining its business.

Suppliers, customers and others

In the Strategic Report, within the Section 172 (1) Statement on page 3 and the third party risk section on page 5, the Directors have summarised how they have engaged with suppliers, customers and others in a business relationship.

Directors' Report (continued) for the year ended 31 December 2021

Equal opportunities

The Company is committed to develop and retain a diverse and inclusive workforce. Staff members who consider themselves to have a disability are under no obligation to inform their employer of this, however, the Company is fully aware of, and comply with, our obligations in accordance with the relevant provisions of the Equality Act 2010. Training is available and provided to all levels of staff, and investment in employee development is a priority. Within this policy, the company gives full consideration to applications for employment from disabled persons where a disabled person can adequately fulfil the requirements of the job. Where existing employees become disabled it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions.

Future developments

The nature of the business is not expected to change going forward, as discussed in the Strategic Report.

Going concern

These financial statements have been prepared on a going concern basis. In preparing these financial statements the Directors have carried out a detailed and comprehensive review of the business and its future prospects taking into account all information that could reasonably be expected to be available for the following 12 months and beyond. They have considered the Company's profit in the year, the net assets, future profits projected, the 2021 Bank of England priorities under financial resources and risk management and implemented a financial recovery plan such that the Company is financially resilient; alongside the written letter of support received from Mastercard International Incorporated, the intermediate parent company. In considering these factors the forecast future performance and anticipated cash flows to 31 December 2023 have been stress tested with plausible but severe assumptions such as the removal of variable revenue and continuing to make pension funding commitments beyond the date agreed.

As a result of the review and the written support from Mastercard International Incorporated the Directors are confident the Company has sufficient resources to continue as a going concern for at least 12 months from the date of signing these financial statements and on this basis, they consider that it is appropriate to prepare the financial statements on the going concern basis.

The Company's overriding objective when managing capital resources is to safeguard the business as a going concern. In practice, this involves regular reviews by the Board and Executives. These reviews take into account the Company's strategic priorities, economic and business conditions and opportunities that are identified to invest across all points of the business cycle, whilst maintaining the minimum risk profile established by the Board and Executives. This objective has been achieved and is expected to be achieved in the foreseeable future.

Subsequent events

Please see note 24 for details of the Company's subsequent events.

Environmental sustainability

Mastercard is committed to ensuring people, communities, businesses and the planet can thrive. Recognising that no company can succeed in a failing world, bold targets have been set to address critical global issues such as economic inclusion, cultural diversity, and the security of the global payments ecosystem - all with the goal of helping our partners engage and serve customers in relevant ways. Mastercard has created a Priceless Planet Coalition to mobilise our network of partners to achieve ambitious aims.

The Company is taking further steps to reduce the environmental impact of our operations. Our responsible engineering practices include a range of projects to enable more efficient cooling of our UK data centres. Operational strategies include updating our building management system to increase monitoring and reporting of energy usage to target potential waste at source. Vocalink is proudly accredited to ISO 14001 environmental management standards. In 2016, the Company joined the Climate Change Agreement (CCA), making a voluntary commitment to reduce energy use and carbon dioxide (CO₂) emissions. The Company meets CCA targets as set out by the UK's Environment Agency.

Directors' Report (continued) for the year ended 31 December 2021

Streamlined Energy and Carbon Reporting (SECR)

Responsibly managing the environmental impact of our business

The Company recognises that the importance of serving customers and creating value for stakeholders in a manner that minimises our environmental impact. This ambition extends to the contribution of our property portfolio, business and use of services by our customers, to climate change. Our transition to a sustainable future is deeply linked to how we manage the environmental impact of our business.

Our approach to improve our environmental footprint is guided by our business philosophy of *Connecting Everyone to Priceless Possibilities*. To realise this, we are committed to accelerating our plan to engage our value chain, including our customers, and make a positive contribution to key environmental issues affecting our business, notably climate change.

We are committed to ensuring that the properties in our portfolio are operated in a sustainable manner that demonstrate this philosophy. We comply with local laws as a minimum standard and continually review our approach to manage the impact of our office space, considering emerging risks & opportunities associated with, for example, our carbon footprint.

Quantifying our energy use and carbon emissions footprint

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 introduced the obligation for quoted companies to report on their greenhouse gas (GHG) emissions. These requirements have been extended to certain unquoted companies, including Vocalink, by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, and the UK Streamlined Energy & Carbon Reporting (SECR) regulations 2019 in respect of the energy consumption and emissions for which we are responsible.

Organisational boundary and responsibility

The reporting boundary adopted to consolidate our energy & GHG emissions for this disclosure is aligned with the operational control approach, i.e. relevant including the energy and inventory emission sources associated with the properties that Vocalink has control over to inform the operation thereof. The operational control boundary of Vocalink includes Vocalink International Limited (hereby "VIL") which provides a monthly occupancy charge to Vocalink Limited.

Reporting period

The energy & greenhouse gas emissions data presented below relate to the operations of our property portfolio from 1st January to 31st December 2021, which is aligned with our fiscal reporting year.

Our methodology

The methodology to quantify our energy use and GHG emissions is based on our internal Environmental Reporting Guidelines, which is informed by the guidance outlined in the WBCSD/WRI Greenhouse Gas Protocol Corporate Accounting & Reporting Standard (Revised edition), as well as the mandatory GHG reporting guidance (March 2021) issued by the Department for Business, Energy & Industrial Strategy (BEIS).

In exceptional circumstances, we extrapolate energy and GHG emissions by using available information from part of a reporting period and extending it to apply to the full reporting year. For example, this has occurred where sufficient quality activity data evidence and/or supplier invoices were not available to substantiate performance data.

In cases where actual supplier and/or third-party information was not available to calculate all our energy and GHG emissions, we adopted a tiered estimation approach, extrapolating average portfolio floor area intensity across the buildings without data, before using the same data for the corresponding month of the previous reporting period.

Calculation of our annual GHG emissions is based on the BEIS 2021 emission conversion factors for the UK (as part of Mastercard's reporting obligations in the United States, UK emissions are bundled into the global dataset using International Energy Agency and eGRID emission factors). Scope 3 data has been calculated at a global level and extrapolated to Vocalink using FTE employee figures and revenue.

2021 performance

The purpose of this section is to report on the UK energy use and related GHG emissions associated with Vocalink for the 2021 fiscal period.

Our operations management continue to make a concerted effort to manage our carbon footprint associated with the operation of our offices to service clients, in-line with our corporate environmental ambition.

Directors' Report (continued)
for the year ended 31 December 2021

Streamlined Energy and Carbon Reporting (SECR) (continued)

| Greenhouse gas emissions by scope (MTCO₂e)¹ | | 2021 | 2020 |
|--|---|-----------------|-----------------|
| Scope 1 | Emissions from combustion of gas & other fuels | 369 | 107 |
| Scope 2 | Location-based emissions from electricity purchased for own use | 2,296 | 2,845 |
| | Goods and services | 6,765 | 4,359 |
| | Fuel and energy-related activities | 860 | 685 |
| Scope 3 | Waste generated in operations | 6 | 18 |
| | Business travel | 57 | 275 |
| | Employee Commuting | 427 | 288 |
| Greenhouse gas intensity (MTCO₂e/£revenue)² | | 0.000030 | 0.000040 |
| Energy Management (MWh) | | 2021 | 2020 |
| Energy use from the combustion of gas and other fuels | | 2,013 | 584 |
| Energy use from consumption of electricity purchased for own use | | 10,814 | 12,201 |
| Total energy consumed | | <u>12,827</u> | <u>12,785</u> |

¹ We utilise 2021 Department for BEIS emission conversion factors for the UK to calculate our greenhouse gas emissions.

² The intensity measure disclosed reflects the most appropriate measure to consistently compare our emissions performance against other reporting entities.

Overall, Vocalink's energy and emissions performance this year was driven primarily by the operation of our offices in response to the Covid-19 global pandemic. We continually review and refine our approach and reporting related to the environmental impacts of our business, considering emerging risks and opportunities that support the achievement of our core corporate philosophy.

2021 initiatives to drive enhancements in our environmental performance

Vocalink has continued to purchase renewable energy (through a mixture of unbundled renewable energy credits, on-site renewable generation or direct renewable procurement) as part of Mastercard's commitment to procure 100% renewable energy as a signatory to the RE100 campaign.

Independent auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Directors' Report (continued)
for the year ended 31 December 2021

Statement of Directors' Responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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 United Kingdom Accounting Standards, comprising FRS 101, 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 responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

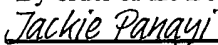
The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information.

By order of the Board


Jackie Panayi (Sep 28, 2022 12:00 GMT+1)

Jacqueline Panayi
Company Secretary

1 Angel Lane
London
EC4R 3AB
Date: 28th September 2022

Independent auditors' report to the members of Vocalink Limited

Report on the audit of the financial statements

Opinion

In our opinion, Vocalink Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to but not limited to Banking Act 2009 and payment services regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as applicable tax legislation in relevant jurisdictions and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the manipulation of financial statement line items through manual journal postings and the use of inappropriate assumptions or management bias in determining accounting estimates. Audit procedures performed by the engagement team included:

- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations including unusual or unexpected journal postings to the income statement;
- Challenging assumptions and judgements made by management in their significant accounting estimates and validating key assumptions where appropriate;
- Inquiring with management with respect to known or suspected instances of fraud; and
- Inquiring with management and reviewing correspondence with regulators in consideration of instances of non-compliance with laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Sheena Coutinho (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28th September 2022

**Statement of Comprehensive Income
for year ended 31 December 2021**

| | Note(s) | 2021 £m | 2020 £m |
|--|---------|----------------|------------|
| Revenue | 3 | 214.1 | 214.1 |
| Staff costs | 4,6 | (49.7) | (113.6) |
| Depreciation, amortisation and impairment | 4 | (41.2) | (48.1) |
| Licence fees | 4 | (40.2) | (47.3) |
| Other operating expenses | 4 | (51.4) | (81.0) |
| Total expenses | | (182.5) | (290.0) |
| Operating profit/(loss) | | 31.6 | (75.9) |
| Finance income | 5 | 0.4 | 2.2 |
| Finance costs | 5 | (0.6) | (11.1) |
| Profit/(loss) before tax | | 31.4 | (84.8) |
| Taxation | 8 | (7.5) | 16.3 |
| Profit/(loss) for the financial year | | 23.9 | (68.5) |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Remeasurement gains on defined benefit pension | 17 | 41.5 | 8.4 |
| Deferred tax expense related to actuarial movements on defined benefit pension | 8 | (10.4) | (1.6) |
| Total other comprehensive income | | 31.1 | 6.8 |
| Total comprehensive income/(expense) for the year | | 55.0 | (61.7) |

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

Notes on pages 18 to 54 are an integral part of these financial statements.

**Statement of Financial Position
as at 31 December 2021**

| | Note | 2021 £m | 2020 £m |
|--------------------------------------|------|------------|------------|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 64.0 | 56.3 |
| Right of use assets | 10 | 18.3 | 19.2 |
| Intangible assets | 11 | 22.8 | 24.9 |
| Deferred tax assets | 12 | - | 3.8 |
| Trade and other receivables | 13 | 1.6 | 23.0 |
| Contract fulfilment assets | 13 | 8.5 | 11.1 |
| Pension surplus | 17 | 80.4 | 23.8 |
| | | 195.6 | 162.1 |
| Total non-current assets | | | |
| Current assets | | | |
| Trade and other receivables | 13 | 80.6 | 91.9 |
| Contract fulfilment assets | 13 | 6.1 | 10.0 |
| Cash and cash equivalents | | 94.1 | 52.0 |
| | | 180.8 | 153.9 |
| Total current assets | | | |
| | | 376.4 | 316.0 |
| Total assets | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 61.5 | 70.3 |
| Lease liabilities | 15 | 3.1 | 2.5 |
| Provisions | 18 | 0.2 | 2.6 |
| | | 64.8 | 75.4 |
| Total current liabilities | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | 12 | 11.9 | - |
| Trade and other payables | 14 | - | 5.6 |
| Lease liabilities | 15 | 14.4 | 15.4 |
| Provisions | 18 | 6.8 | 6.0 |
| | | 33.1 | 27.0 |
| Total non-current liabilities | | | |
| | | 97.9 | 102.4 |
| Total liabilities | | | |
| | | 278.5 | 213.6 |
| Net assets | | | |
| Equity | | | |
| Called up share capital | 19 | 52.9 | 42.5 |
| Share premium account | 19 | 18.5 | 18.5 |
| Retained earnings | | 207.1 | 152.6 |
| | | 278.5 | 213.6 |
| Total equity | | | |

The notes on pages 18 to 54 are an integral part of these financial statements.

The financial statements on pages 14 to 54 were approved by the board of Directors on 26th September 2022 and were signed on its behalf by:

E Fullerton-Rome
E Fullerton-Rome (Sep 28, 2022 15:44 GMT+1)

Elizabeth Fullerton-Rome
Director
Date: 28th September 2022

Company registered number: 06119048

Statement of Changes in Equity
for year ended 31 December 2021

| | Share capital £m | Share premium £m | Retained earnings £m | Total equity £m |
|--|------------------------|------------------------|----------------------------|-----------------------|
| Balance at 1 January 2021 | 42.5 | 18.5 | 152.6 | 213.6 |
| Total Comprehensive income for the year | | | | |
| Profit for the financial year | - | - | 23.9 | 23.9 |
| Other comprehensive income | | | | |
| Remeasurement gains on defined benefit pension (note 17(b)) | - | - | 41.5 | 41.5 |
| Deferred tax expense related to actuarial gains on defined benefit pension (note 12) | - | - | (10.4) | (10.4) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total comprehensive income for the year | - | - | 55.0 | 55.0 |
| Transactions recorded directly in equity | | | | |
| Issue of share capital | 10.4 | - | - | 10.4 |
| Deferred tax charge related to share schemes (note 8) | - | - | (0.5) | (0.5) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total contributions by and distributions to owners | 10.4 | - | (0.5) | 9.9 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2021 | 52.9 | 18.5 | 207.1 | 278.5 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

**Statement of Changes in Equity
for year ended 31 December 2021**

| | Share capital £m | Share premium £m | (Accumulated losses)/ Retained earnings £m | Total equity £m |
|--|------------------------|------------------------|--|-----------------------|
| Balance at 1 January 2020 | 42.5 | 18.5 | (85.1) | (24.1) |
| Total comprehensive expense for the year | | | | |
| Loss for the financial year | - | - | (68.5) | (68.5) |
| Other comprehensive income | | | | |
| Remeasurement gains on defined benefit pension | - | - | 8.4 | 8.4 |
| Deferred tax expense related to actuarial gains on defined benefit pension | - | - | (1.6) | (1.6) |
| Total comprehensive expense for the year | - | - | (61.7) | (61.7) |
| Transactions recorded directly in equity | | | | |
| Deferred tax credit related to share schemes (note 8) | - | - | 1.2 | 1.2 |
| Intercompany transfers (note 2) | - | - | 298.2 | 298.2 |
| Total contributions by and distributions to owners | - | - | 299.4 | 299.4 |
| Balance at 31 December 2020 | 42.5 | 18.5 | 152.6 | 213.6 |

The notes on pages 18 to 54 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

1.1 General information

Vocalink Limited ('the Company') is a private limited liability company, limited by shares. It is incorporated, domiciled and registered in England and Wales, within the United Kingdom. The registered number is 06119048 and the registered office is 1 Angel Lane, London, EC4R 3AB, United Kingdom.

1.2 Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("*FRS 101*").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 (UK-adopted IFRS), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosures has been taken. On 31 December 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company's financial statements transitioned to UK-adopted international accounting standards (as described above) on 1 January 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

The consolidated financial statements of Mastercard Incorporated, which included the financial statements of the Company, are available from its registered office at 2000 Purchase Street, Purchase, New York. The Company has taken advantage of the exemption under Section 401 of the Companies Act 2006 not to prepare consolidated financial statements.

These financial statements were prepared under the historical cost convention and in accordance with the accounting policies set out below, unless otherwise stated, which have been applied consistently to all periods presented in these financial statements.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a. the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- b. the requirements of IFRS 7 Financial Instruments: Disclosures;
- c. Paragraph 38 of IAS 1, 'Presentation of financial statements' - comparative information requirements in respect of:
 - i. Paragraph 79(a)(iv) of IAS 1;
 - ii. Paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - iii. Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- d. the requirements of IAS 7 Statement of Cash Flows;
- e. the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- f. the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- g. the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share Based Payments;
- h. the requirements of the second sentence of paragraph 110 and from paragraphs 113 (a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15;
- i. the requirements of paragraph 134 (d) - (f) and paragraph 135 (c) - (e) of IAS 36 Impairment of Assets;
- j. the requirements of paragraph 18 (a) of IAS 24 Related Party Disclosures to disclose the compensation of Key Management Personnel;
- k. The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- l. the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

The Company does not currently have any assets or liabilities which are required to be held at fair value with corresponding movements in value taken through the income statement.

Critical judgements and estimates made by the Directors in the application of these accounting policies that have a significant effect on the financial statements are discussed in note 1.17.

The Company has applied all standards and amendments, which are mandatory for 31 December 2021 reporting periods. These amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.3 Going concern

These financial statements have been prepared on a going concern basis. In preparing these financial statements the Directors have carried out a detailed and comprehensive review of the business and its future prospects taking into account all information that could reasonably be expected to be available for the following 12 months and beyond. They have considered the Company's profits in the year, the net assets, future profits projected, the 2021 Bank of England priorities under financial resources and risk management, and implemented a financial recovery plan such that the Company is financially resilient; alongside the written letter of support received from Mastercard International Incorporated, the intermediate parent company. In considering these factors the forecast future performance and anticipated cash flows to 31 December 2023 have been stress tested with plausible but severe assumptions such as the removal of variable revenue and continuing to make pension funding commitments beyond the date agreed.

As a result of the review and the written support from Mastercard International Incorporated the Directors are confident the Company has sufficient resources to continue as a going concern for at least 12 months from the date of signing these financial statements and on this basis, they consider that it is appropriate to prepare the financial statements on the going concern basis.

The Company's overriding objective when managing capital resources is to safeguard the business as a going concern. In practice, this involves regular reviews by the Board and Executives. These reviews take into account the Company's strategic priorities, economic and business conditions and opportunities that are identified to invest across all points of the business cycle, whilst maintaining the minimum risk profile established by the Board and Executives. This objective has been achieved and is expected to be achieved in the foreseeable future.

1.4 Revenue from contracts with customers

Revenue from contracts with customers is recognised when services performed reflect the consideration to which the Company expects to be entitled to in exchange for those services. The Company primarily provides a hosted or managed service. The customer derives benefits from when the managed service is operational for payment processing. The Company classifies its revenue into the following three categories:

Development, implementation and consultancy revenue

Development, implementation and consultancy revenues are charged either on a percentage of completion basis or contract delivery milestones, when these services are deemed to be distinct within the contract. Where it is not distinct the revenue is recognised evenly over the life of the contract from the date that the payment service is operational.

Transaction processing revenue

Charges for payment processing and connectivity services, is recognised in the year in which the related transactions occur, excluding VAT.

Licence and maintenance revenue

The Company grants its customers licences to use its software, typically on a fixed term basis. Depending on the terms of the customer contracts, there are two types of licences:

- i) Right of access licences revenue is recognised over time. Where significant customisation of software is required and the customer is unable to benefit from it either on its own or in combination with readily available resources, licence sales are accounted for over time. Such fees are recognised evenly over the life of the operational phase of the contract, commencing on the date on which the payment service is operational.
- ii) Right of use licences revenue is recognised at a point in time. Where the rights and control over the software pass to the customer and the customer can benefit from the software on its own or in combination with readily available resources, the licence sale is accounted for at a point in time.

Maintenance revenue to provide customers with rights to software upgrades, enhancements and help desk access during a defined support period is recognised evenly over time over the operational period of the contract.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the company exceeds the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

1.4 Revenue from contracts with customers (*continued*)

Costs to fulfil a contract

Costs incurred in developing and implementing payment systems which relate to unfulfilled performance obligations at the reporting date are deferred as contract fulfilment assets in the Statement of Financial Position. The assets are amortised to the Statement of Comprehensive Income consistent with the pattern of recognition of revenue, on a straight-line basis over the term of the relevant customer contract, commencing on the date on which the payment service is operational.

At the reporting date, management undertakes an impairment review, comparing the carrying value of the assets with the total consideration that the Company expects to receive from the customer, less any costs to be incurred in delivering the services as specified in the contract.

Practical expedients IFRS 15

Existence of a financing component:

The Company has adopted the practical expedient to not adjust the consideration receivable under a contract for the effect of a significant financing component if the Company expects, at contract inception, that the period between when the entity transfers a promised service to a customer and when the customer pays for that service will be less than one year.

1.5 Foreign currency translation

The Company's financial statements are presented in pounds sterling, which is the Company's functional currency. All significant contracts are currently denominated and settled in pounds sterling, thereby mitigating foreign exchange risk. Other than certain costs from overseas suppliers, there are no transactions in currencies other than the entity's functional currency.

1.6 Investments in subsidiaries

Investments in subsidiaries held as non-current assets are stated at cost less any provision for impairment. The need for any impairment is assessed by comparing the carrying value of the asset with the higher of realisable value or value in use, see note 22.

1.7 Common control transactions

Common control transactions that arise between Group entities under the control of the same parent are accounted for at book value.

1.8 Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.8 Financial instruments (continued)

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition a financial asset is classified as measured at: amortised cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.8 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial liabilities and equity (continued)

- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii) Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI.

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Notes to the financial statements (continued)

1 Accounting policies (continued)

iii) Impairment (continued)

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

1.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, commencing on the date on which the asset becomes functional and the related asset is available for use. Land is not depreciated. The estimated useful lives are as follows:

- freehold buildings 50 years
- leasehold improvements over the remaining period of the lease
- plant and equipment 4 to 20 years
- computers and ancillary equipment 4 to 10 years
- fixtures and fittings 3 to 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date and adjusted prospectively, if appropriate indicators of impairment exist.

1.10 Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense as incurred.

Expenditure on development activities is capitalised if:

- the product or process is technically and commercially feasible;
- the Company intends to complete the development;
- the Company has the technical ability and sufficient resources to complete the development;
- future economic benefits from the development are probable; and
- the Company can reliably measure the expenditure attributable to the development.

Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct employee salary and benefits, direct technical contractor expenses. Other development expenditure is recognised in the income statement as an expense as incurred.

Software and development assets

Capitalised development expenditure is recorded under the cost model and is stated at cost less accumulated amortisation and less accumulated impairment losses.

Capitalisation of staff costs

Directly attributable costs in relation to software and development projects include employee costs that are capitalised as tangible and intangible assets respectively, only when it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be reliably measured and are directly attributable to the creation of the asset. Capitalisation of such costs ceases when the asset is capable of operating in the manner intended by management.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.10 Intangible assets (continued)

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. The amortisation period for these assets is three to five years.

Asset lives for assets supporting specific customer contracts are primarily determined by the duration of the respective customer contract, with due consideration given to the period over which it is estimated that the developed software will continue to be in use and economically viable, without significant redevelopment.

Assets utilised in serving multiple customers are grouped together according to the relevant payment product. Asset lives for payment products are typically relatively long, being five to ten years. Nevertheless, reflecting the ongoing investment required to maintain such products, Company policy is that asset lives for amortisation purposes do not exceed seven years. Subject to the constraints of this policy, asset lives are determined by reference to the useful economic life of the payment product within the markets in which it operates.

Impairment testing

The carrying values of assets are tested for impairment whenever there are events or circumstances that indicate that their carrying amount may not be recoverable. Impairment testing is carried out for groups of assets, which, in combination, form cash generating units ('CGU's). CGUs are the smallest identifiable group of assets that generate cash flows that are largely independent of cash flows arising from other assets. Vocalink CGUs comprise groups of intangible and tangible assets that are closely related, and which, in combination, form the systems supporting specific Vocalink payment products or customer contracts.

For testing purposes, the fair value of an asset is calculated using the present value of estimated net future cash flows arising from the relevant CGU. Cash flows are based on the most recent budgets or forecasts approved by management and reflect reasonable and supportable assumptions by reference to the range of economic conditions that will exist over the period of the budget or forecast. Where cash flows are extended beyond the period covered by the most recent budget or forecast, they are extrapolated using a steady or declining growth rate, unless an increasing rate can be justified.

If the carrying amount of the asset exceeds its fair value, an impairment is immediately recorded.

1.11 Employee benefits

Pension obligations

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.11 Employee benefits (continued)

Pension obligations (continued)

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company operates one defined benefit plan in the UK which provides both pensions and retirement and death benefits to members. The plan closed to future accrual to new benefits on 31 July 2013, although members who remain in the Company's employment retain a link to their final salary.

The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and taking account of the expected rate of cash commutation by members. The future benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the income statement.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based employee remuneration

Mastercard share-based payment plans

The Company participates in the following share-based compensation plans operated by Mastercard, a restricted stock unit scheme ('RSUs') and a performance stock unit scheme ('PSUs') under which units are awarded, in addition to a non-qualified stock option scheme ('Options'). The awards are granted by Mastercard and the Company has no obligation to settle the awards. The fair value of the employee services received in exchange for the grant of the awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the awards granted.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.11 Employee benefits (continued)

Share-based employee remuneration (continued)

Restricted stock units

A restricted stock unit (RSU) award is denominated in common Mastercard shares that will be settled either by delivery of common shares or the payment of cash based upon the value of a specified number of common shares. Mastercard grants RSUs periodically to employees in accordance with the RSU agreement.

Mastercard's RSUs are time-based awards that shall vest evenly over a four year period. These awards are conditional upon the employee's continued employment with the Mastercard Group as of the vesting date.

The fair value of RSUs is determined and fixed on the grant date based on the Mastercard stock price, adjusted for the exclusion of dividend equivalents.

Non-qualified stock options

A non-qualified stock option ('Option') entitles the participant to receive common shares upon exercise of such options. The remuneration committee may provide for grant or vesting options conditional upon the performance of services, the achievement of performance goals or the execution of, and/or compliance with, a non-competition or non-solicitation agreement, or any combination of the above. The exercise price per share for an award shall not be less than the fair market value per share as of the grant date. The option period fixed by the committee for any award shall be no longer than ten years from the option's grant date. The standard rate at which an option shall be exercisable shall be twenty five percent on each of the first four anniversaries of the grant.

Mastercard estimates the fair value of its non-qualified stock options awards using a Black-Scholes valuation model.

Recognition of share-based employee remuneration in the Statement of Comprehensive Income

At the end of each reporting period, the Company revises its estimates of the number of units and options that are expected to vest, based on any market and non-market vesting conditions.

The total expense of the above schemes is recognised on a straight line basis over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. The related share-based compensation expenses are recorded in staff costs.

Share-based employee remuneration

The fair value of RSUs is determined and fixed on the grant date based on the Mastercard stock price, adjusted for the exclusion of dividend equivalents. The related share-based compensation expenses are recorded in staff costs.

The total expense is recognised on a straight line basis over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Company revises its estimates of the number of RSUs that are expected to vest, based on the non-market vesting conditions.

Performance stock units

A performance stock unit (PSU) consists of the right to receive common shares or cash, as provided in the particular award agreement, upon achievement of a performance goal or goals. The performance unit award shall be earned in accordance with the agreement over a performance period. These awards typically vest at the end of a three year performance period (cliff vesting). These awards are conditioned upon the employee's continued employment with the Company and the achievement of the performance goals established by the committee and set forth in the employee's grant statement.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.12 Provisions

A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.13 Leases

Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company's leases generally relate to property or office equipment. Lease terms are negotiated on an individual basis and do not impose any covenants. The lease term is determined by the non-cancellable period of the lease, together with; optional renewable periods if the Company is reasonably certain to extend; and periods after an optional termination date if the Company is reasonably certain not to terminate early.

As a Lessee

The Company recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in 'Right of use assets' and lease liabilities in 'Lease liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.13 Leases (continued)

lease term.

1.14 Finance income and costs

Finance income

Finance income includes interest receivable on funds invested, interest receivable from group undertakings, pension interest, and net foreign exchanges gains.

Finance costs

Finance costs include finance lease interest recognised under IFRS 16, pension interest, interest payable to group undertakings and net foreign exchange losses.

Interest receivable and interest payable is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis. Dividend income is recognised in the Statement of Comprehensive Income on the date the entity's right to receive payments is established.

1.15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

1.16 Capital and reserves

Called up share capital

Represents the nominal value of shares issued.

Share premium account

Share premium represents the excess of the issue price over the par value on shares issued less transaction costs arising on issue.

Retained earnings

Represents the reserves for net gains and losses recognised in the statement of comprehensive income.

1.17 Critical accounting judgements and key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Critical judgements in the application of the accounting policies include:

Revenue recognition

Revenue recognition under IFRS 15

Revenue from contracts with customers is recognised when services are performed. In management's assessment of the contracts significant judgement is used in determining whether the services components are single or multiple performance obligations. Customer contracts are typically long-term payment services contracts, with a duration of 3 to 5 years. Contracts with customers

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.17 Critical accounting judgements and key sources of estimation uncertainty (continued)

Revenue recognition continued

comprise multiple deliverables, and depending on the nature of the contract, include a combination of services for implementation and onboarding, software development, software licences, transaction processing and customer support services. This decision impacts the timing of the revenue recognition for the software licence and the development services.

Indirect taxation

The recovery of input VAT is subject to a partial exemption calculation. VAT returns are submitted quarterly and the final position regarding VAT recovered is agreed on an annual basis. As at the reporting date management exercised judgement in estimating the provision for input VAT that may not be recovered in respect of the financial year.

Impairment testing of intangible assets

In evaluating the cash flows used in testing for impairment, management exercises judgement in determining the assumptions supporting the cash flows, ensuring that they are reasonable and relevant. Where cash flows are extended beyond the period covered by the most recent budget, they are extrapolated using a steady or declining growth rate, unless an increasing rate can be justified.

Management exercises key judgements in assessing the useful life of the assets. These are established at the time each development commences and are regularly reviewed for appropriateness.

Payment systems require a long-term and significant investment of time and resources. They are developed with the quality and resilience necessary to support the national payment system infrastructure. Both the Company and the participating banks undertake significant system design, development and implementation, followed by rigorous testing undertaken prior to service go-live. Both parties have an economic interest in retaining the software in use over the medium to long-term. This has been shown to apply historically and is expected to continue. Economic useful lives of assets are therefore longer than is typical for technology products.

As at the reporting date, intangible assets with a net book value of £22.8m (2020: £24.9m), property, plant and equipment assets with a net book value of £64.0m (2020: £56.3m) and right of use assets with a net book value of £18.3m (2020: £19.2m) were held on the Statement of Financial Position. During the year there were no impairments (2020: £nil) recognised in relation to property, plant and equipment, and right of use assets, and £nil (2020: £0.4m) in relation to intangible assets. As set out above, in reviewing these assets for impairment, management has exercised judgement regarding the future economic benefits to be generated as they are utilised or brought into use.

Key estimates in the application of the accounting policies include:

Contingent liabilities and provisions

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the likelihood of an outflow of resources is less than probable, but more than remote, or a reliable estimate is not determinable, the matter is disclosed as a contingency provided that the obligation or the legal claim is material.

Provisions are measured at management's best estimate, at the end of the reporting period, of the expenditure required to settle the obligation, and are discounted to present value where the effect is material. From time to time, parts of provisions may also be reversed due to a better than expected outcome in the related activities in terms of cash outflow.

A contingent liability is a possible obligation whose existence will be confirmed only by the occurrence of a future event or a present obligation that is uncertain as regards the amount. Where there is a possibility of an outflow of economic benefits the Company discloses an estimate of the financial effect and any uncertainties relating to it unless the probability the liability arising is considered to be remote.

Management's assessment of provisions is set out in note 18.

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

1.17 Critical accounting judgements and key sources of estimation uncertainty (*continued*)

Key estimates in the application of the accounting policies include: (*continued*)

Retirement benefit obligations

The Company operates a defined benefit pension scheme for which actuarial valuations are carried out as determined by the trustees at yearly intervals.

The pension cost under IAS 19 is assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on information supplied to the actuary, supplemented by discussions between the actuary and management. It is required to form judgements in relation to market conditions, including the discount rate and future inflation. Discussions also include a review of the profile of scheme members, including their life expectancy, entitlement and choices regarding future benefits and options, including cash commutation. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in assumptions and future funding obligations are set out in note 17 of the financial statements.

2 Significant transactions

On 31 December 2020, a transfer of business assets was completed (completion) pursuant to a Business Transfer Agreement (BTA) between the following three parties: VHL and its fully owned subsidiaries VLL and VIL. VIL was incorporated in 2018 and had not traded prior to the date of completion.

Upon completion, non-UK national infrastructure business and assets totalling £17.8m were transferred from VLL to VIL for a nominal consideration of £1.00, constituting a distribution in specie.

All incentive payments (prepaid incentives relate to payments to customer entities in bringing the PbBa product to market) were transferred to Vocalink International Limited as they solely relate to VIL business.

Linked to the business asset transfer, on 11 December 2020, a reorganisation of the capital structure of VLL took place through the transfer of its existing intercompany loan obligations of £405.0m (five five-year loans owed to Mastercard Payment Gateway Services Limited bearing interest in the range of 2.08% to 3.41%) to VHL. This was partially offset by the distribution by VLL to VHL of an intercompany loan receivable of £88.9m (being non-current amounts due from Vocalink Holdings Limited of £5.9m and IPCO 2012 Limited of £83.0m) on 11 December 2020, resulting in a net intercompany transfer of £298.2m in retained earnings. As a result, the related assets and liabilities were derecognised in VLL and a corresponding amount recognised in equity.

In addition, the VIL business employees were transferred from VLL to VIL on 1 January 2021.

An intra-group services agreement was entered into between VLL and VIL (as at completion), under which each of VLL and VIL provide certain services to the other, including shared central services, development and operational services.

On completion, VIL assumed the obligations, and became entitled to the benefits of VLL customers. VLL and VIL continue to novate customer contracts that did not novate on completion date.

The above transactions all occurred during the year ended 31 December 2020, however 2021 is the first year there was an impact upon the Statement of Comprehensive Income of the Company.

Notes to the financial statements (continued)

3 Revenue

3 (a) Disaggregation of revenue

Nature of service provided

In the following table revenue is disaggregated by the nature of the service provided.

| | 2021 £m | 2020 £m |
|---|--------------|--------------|
| Revenue from contracts with customers | | |
| Transaction processing | 142.6 | 147.0 |
| Licence and maintenance | 13.3 | 29.7 |
| Development, implementation and consultancy | 10.1 | 12.4 |
| | <hr/> | <hr/> |
| External revenue | 166.0 | 189.1 |
| Internal revenue: recharges to other group undertakings | 48.1 | 25.0 |
| | <hr/> | <hr/> |
| Total revenue | 214.1 | 214.1 |
| | <hr/> <hr/> | <hr/> <hr/> |

3 (b) Contract balances

Contract assets comprise accrued income; which solely relate to revenue from contracts with customers.

Contract liabilities comprise deferred income; the Company's deferred income balances solely relate to revenue from contracts with its customers, further details of which are set out in 3 (c) below.

3 (c) Revenue recognised in relation to deferred income

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

| | 2021 £m | 2020 £m |
|---|-------------|-------------|
| Revenue recognised that was included in the contract liability balance at the beginning of the period | 13.0 | 24.4 |
| | <hr/> | <hr/> |
| | 13.0 | 24.4 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the financial statements (continued)

3 Revenue (continued)

3 (d) Contract fulfilment assets

| | 2021 £m | 2020 £m |
|--|-------------|-------------|
| Contract fulfilment assets brought forward 1 January | 21.1 | 25.7 |
| Additions during the year | 3.1 | 5.4 |
| Amortisation during the year | (9.6) | (10.0) |
| | <u>14.6</u> | <u>21.1</u> |
| Contract fulfilment assets carried forward as at 31 December | <u>14.6</u> | <u>21.1</u> |

Amortisation of contract fulfilment assets was £7.9m, as per note 4, which is stated after intercompany recharges of £1.7m to VIL in relation to fulfilment assets capitalised in advance of the BTA.

The Company capitalises the costs incurred in developing and implementing payment systems on specific customer contracts as these costs do not transfer a distinct good or service to the customer and are only required to provide the related payment service.

At 31 December 2021, the Company recognised assets of £14.6m (2020: £21.1m) in relation to these costs, of which £6.1m (2020: £10.0m) was short term and £8.5m (2020: £11.1m) was long-term.

4 Operating profit/(loss)

Operating profit/(loss) is stated after charging:

| | 2021 £m | 2020 £m |
|--|--------------|--------------|
| Staff costs (note 6) | 49.7 | 113.6 |
| Other people related expenses | 7.7 | 40.7 |
| Maintenance, support and other costs | 30.1 | 26.2 |
| Research and product development | 7.0 | 7.1 |
| Licence fees | 40.2 | 47.3 |
| Rent and associated costs | 2.8 | 2.3 |
| Legal, professional and consultancy | 3.8 | 4.7 |
| Depreciation of property, plant and equipment (note 9) | 17.3 | 21.3 |
| Depreciation of Right of Use assets (note 10) | 3.4 | 3.7 |
| Amortisation of intangible assets (note 11) | 12.6 | 12.7 |
| Impairment (notes 9, 10 and 11) | - | 0.4 |
| Amortisation of contract fulfilment assets (note 3) | 7.9 | 10.0 |
| | <u>182.5</u> | <u>290.0</u> |
| | <u>182.5</u> | <u>290.0</u> |

Notes to the financial statements (continued)

4 Operating profit/(loss) (continued)

| | 2021 £m | 2020 £m |
|---|------------|------------|
| <i>Non-recurring costs/(income) included in expenses above:</i> | | |
| Staff costs | - | 1.3 |
| Other income | - | (2.0) |
| | - | (0.7) |
| | 182.5 | 290.7 |
| Total expenses less non-recurring costs | | |

People related costs charged to the Statement of Comprehensive Income, as shown above, are net of the capitalised costs. In the year third party contractor expenses of £2.1m (2020: £44.3m) were capitalised; £0.8m (2020: £40.7m) within internally developed intangible assets, £0.8m (2020: £2.5m) in preparing computers and ancillary equipment for use within tangible assets and £0.5m (2020: £1.1m) to fulfilment. Staff costs of £9.0m (2020: £18.5m) were capitalised and the net cost is shown above; the full costs of permanent staff are detailed in note 6.

Licence fees are payable to a group undertaking, IPCO 2012 Limited, as provided for in agreements for the licensing of intellectual property utilised by the Company in the delivery of payment services.

Non-recurring staff costs relate to the finalisation of integrating Vocalink into the Mastercard Group (companies owned and operated by Mastercard Incorporated, a company incorporated and domiciled in the United States of America). These costs comprised redundancy and restructuring costs of £1.3m during 2020 and they did not recur in 2021.

Non-recurring other income arose during 2020 as a significant customer contract was renegotiated resulting in the release of £2.0m in respect of an onerous contract provision held on the Statement of Financial Position. This did not recur in 2021.

Lease expenses recognised in the Statement of Comprehensive Income:

| | 2021 £m | 2020 £m |
|--|------------|------------|
| Depreciation charged on right of use assets | | |
| Leasehold premises | 3.4 | 3.7 |
| | 3.4 | 3.7 |
| | 0.4 | 0.5 |
| Interest expense (included in finance costs) | | |

The total cash outflow for leases in the financial year was £4.1m (2020: £3.3m).

Notes to the financial statements (continued)

4 Operating profit/(loss) (continued)

Auditors' remuneration:

The fees paid to PricewaterhouseCoopers LLP as auditors for the year ended 31 December 2021 were:

| | 2021 £m | 2020 £m |
|-----------------------------------|------------|------------|
| Audit of the financial statements | 0.3 | 0.3 |
| Audit-related assurance services | 0.9 | - |
| | 1.2 | 0.3 |
| | 1.2 | 0.3 |

5 Net finance costs

| | 2021 £m | 2020 £m |
|---|------------|------------|
| <i>Finance income</i> | | |
| Interest receivable | - | 0.5 |
| Interest receivable from group undertakings | - | 1.6 |
| Pension scheme interest | 0.4 | 0.1 |
| | 0.4 | 2.2 |
| <i>Finance costs</i> | | |
| Interest payable to group undertakings | - | (10.6) |
| Interest on lease liabilities | (0.4) | (0.5) |
| Foreign exchange loss | (0.2) | - |
| | (0.6) | (11.1) |
| | (0.2) | (8.9) |
| Net finance costs | (0.2) | (8.9) |

6 Staff costs

The monthly average number of persons (including Directors) employed by the Company during the year was as follows:

| | Number of employees | |
|-------------------------------|---------------------|-------------|
| | 2021 No. | 2020 No. |
| Operations | 396 | 829 |
| Sales and product development | 114 | 250 |
| Administration | 44 | 91 |
| | 554 | 1,170 |
| | 554 | 1,170 |

Notes to the financial statements (continued)

6 Staff costs (continued)

The aggregate payroll costs of these persons were as follows:

| | 2021 £m | 2020 £m |
|--|-------------|--------------|
| Wages and salaries | 46.7 | 103.6 |
| Non-recurring redundancy and restructuring costs | - | 1.3 |
| Social security costs | 4.6 | 12.5 |
| Other pension costs (note 17) | 4.6 | 9.3 |
| Share based payment expense (note 17) | 2.8 | 5.3 |
| | <u>58.7</u> | <u>132.0</u> |

As part of the BTA all VIL business related employees were transferred from VLL to VIL on 1 January 2021.

In the year staff costs of £9.0m (2020: £18.4m) which are included above were capitalised; £3.2m (2020: £16.0m) within internally developed intangible assets, £2.7m (2020: £1.4m) to fulfilment and £3.1m (2020: £1.0m) in preparing computers and ancillary equipment for use within tangible assets.

Shared based payment expenses relate to the Mastercard equity plan. Further details are contained in note 17.

7 Directors' remuneration

Included within wages and salaries expense are amounts related to compensation for the Directors of the Company which were as follows:

| | 2021 £m | 2020 £m |
|---|------------|------------|
| Directors' remuneration | 1.3 | 1.3 |
| Amounts receivable under other performance related scheme | 2.3 | 1.8 |
| | <u>3.6</u> | <u>3.1</u> |

The amounts paid to the highest paid Director are included below:

| | 2021 £m | 2020 £m |
|---|------------|------------|
| Directors' remuneration | 0.4 | 0.4 |
| Amounts receivable under other performance related scheme | 1.0 | 0.9 |
| | <u>1.4</u> | <u>1.3</u> |

The emoluments of some of the Directors are paid by another entity in the Mastercard Group, which makes no recharge to the Company. The Directors are undertaking executive duties on a number of fellow Mastercard subsidiaries, and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries.

During the year the Directors exercised 736 (2020: 519 (Restated)) Mastercard stock options and 4,048 (2020: 2,182 (Restated)) Restricted Stock Units ('RSUs'). 3048 (2020: 2,182 (Restated)) RSUs and no stock options (2020: nil) were exercised by highest paid Director.

Notes to the financial statements (continued)

8 Taxation

Recognised in the Statement of Comprehensive Income

| | 2021 £m | 2020 £m |
|--|------------|---------------|
| <i>Current tax expense/(credit)</i> | | |
| Amounts paid/(received) for group relief | 2.5 | (17.3) |
| Adjustments for prior periods | - | (0.3) |
| Overseas taxation | 0.2 | 0.1 |
| | <u>2.7</u> | <u>(17.5)</u> |
| <i>Deferred tax expense</i> | | |
| Origination and reversal of timing differences | 1.4 | (1.3) |
| Adjustment for prior years | - | 0.3 |
| Impact of changes in tax rate | (0.4) | (0.6) |
| Pension scheme related | 3.8 | 2.8 |
| | <u>4.8</u> | <u>1.2</u> |
| Deferred tax expense | 4.8 | 1.2 |
| Total tax expense/(credit) | <u>7.5</u> | <u>(16.3)</u> |

Income tax recognised in other comprehensive expense

| | 2021 £m | 2020 £m |
|--|-------------|------------|
| Deferred tax expense related to actuarial movements on defined benefit pension | 10.4 | 1.6 |
| | <u>10.4</u> | <u>1.6</u> |

Tax recorded directly in equity

| | 2021 £m | 2020 £m |
|--|------------|--------------|
| Deferred tax expense/(credit) related to share schemes | 0.5 | (1.2) |
| | <u>0.5</u> | <u>(1.2)</u> |

Notes to the financial statements *(continued)*

8 Taxation *(continued)*

Reconciliation of effective tax rate

| | 2021 | 2020 |
|---|-------------|-------------|
| | £m | £m |
| Profit/(loss) for the financial year | 23.9 | (68.5) |
| Total tax expense/(credit) | 7.5 | (16.3) |
| | <hr/> | <hr/> |
| Profit/(loss) before taxation | 31.4 | (84.8) |
| Tax using UK Corporation tax rate of 19% <i>(2020: 19%)</i> | 5.9 | (16.1) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 0.3 | 0.3 |
| Differences between current and deferred tax rates applicable | 0.8 | (0.6) |
| Share options | 0.3 | - |
| Overseas taxation | 0.2 | 0.1 |
| | <hr/> | <hr/> |
| Total tax expense/(credit) | 7.5 | (16.3) |
| | <hr/> <hr/> | <hr/> <hr/> |

In the Finance Bill 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 11 March 2021.

Notes to the financial statements (continued)

9 Property, plant and equipment

| | Freehold land and buildings £m | Leasehold improvements £m | Plant and equipment £m | Computers & ancillary equipment £m | Fixtures & fittings £m | Total £m |
|--|---|---------------------------------|------------------------------|---|------------------------------|--------------|
| Cost | | | | | | |
| Balance at 1 January 2021 | 9.1 | 20.0 | 22.9 | 247.2 | 6.4 | 305.6 |
| Additions | 0.1 | - | - | 24.9 | - | 25.0 |
| Disposals | (5.5) | (4.2) | (2.6) | (172.8) | (0.6) | (185.7) |
| Balance at 31 December 2021 | 3.7 | 15.8 | 20.3 | 99.3 | 5.8 | 144.9 |
| Accumulated depreciation and impairment | | | | | | |
| Balance at 1 January 2021 | 7.4 | 18.9 | 20.6 | 196.6 | 5.8 | 249.3 |
| Depreciation charge for the year | 0.3 | 0.1 | 0.8 | 15.8 | 0.3 | 17.3 |
| Disposals | (5.5) | (4.2) | (2.6) | (172.8) | (0.6) | (185.7) |
| Balance at 31 December 2021 | 2.2 | 14.8 | 18.8 | 39.6 | 5.5 | 80.9 |
| Net book value | | | | | | |
| At 31 December 2020 | 1.7 | 1.1 | 2.3 | 50.6 | 0.6 | 56.3 |
| At 31 December 2021 | 1.5 | 1.0 | 1.5 | 59.7 | 0.3 | 64.0 |

Additions in the year principally relate to Computers and Ancillary Equipment which totalled £25.0m (2020: £13.4m), of which £15.7m (2020: £6.5m) was invested in shared infrastructure projects. Internal time in preparing infrastructure and other assets for use is capitalised with the physical assets and depreciated over the economic useful life of the combined assets.

Depreciation is charged over the shorter of the useful economic life of the asset and related customer contracts. The depreciation of tangible assets commences when the asset is complete and available for use. Included in assets held as at 31 December 2021, are assets with a carrying value of £15.7m (2020: £7.4m) which were being prepared for use and therefore were not depreciated during the year.

£182.0m of disposals during the year relate to historical assets with a zero net book value which are no longer in use. The other disposals of £3.7m relate to obsolete data centre equipment.

Following an impairment review, no impairments were identified in 2021 (2020: £nil).

Notes to the financial statements (continued)

10 Right of use assets

Information about leases for which the Company is a lessee is presented below:

| | Leasehold premises £m | Office equipment £m | Total £m |
|--|-----------------------------|---------------------------|-------------|
| Cost | | | |
| Balance at 1 January 2021 | 26.1 | 0.2 | 26.3 |
| Additions | 2.5 | - | 2.5 |
| Balance at 31 December 2021 | 28.6 | 0.2 | 28.8 |
| Accumulated depreciation | | | |
| Balance at 1 January 2021 | 7.0 | 0.1 | 7.1 |
| Depreciation charge for the year | 3.4 | - | 3.4 |
| Balance at 31 December 2021 | 10.4 | 0.1 | 10.5 |
| Net book value | | | |
| Balance at 31 December 2020 | 19.1 | 0.1 | 19.2 |
| Balance at 31 December 2021 | 18.2 | 0.1 | 18.3 |
| | | | |
| | Leasehold premises £m | Office equipment £m | Total £m |
| Cost | | | |
| Balance at 1 January 2020 | 25.3 | 0.2 | 25.5 |
| Additions | 0.8 | - | 0.8 |
| Balance at 31 December 2020 | 26.1 | 0.2 | 26.3 |
| Accumulated depreciation | | | |
| Balance at 1 January 2020 | 3.3 | 0.1 | 3.4 |
| Depreciation charge for the year charge for the year | 3.7 | - | 3.7 |
| Balance at 31 December 2020 | 7.0 | 0.1 | 7.1 |
| Net book value | | | |
| Balance at 31 December 2019 | 22.0 | 0.1 | 22.1 |
| Balance at 31 December 2020 | 19.1 | 0.1 | 19.2 |

Notes to the financial statements (continued)

11 Intangible assets

| | Total £m |
|--|---------------------|
| Cost | |
| Balance at 1 January 2021 | 196.2 |
| Additions | 10.5 |
| Disposals | (141.6) |
| Balance at 31 December 2021 | 65.1 |
| Accumulated amortisation and impairment | |
| Balance at 1 January 2021 | 171.3 |
| Amortisation for the year | 12.6 |
| Impairment | - |
| Disposals | (141.6) |
| Balance at 31 December 2021 | 42.3 |
| Net book value | |
| At 31 December 2020 | 24.9 |
| At 31 December 2021 | 22.8 |

Intangible assets comprise software and other assets utilised in delivering payment services to customers. UK payment scheme assets are utilised in support of specific long-term customer contracts for the Vocalink core payment platforms. Other products assets are developed and used in serving multiple customers. At the reporting date, the net book value of PbBa assets was £5.1m (2020: £7.1m) and shared infrastructure assets was £9.8m (2020: £4.7m).

Amortisation is charged over the shorter of the useful economic life of the product and related customer contracts; generally between three to five years. The amortisation of intangible assets commences when the asset is complete and available for use. Of the total assets of £22.8m (2020: £24.9m) as at 31 December 2021, assets with a carrying value of £4.5m (2020: £5.1m) were under development and therefore were not amortised during the year.

£141.6m of disposals during the year relate to old assets with a nil net book value for a minimum of five years which are no longer in use.

Following an impairment review, no impairment was recognised in the current financial year. For the year ended 31 December 2020 an impairment of £0.4m was recognised in relation to PbBa product enhancements that were removed from the offering; this did not affect the core product.

Notes to the financial statements (continued)

12 Deferred tax

Recognised deferred tax (liabilities)/assets

Deferred tax (liabilities)/assets are attributable to the following:

| | 2021 £m | 2020 £m |
|-------------------------------------|---------------|------------|
| Property, plant and equipment | 6.0 | 5.1 |
| Other short-term timing differences | - | 0.1 |
| Share scheme | 2.0 | 2.9 |
| Pension schemes | (19.9) | (4.3) |
| | <u>(11.9)</u> | <u>3.8</u> |

Movement in deferred tax (liabilities)/assets during the year

| | 1 January 2021 £m | Recognised in income £m | Recognised in equity £m | Recognised in OCI £m | 31 December 2021 £m |
|-------------------------------------|----------------------|-------------------------------|-------------------------------|----------------------------|---------------------------|
| Property, plant and equipment | 5.1 | 0.9 | - | - | 6.0 |
| Other short-term timing differences | 0.1 | (0.1) | - | - | - |
| Share scheme | 2.9 | (0.4) | (0.5) | - | 2.0 |
| Pension schemes | (4.3) | (5.2) | - | (10.4) | (19.9) |
| | <u>3.8</u> | <u>(4.8)</u> | <u>(0.5)</u> | <u>(10.4)</u> | <u>(11.9)</u> |

Movement in deferred tax assets/(liabilities) during the prior year

| | 1 January 2020 £m | Recognised in income £m | Recognised in equity £m | Recognised in OCI £m | 31 December 2020 £m |
|-------------------------------------|----------------------|-------------------------------|-------------------------------|----------------------------|---------------------------|
| Property, plant and equipment | 4.2 | 0.9 | - | - | 5.1 |
| Other short-term timing differences | 0.3 | (0.2) | - | - | 0.1 |
| Share scheme | 0.8 | 0.9 | 1.2 | - | 2.9 |
| Pension schemes | 0.1 | (2.8) | - | (1.6) | (4.3) |
| | <u>5.4</u> | <u>(1.2)</u> | <u>1.2</u> | <u>(1.6)</u> | <u>3.8</u> |

Notes to the financial statements (continued)

13 Trade and other receivables

| | 2021 £m | 2020 £m |
|---|------------|------------|
| Current | | |
| Trade receivables | 8.2 | 13.4 |
| Other receivables | 1.7 | 9.9 |
| Prepayments | 21.2 | 15.3 |
| Accrued income | 20.9 | 22.1 |
| Amounts due from other group undertakings | 28.6 | 31.2 |
| | 80.6 | 91.9 |
| Trade and other receivables | 80.6 | 91.9 |
| Contract fulfilment assets | 6.1 | 10.0 |
| | 86.7 | 101.9 |

Amounts due to the Company from group undertakings classified as current and are unsecured, non-interest bearing and are repayable on demand.

| | 2021 £m | 2020 £m |
|-------------------------------------|------------|------------|
| Non-current | | |
| Prepayments | 1.6 | 4.0 |
| Amounts due from group undertakings | - | 19.0 |
| | 1.6 | 23.0 |
| Trade and other receivables | 1.6 | 23.0 |
| Contract fulfilment assets | 8.5 | 11.1 |
| | 10.1 | 34.1 |

At 31 December 2020 the non-current amounts due from IPCO 2012 Limited were subsequently settled; at 31 December 2021 the Company has amounts due to IPCO 2012 Limited which are classified as current.

Notes to the financial statements (continued)

14 (a) Trade and other payables

| | 2021 £m | 2020 £m |
|------------------------------------|-------------|-------------|
| Current | | |
| Trade payables | 10.6 | 9.3 |
| Other taxation and social security | 4.0 | 3.0 |
| Amounts due to group undertakings | 14.5 | 13.2 |
| Other payables | 2.4 | - |
| Accruals | 16.8 | 27.1 |
| Deferred income | 13.2 | 17.7 |
| | <u>61.5</u> | <u>70.3</u> |

Amounts due by the Company to group undertakings classified as current are unsecured, non-interest bearing and are repayable on demand.

| | 2021 £m | 2020 £m |
|--------------------|------------|------------|
| Non-current | | |
| Deferred income | - | 5.6 |
| | <u>-</u> | <u>5.6</u> |

14 (b) Deferred income

The movements in the current and non-current deferred income were:

| | 2021 £m | 2020 £m |
|-----------------------------------|--------------------|--------------------|
| As at 1 January | 23.3 | 33.5 |
| Deferred in year | 6.1 | 15.2 |
| Intercompany transfer | (5.5) | - |
| Recognised as revenue in the year | (10.7) | (25.4) |
| As at 31 December | <u>13.2</u> | <u>23.3</u> |

The Company's deferred income balances solely relate to revenue from contracts with customers. Movements in the deferred income balances were driven by transactions entered into by the Company within the normal course of business in the year. Deferred income of £5.5m was transferred to VIL during the year in relation to customer contracts that novated as part of the BTA.

Notes to the financial statements (continued)

15 Lease liabilities

| | 2021 £m | 2020 £m |
|---|-------------|-------------|
| Lease obligation for right of use assets: | | |
| Current | 3.1 | 2.5 |
| Non-current | 14.4 | 15.4 |
| | <u>17.5</u> | <u>17.9</u> |

16 Lease obligations

As a lessee

| | 2021 £m | 2020 £m |
|--|-------------|-------------|
| Maturity analysis - contractual undiscounted cash flows | | |
| Less than one year | 4.1 | 3.7 |
| Two to five years | 13.3 | 13.1 |
| More than five years | 10.3 | 12.2 |
| Total undiscounted lease payments | <u>27.7</u> | <u>29.0</u> |
| Current | 4.1 | 3.7 |
| Non-current | 23.6 | 25.3 |
| | <u>27.7</u> | <u>29.0</u> |

Notes to the financial statements (continued)

17 Employee benefits

a) Post-retirement benefits

The Company operates two independent pension schemes. The Company's defined contribution scheme is open to new members and during the year ended 31 December 2021 the Company contributed £4.6m (2020: £9.3m) to the scheme.

The Company also operates a defined benefit scheme which is closed to new entrants, it provides pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and their length of service.

b) Defined benefit pension scheme

The defined benefit scheme closed to new entrants and future accruals on 31 July 2013, although employed members retain a limited link to their final salary. Contributions to the scheme for the year ending 31 December 2021 are expected to be approximately £14.7m (2020: £14.6m). As part of the 2018 triennial revaluation the group has agreed with the pension scheme trustees that these deficit reduction contributions of £14.6m per annum will be continued until August 2022; £9.7m in 2022. The 2021 valuation is now complete and it has been agreed that no further deficit contributions are required from September 2022.

The major assumptions used by the actuary were (in nominal terms):

| | 2021 | 2020 |
|--|-------|-------|
| Discount rate | 2.00% | 1.40% |
| RPI inflation | 3.30% | 2.85% |
| CPI inflation | 2.60% | 2.15% |
| Salary inflation | 2.50% | 2.65% |
| Pension increases in payment (CPI, max 3%) | 2.20% | 1.90% |
| Pension increases in payment (RPI, max 4%) | 2.95% | 2.65% |
| Pension increases in payment (RPI, max 5%) | 3.20% | 2.80% |

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

| Age | Males | Females |
|----------------|------------|------------|
| 67 | 21.2 years | 22.7 years |
| 61 in 10 years | 27.2 years | 29.0 years |

The major assumption sensitivities are considered to be to be discount rate, inflation and life expectancy. The approximate effects of movements in the main assumptions at 31 December are shown in the table below, detailing the impact on scheme liabilities:

| | 2021 | 2020 |
|-----------------------------------|----------|----------|
| Discount rate +/- 0.1% pa | +/- 1.5% | +/- 1.8% |
| Inflation assumptions +/- 0.1% pa | +/- 1.1% | +/- 0.8% |
| Life expectancy +/- 1 year | +/- 4.0% | +/- 4.0% |

The inflation sensitivity shown above includes the impact of corresponding changes to future increases to pensions in payment and in deferment assumptions.

The sensitivities shown reflect the duration of the scheme liabilities of approximately 16 years based on our understanding of the Scheme's membership and liability profile.

Results under IAS 19 can change dramatically depending on market conditions. Changing markets in conjunction with discount rate fluctuations will lead to volatility in the funded status of the pension plan. To a lesser extent, changes in market conditions will lead to some movement in the IAS 19 pension expense in the Statement of Comprehensive Income.

Notes to the financial statements (continued)

17 Employee benefits (continued)

b) Defined benefit pension scheme (continued)

The assumptions used in determining the valuation of the scheme have been set with reference to yields available on government bonds and appropriate risk margins.

The assets in the scheme were:

| | 2021 £m | 2021 % | 2020 £m | 2020 % |
|---|--------------|------------|--------------|------------|
| Liability-driven investments/Government bonds | 205.4 | 49.2 | 129.6 | 33.1 |
| Equities | 82.4 | 19.7 | 88.8 | 22.7 |
| Other* | 89.1 | 21.4 | 134.8 | 34.4 |
| Cash | 4.0 | 1.0 | 4.1 | 1.0 |
| Property | 33.0 | 7.9 | 30.5 | 7.8 |
| Insured pensioners | 3.2 | 0.8 | 3.7 | 1.0 |
| | <u>417.1</u> | <u>100</u> | <u>391.5</u> | <u>100</u> |

*Other assets comprise multi asset funds, credit and trend following managed futures fund.

The scheme invested assets comprising both quoted and unquoted assets. The value of quoted assets in 2021 was £224.6m (2020: £206.5m), included within corporate bonds, equities, cash and liability driven investments/government bonds in the above table, with the remaining assets being unquoted.

Reconciliation of funded status to Statement of Financial Position

| | 2021 £m | 2020 £m |
|--|-------------|-------------|
| Fair value of scheme assets | 417.1 | 391.5 |
| Present value of scheme liabilities | (336.7) | (367.7) |
| Funds in the scheme | 80.4 | 23.8 |
| Related deferred tax liability (note 12) | (19.9) | (4.3) |
| Net pension funds | <u>60.5</u> | <u>19.5</u> |

Analysis of the amount charged to the income statement

| | 2021 £m | 2020 £m |
|--|--------------|--------------|
| Interest cost on the defined benefit obligations | 5.1 | 6.7 |
| Interest income on plan assets | (5.5) | (6.8) |
| Total interest credit (note 5) | <u>(0.4)</u> | <u>(0.1)</u> |

Notes to the financial statements (continued)

17 Employee benefits (continued)

b) Defined benefit pension scheme (continued)

Remeasurement of the net defined asset in Other Comprehensive Income

| | 2021 £m | 2020 £m |
|--|-------------|-------------|
| Actuarial gain/(loss) on defined benefit obligations arising from changes in financial assumptions | 16.7 | (35.5) |
| Actuarial loss on defined benefit obligation arising from changes in demographic assumptions | (1.8) | (1.4) |
| Actuarial gain/(loss) on obligations arising from experience | 10.4 | - |
| | <hr/> | <hr/> |
| Total actuarial gain/(loss) on liability | 25.3 | (36.9) |
| Return on plan assets excluding amounts included in net interest cost | 16.4 | 45.5 |
| | <hr/> | <hr/> |
| Remeasurement of the defined asset in OCI | 41.7 | 8.6 |
| Investment management fees met by the group | (0.2) | (0.2) |
| | <hr/> | <hr/> |
| Net impact of the defined asset on OCI | 41.5 | 8.4 |
| | <hr/> <hr/> | <hr/> <hr/> |

Reconciliation of net defined asset:

| | 2021 £m | 2020 £m |
|---|-------------|-------------|
| Net defined asset at beginning of year | 23.8 | 0.4 |
| Net interest income | 0.4 | 0.2 |
| Remeasurement of the net defined asset in OCI | 41.5 | 8.6 |
| Employer contributions | 14.7 | 14.6 |
| | <hr/> | <hr/> |
| Net defined asset at end of year | 80.4 | 23.8 |
| | <hr/> <hr/> | <hr/> <hr/> |

Movements in the present value of defined benefit obligations were as follows:

| | 2021 £m | 2020 £m |
|--|--------------|--------------|
| Defined benefit obligations at beginning of year | 367.7 | 334.8 |
| Interest cost | 5.1 | 6.7 |
| Actuarial (gain)/loss on defined benefit obligations arising from changes in financial assumptions | (16.7) | 35.5 |
| Actuarial loss on obligations arising from changes in demographic assumptions | 1.8 | 1.4 |
| Actuarial (gain)/loss on obligations arising from experience | (10.4) | - |
| Benefits paid | (10.8) | (10.7) |
| | <hr/> | <hr/> |
| Defined benefit obligations at end of year | 336.7 | 367.7 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the financial statements (continued)

17 Employee benefits (continued)

b) Defined benefit pension scheme (continued)

Movements in the fair value of scheme assets were as follows:

| | 2021 £m | 2020 £m |
|--|--------------|--------------|
| Fair value of scheme assets at beginning of year | 391.5 | 335.2 |
| Interest income on plan assets | 5.5 | 6.9 |
| Return on plan assets excluding amounts included in interest income on plan assets | 16.4 | 45.5 |
| Employer contributions | 15.3 | 14.6 |
| Benefits paid | (10.8) | (10.7) |
| Admin costs incurred | (0.8) | - |
| | <hr/> | <hr/> |
| Fair value of scheme assets at end of year | 417.1 | 391.5 |
| | <hr/> <hr/> | <hr/> <hr/> |

Regulatory framework for pension schemes in the UK

The Pensions Regulator is established by UK Pensions Law and has significant powers in respect of ensuring the protection of UK pension plan members. The Regulator's key objectives are:

- To monitor pension scheme plan operation and funding
- Promote good governance
- To protect pension scheme members' benefits.

The Pension Protection Fund was set up to rescue defined benefit plans where the sponsoring employer fails. It is funded mainly from an annual levy on defined benefit plans.

Every three years a defined benefit pension plan must undertake a full valuation of its assets and liabilities with agreement of the valuation to be reached within fifteen months of the effective date of the full valuation. The outcome will determine how much contributions a sponsoring employer will need to pay in the future. Where there is a funding deficit the sponsoring employer is required to make these contributions. The 2021 valuation is now complete with the scheme estimated to be in surplus. It has been agreed that no further deficit contributions are required from 1 September 2022.

c) Share-based payments

(i) Restricted Stock Unit ('RSU') scheme

RSUs are denominated in Common Shares and are settled either by the delivery of Common Shares or the payment of cash based upon the value of a specified number of Common Shares. Mastercard grants RSUs periodically to employees in accordance with the Restricted Stock Unit Agreement.

Mastercard's RSUs are time-based awards that typically vest at the end of a one to three year requisite service period. However, during 2020 the rules changed whereby the awards shall vest evenly over a four year period. These awards are conditional upon the Employee's continued employment with the Company as of the Vesting Date. There are no market conditions applicable to the awards.

Notes to the financial statements (continued)

17 Employee benefits (continued)

c) Share-based payments (continued)

(i) Restricted Stock Unit ('RSU') scheme (continued)

RSU movements during the year:

There were 68,060 (2020: 49,031) RSUs as at 1 January 2021, brought forward from previous periods. There were 29,655 (2020: 68,060) RSUs outstanding at the reporting date. Outstanding awards vest between February 2022 and October 2025, typically vesting three years after grant date.

Due to the nature of these awards, they are exercised at the point of vesting. Details of the RSUs outstanding as at 31 December and their vest dates, are as follows:

| Vest date | 31 December 2021 | | | 31 December 2020 | | |
|-----------------------------------|------------------------------|--|-------------------------------------|------------------------------|--|-------------------------------------|
| | RSUs outstanding (no.) | Grant date market value per RSU US \$ | Remaining contract life Years | RSUs outstanding (no.) | Grant date market value per RSU US \$ | Remaining contract life Years |
| 28 February 2021 | - | - | - | 13,912 | 170.69 | 0.15 |
| 01 March 2021 | - | - | - | 6,049 | 286.35 | 0.16 |
| 31 March 2021 | - | - | - | 1,185 | 168.80 | 0.25 |
| 01 April 2021 | - | - | - | 16 | 224.65 | 0.25 |
| 01 July 2021 | - | - | - | 54 | 297.20 | 0.50 |
| 28 February 2022 | 10,738 | 223.58 | 0.16 | 24,926 | 223.58 | 1.14 |
| 01 March 2022 | 4,582 | 320.89 | 0.16 | 6,049 | 286.35 | 1.16 |
| 31 March 2022 | 319 | 235.35 | 0.25 | 319 | 235.35 | 1.25 |
| 01 April 2022 | - | - | - | 16 | 224.65 | 1.25 |
| 01 July 2022 | - | - | - | 113 | 297.19 | 1.50 |
| 30 September 2022 | 562 | 267.15 | 0.75 | 1,502 | 267.15 | 1.75 |
| 01 October 2022 | 176 | 355.85 | 0.75 | - | - | - |
| 01 March 2023 | 4,582 | 320.89 | 1.16 | 6,049 | 286.35 | 2.16 |
| 01 April 2023 | - | - | - | 16 | 224.65 | 2.25 |
| 01 July 2023 | - | - | - | 232 | 296.79 | 2.50 |
| 01 October 2023 | 1,063 | 341.45 | 1.75 | 887 | 338.59 | 2.75 |
| 01 March 2024 | 4,894 | 318.69 | 2.17 | 6,659 | 286.35 | 3.16 |
| 01 April 2024 | - | - | - | 19 | 224.65 | 3.25 |
| 01 July 2024 | - | - | - | 57 | 297.20 | 3.50 |
| 01 October 2024 | 176 | 355.85 | 2.75 | - | - | - |
| 01 March 2025 | 2,367 | 358.85 | 3.16 | - | - | - |
| 01 October 2025 | 196 | 355.85 | 3.75 | - | - | - |
| Total RSUs outstanding | 29,655 | | | 68,060 | | |

For the shares vested during the period, the weighted-average share price at the exercise date was \$356.06 (2020: \$276.50).

Notes to the financial statements (continued)

17 Employee benefits (continued)

c) Share-based payments (continued)

(ii) Performance Stock Unit ('PSU') scheme

PSUs are funded primarily with the issuance of new shares of Class A common stock. PSUs vest after three years, however, are subject to a mandatory one-year post-vest hold. A participant's unvested awards are forfeited upon termination of employment. In the event of termination due to job elimination (as defined by the Company), however, a participant will retain a pro-rata portion of the unvested awards for services performed through the date of termination. In the event a participant terminates employment due to disability or retirement more than seven months after receiving the award, the participant retains all of their awards without providing additional service to the Company.

PSUs containing performance and market conditions have been issued. Performance measures used to determine the actual number of shares that vest after three years include net revenue growth, EPS growth and relative total shareholder return ("TSR"). Relative TSR is considered a market condition, while net revenue and EPS growth are considered performance conditions. The Monte Carlo simulation valuation model is used to determine the grant-date fair value.

PSU movements during the year:

There were 2,505 (2020: nil) PSUs as at 1 January 2021, brought forward from previous periods. There were 3,561 (2020: 2,505) PSUs outstanding at the reporting date. Movement during the year relates to transfers out of 632 (2020: nil). No shares vested during the period. Outstanding awards vest between March 2023 and March 2024, typically vesting three years after grant date.

Due to the nature of the awards, they are exercised at the point of vesting and for nil consideration. Details of the PSUs outstanding as at 31 December and their vest dates, are as follows:

| Vest date | 31 December 2021 | | | 31 December 2020 | | |
|-------------------------------|------------------------------|--|-------------------------------------|------------------------------|--|-------------------------------------|
| | PSUs outstanding (no.) | Grant date market value per PSU US \$ | Remaining contract life Years | PSUs outstanding (no.) | Grant date market value per PSU US \$ | Remaining contract life Years |
| 01 March 2023 | 1,873 | 291.18 | 1.16 | 2,505 | 291.18 | 2.16 |
| 01 March 2024 | 1,688 | 385.39 | 2.17 | - | - | - |
| Total PSUs outstanding | 3,561 | | | 2,505 | | |

(iii) Non-qualifying Stock Options 'Options' scheme

Mastercard periodically grants options to employees as determined by the remuneration committee. Options entitle the equity scheme participant to receive Mastercard common shares upon the exercise of the option. The grant or vesting of the awards may be conditional upon various criteria being met, as determined by the committee. The conditions include the employee's continued employment with the Company as of the Vesting Date. The option period for an award is fixed by Mastercard's remuneration committee and shall be no longer than ten years from the Option's grant date. The standard rate at which an option shall be exercisable is twenty five percent of the award on each of the first four anniversaries of the grant.

The exercise price per share for an award shall not be less than the fair market value per share as of the grant date.

Stock option movements during the year:

There were 24,345 (2020: 18,284) options brought forward from previous periods. There were 15,900 (2020: 24,345) options outstanding at the reporting date with a weighted average exercise price of \$268.67 (2020: \$237.53), a weighted average remaining vesting life of 0.75 years (2020: 1.04 years) and the weighted average contractual term of outstanding options is 7.8 years (2020: 8.3 years).

Notes to the financial statements (continued)

17 Employee benefits (continued)

c) Share-based payments (continued)

Share based payments charged to the Statement of Comprehensive income in the year comprise the following:

| | 2021 £m | 2020 £m |
|--|------------|------------|
| Mastercard Equity Scheme (RSUs issued) | 2.8 | 5.3 |
| | <u>2.8</u> | <u>5.3</u> |

When share based instruments vest, where applicable, amounts settled are included within Directors' Emoluments, which is disclosed in note 7.

18 Provisions

| | Contract restructure provision £m | Reorganisation provision £m | Other provisions £m | Total £m |
|-------------------------------------|--|-----------------------------------|---------------------------|-------------|
| Balance at 1 January 2021 | 0.5 | 0.3 | 7.8 | 8.6 |
| Provisions reversed during the year | (0.4) | (0.3) | (0.9) | (1.6) |
| Balance at 31 December 2021 | <u>0.1</u> | <u>-</u> | <u>6.9</u> | <u>7.0</u> |
| Non-current | - | - | 6.8 | 6.8 |
| Current | 0.1 | - | 0.1 | 0.2 |
| | <u>0.1</u> | <u>-</u> | <u>6.9</u> | <u>7.0</u> |
| | 2.0 | 0.1 | 7.1 | 9.2 |
| Provisions made during the year | 0.5 | 0.2 | - | 0.7 |
| Provisions reversed during the year | (2.0) | - | (0.1) | (2.1) |
| Unwinding of discounted amount | - | - | 0.8 | 0.8 |
| Balance at 31 December 2020 | <u>0.5</u> | <u>0.3</u> | <u>7.8</u> | <u>8.6</u> |
| Non-current | - | - | 6.0 | 6.0 |
| Current | 0.5 | 0.3 | 1.8 | 2.6 |
| | <u>0.5</u> | <u>0.3</u> | <u>7.8</u> | <u>8.6</u> |

Notes to the financial statements (continued)

18 Provisions (continued)

The Company recognises a provision for the present obligation resulting from a past event when it is probable that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably. Most provisions are expected to be utilised within one year, except for dilapidations (within 10 years).

Contract restructure provisions relate to onerous contracts, which are recognised as a provision on the date on which the contract is confirmed to be onerous. The amount recognised is the excess of the unavoidable costs of the contract over any expected economic benefits arising from the contract.

During the financial year a customer contract was renegotiated resulting in it no longer being onerous; therefore £0.4m (2020: £2.0m) was released to the Statement of Comprehensive Income. The remaining onerous contracts of £0.1m (2020: £0.5m) are expected to be fully utilised by 2022.

Reorganisation provisions of £nil (2020: £0.3m) are only recognised when the restructure has been communicated and is sufficiently imminent to mean it is not likely that any significant changes will be made. The 2020 provision was utilised during the current financial year.

Other provisions include transitioning costs relating to the potential termination of a customer contract of £0.6m (2020: £0.6m (Restated)).

Other provisions also contain a provision for input VAT of £0.1m (2020: £1.0m (Restated)) and provisions for dilapidations and other lease exit costs of £6.2m (2020: £6.2m).

Contingent liability

From time to time, the Company is engaged in litigation in the ordinary course of business. There are no material contingent liabilities requiring disclosure at 31 December 2020 or 31 December 2021.

19 Called up share capital

| | 2021 £m | 2020 £m |
|--|----------------|--------------------|
| Share capital | | |
| Authorised 52,900,000 (2020: 42,500,000) ordinary shares of £1 each | 52.9 | 42.5 |
| Allotted called up and fully paid 52,900,000 (2020: 42,500,000) ordinary shares of £1 each at 31 December | 52.9 | 42.5 |
| Shareholders: | Holding | Holding |
| Vocalink Holdings Limited | 100% | 100% |
| | | 2021 £m |
| Share capital | | |
| On issue at 1 January | | 42.5 |
| Issue for cash | | 10.4 |
| On issue at 31 December | | 52.9 |

On 17 December 2021, 10,400,000 ordinary shares of £1 were issued for cash.

Mastercard owns 97.27% (2020: 97.27%) of the ordinary share capital of Vocalink Holdings Limited, the balance of the shares are owned by minority shareholders from the banking sector, which together own 2.73% (2020: 2.73%) of the ordinary share capital of the parent company.

During the previous year a number of the minority shares holders exercised the first put option to sell their shares to Mastercard Holdings LP UK for a fixed price as stipulated in the Shareholders Agreement, dated 28 April 2017.

Notes to the financial statements (continued)

19 Called up share capital (continued)

Shareholders of Vocalink Holdings Limited (ordinary shares)

| | 2021 % Holding | 2020 % Holding |
|---------------------------------------|-------------------|-------------------|
| Mastercard UK Holdco Limited | 92.41 | 92.41 |
| Mastercard Holdings LP UK | 4.86 | 4.86 |
| | | |
| Other shareholders | | |
| Barclays Unquoted Investments Limited | 1.52 | 1.52 |
| Santander Equity Investments Limited | 0.78 | 0.78 |
| Nationwide Building Society | 0.43 | 0.43 |
| | 100.00 | 100.00 |
| | 100.00 | 100.00 |

20 Commitments

Capital commitments

During the year ended 31 December 2021, the Company entered into contracts to purchase property, plant and equipment for £1.9m (2020: £0.6m). These commitments are expected to be settled in the following financial year.

21 Immediate and ultimate holding company

The Company is a subsidiary undertaking of Vocalink Holdings Limited, incorporated and domiciled in England and Wales within the United Kingdom. The Company's ultimate parent undertaking and controlling party is Mastercard Incorporated, a company incorporated and domiciled in the United States of America.

Mastercard Incorporated is the parent of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2021. The consolidated financial statements of Mastercard Incorporated are available from its registered office at 2000 Purchase Street, Purchase, New York, United States of America.

22 Investments in subsidiaries

The Company has the following investments in subsidiaries:

| | | Class of shares held | Ownership 2021 | Ownership 2020 |
|----------------------------|--|----------------------------|-------------------|-------------------|
| Voca Pension Trustees Ltd* | Registered office address Drake House, Three Rivers Court, Homestead Road, Rickmansworth, Hertfordshire WD31FX | Ordinary | 100% | 100% |

The Statement of Financial Position carrying value of investments of £1 (2020: £1). The Directors believe that the carrying value of the investments is supported by their underlying net assets.

*Dormant entities exempt from the requirement of the Companies Act 2006 relating to the preparation of their individual financial statements in respect of their year ended 31 December 2021.

Notes to the financial statements *(continued)*

23 Related parties

Identity of related parties with which the Company has transacted

The Company's related parties are its shareholders who have significant influence over the decision making process of the Company arising from representation on the Board of Directors (see note 19) and the defined benefit scheme (Company contributions are disclosed in note 17 (b)).

The following transactions with related parties were in the normal course of business and on substantially the same terms as unrelated parties. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Transactions with shareholders of the parent company, Vocalink Holdings Limited

Services supplied by the Company to parent company shareholders comprised the provision of central payment processing infrastructure, principally through the Bacs, Faster Payments and Link Schemes.

| | 2021 £m | 2020 £m |
|--|------------|------------|
| Sales: service supplied to shareholders of Vocalink Holdings Limited | | |
| - Lloyds Banking Group | - | 16.1 |
| - The Royal Bank of Scotland Group | - | 21.9 |
| - Nationwide Building Society | 3.4 | 5.6 |
| - Barclays Bank plc | 21.1 | 26.2 |
| - Santander Group | 4.5 | 7.9 |
| Amounts receivable from shareholders of Vocalink Holdings Limited | | |
| - Nationwide Building Society | 0.5 | 0.3 |
| - Barclays Bank plc | 0.6 | 1.5 |
| - Santander Group | 0.3 | 0.4 |
| Loans from Mastercard Payment Gateway Services Limited: | | |
| Beginning of the year | 0.9 | 365.9 |
| Loans advanced | - | 40.0 |
| Interest charged | - | 10.6 |
| Interest paid | (0.9) | (10.6) |
| Transfer | | (405.0) |
| End of year | - | 0.9 |

On 10 August 2020 Lloyds Banking Group and the Royal Bank of Scotland Group sold their shareholding in Vocalink Holdings Limited for a combined £36.9m, therefore transactions up to this date are disclosed in the prior year.

As at 31 December 2020 the Company transferred all its rights, obligations and liabilities in respect of the five loan agreements from Mastercard Payment Gateway Services Limited with a total value of £405.0m to its parent company, Vocalink Holdings Limited.

24 Subsequent events

There are no subsequent events noted.