Company Registration No. 1023742

BACS Limited Annual Report 2001

Delivering world-class solutions to the payments industry

BACS

Contents

Directors and Secretary

Board

J. Walsh *Chairman**
HBOS plc

S.J. Eacott *Deputy Chairman*
The Royal Bank of Scotland plc

P.W. Baker*
Lloyds TSB Bank plc

I.W. Campbell*
Northern Rock plc

D.J. Cartwright
Barclays Bank PLC

I.T. Clowes*
Abbey National plc

A.J. Douglas
National Australia Group Europe Limited

S.C. Howlett*
The Co-operative Bank p.l.c.

G.R.D. Kettle
HBOS plc

C.R. Mann*
Bank of England

H.M. Miller
Girobank plc

M.D. Roberts
Nationwide Building Society

M. Spearing
HSBC Bank plc

J.N. Turner
HBOS plc

* Member of Audit Committee

Chief Executive

G. Younger*
Director and Member of the Board

Operational Directors

A.F. Adams *Senior Director, Finance and Corporate Facilities*

D.L. Morgan *Senior Director, Information Technology*

D. Barnby *Director, Information Technology Operations*

D.C. Sanderson *Director, Product and Business Development*

R.J.C. Sidders *Director, Human Resources and Organisational Development*

M. Wilson *Director, NewBACS Programme*

Secretary

C. Cunningham

Delivering world-class solutions to the payments industry

Introduction

In an increasingly competitive business climate, where technology is one of the main driving forces of change, efficient and secure payment processes are critical factors in success.

BACS is at the forefront of extending consumer and business use of automated payments and is well poised to support future needs. Online banking, online trading and the Government are all major drivers of change – factors that make for a dynamic marketplace for BACS.

For over 30 years, BACS has been right at the heart of the payments industry, providing world leading electronic payment services that deliver greater efficiency and economy to banks and businesses – and increased convenience and 'peace of mind' to tens of millions of consumers.

Today, BACS is one of the world's leading and most successful organisations providing electronic funds transfer. Owned by the major UK clearing banks and building societies, BACS operates under the umbrella of the Association for Payment Clearing Services. BACS has revolutionised the automated payments industry, and now enables around 40,000 UK businesses of all types, including all of the FTSE 100, to realise the benefits of automated payments. It all adds up to a unique service delivering efficient, reliable, secure and customer-focused services to UK PLC.

Currently BACS processes over 3.5 billion financial transactions a year and handles almost sixty million payments on a peak day. These include Direct Debits, Direct Credits, Standing Orders and other inter-bank payments.

BACS success is based upon its ability to exploit technology for the benefit of banks, businesses and consumers. BACS flexible and proven telecommunications systems enable businesses to process their payments through a conventional telephone line or at speeds of up to 250,000 payments an hour if an ISDN line is used.

Yet as the demand for automated payments grows, so does the need to adopt the very latest technologies to meet those demands. Working closely with its Member Banks, BACS has designed a major technology renewal programme to support forecast increases in business, reduce operating costs, and support a more flexible clearing cycle. This will include the capability to deliver a 24 hours a day, seven days a week operation. BACS new access channel will embrace internet protocols to provide a secure 'window' to its services and a range of connection speeds. The new access channel will provide a more efficient service with even greater levels of speed, security, scaleability and a range of additional services for both banks and businesses.

Above all, throughout this period of change, BACS will continue to work in partnership with its Members, the UK clearing banks and building societies – to develop customer- and technology-driven, world-class solutions fit for the 21st century.

Chairman's Statement

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Companies House technical requirements

Introduction

During the last twelve months BACS built upon its reputation for reliability and cost effectiveness. The Company continued to play an essential role in the UK payments industry and provided a world-class payments service.

BACS achieved operational excellence in many areas. It has for example consistently met and often exceeded its processing targets. This was done against a background of closely managing costs and strong year-on-year growth in the number of items processed.

New Milestones

The demand for BACS electronic funds transfer services continued to grow and several new processing milestones were passed. In total more than 3.5 billion payments were processed in the 12 months up to 30th November 2001 as the popularity of the Direct Debit and Direct Credit services reached new levels.

This growth reflected the movement in the marketplace away from cheques and towards electronic payments. This movement was confirmed by a reduction in the number of items processed by the Inter-Bank Data Exchange service which is operated by BACS on behalf of the Cheque and Credit Clearing Company Limited.

The Future

BACS will continue to invest in the Company's technological infrastructure so that BACS can continue to meet its customers' needs and deliver a high quality, efficient and reliable service in years to come.

BACS is confident that the demand for its services will continue to grow as consumers, businesses and the Government make more and more use of BACS electronic payment services. It is expected that the increase in remote banking, whether through personal computers or over the telephone, and the plans the Government has for automating the majority of its payments, will accelerate this growth. Each of these factors will provide BACS with new opportunities for expansion through both existing and new applications.

Major investment and renewal programmes have been approved by the Board to support projected volume growth, deliver enhanced security, provide new services and allow for greater flexibility. By the end of 2005, the NewBACS project, which was initiated last year, will have completely renewed and re-engineered the Company's infrastructure.

To ensure that BACS continues to provide the services its customers need, the Company is undertaking a review of its structure and governance. The aim of this review is to enable BACS to operate even more successfully in a changing and more commercially driven payments industry.

The next few years will not only be demanding but also rewarding and BACS looks forward to meeting the challenges set by its shareholders and the marketplace while maintaining its record of providing service excellence.

Board of Directors

Since the publication of the last report and accounts a number of Directors have retired from office.

They were:

- David Hussey and Steve Betteridge both of Lloyds TSB Bank plc;
- Alan Orr, National Australia Group Europe Limited;
- Kim Barry, Northern Rock plc; and
- Ken Dyson, The Co-operative Bank p.l.c.

Each of the retiring Directors made important contributions to the Company during their time in office and I would like to thank them all for the work they did on the Company's behalf. I wish them continued success.

In respect of new appointments, I welcome Paul Baker from Lloyds TSB Bank plc, Andrew Douglas from National Australia Group Europe Limited, Iain Campbell from Northern Rock Plc and Steve Howlett from The Co-operative Bank p.l.c. to membership of the Board.

I send my sincere thanks to all Directors, past and present, for their support. I also wish to thank Chris Pearson, Chief Executive of the Association for Payment Clearing Services, for the support he has given to BACS throughout the year.

Management and Staff

BACS places great emphasis on the professional and personal development of its staff. During 2001, management and staff consistently demonstrated a high level of dedication to satisfying the Company's customers.

I would like to express my grateful thanks and congratulations to Gordon Younger, his senior management team, and their staff for providing a high quality, reliable service to Members of the Company and their customers throughout the year.

John Walsh
Chairman

John Walsh

24 January 2002

Chief Executive's Review

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Companies House technical requirements

Introduction

It is a matter of professional pride that I record in this review some of the many successes achieved by BACS since the publication of the last report and accounts. By any measure 2001 has been a good year for the Company, with many new processing records being set.

The record for the largest daily item volume was broken on four occasions and culminated in a new peak on 30th November of 57.1 million items – 10 per cent above the previous record volume.

No matter how impressive the breaking of processing records might be they form only part of a wider BACS story and therefore must be seen alongside the many other laudable achievements secured by the Company as a consequence of the skill and commitment of its people.

Volumes and Records

The total volume of items processed for the year was 3,522 million which represented an increase of 211 million over the previous period: a growth of 6.4 per cent. This was the fourth successive year in which BACS achieved an annual growth in excess of 200 million items.

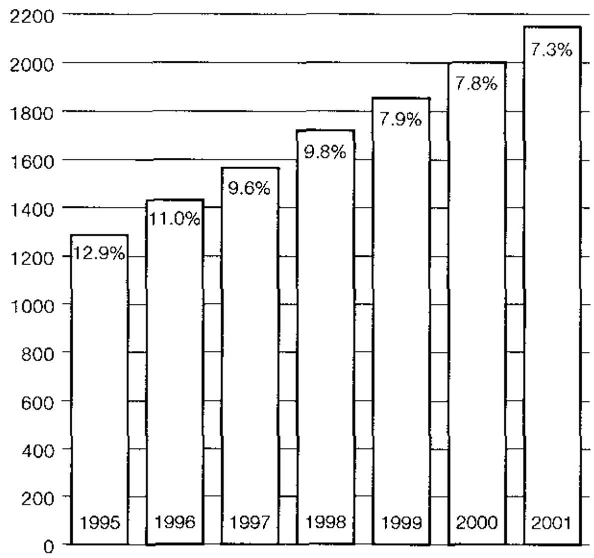
Direct Debit

Direct Debit transactions increased by 147 million to 2,148 million: a growth of 7.3 per cent.

The Spring Campaign, which co-ordinated the marketing of Direct Debit by Members, Originators, and BACS to members of the public, resulted in 43 million new annual payments being set up. It is anticipated that the cost of the campaign will be recovered in six months.

Direct Debit Volumes 1995–2001

(m)



The insurance sector was the largest user of Direct Debit. Joint marketing activity was undertaken in conjunction with Members and selected Originators which resulted in good growth in the area of household and mobile phone billing. Business-to-business and TV billing were strong growth sectors during the year.

Direct Debit Transfer Services

BACS worked with Members and Originators to increase the level of automation involved in the transfer of Direct Debits and Standing Orders between accounts and a new service was launched in November 2001 which automated the transfer of advices between Banks and Originators. The service was launched after the completion of an extensive communications exercise involving Originators, Members and their agency banks. As part of the work, Members and BACS agreed high performance standards for all aspects of the transfer service in order to deliver reduced costs, remove obstacles to collection, and eliminate unnecessary paper from the system.

Paperless Direct Debit

Paperless Direct Debit (PDD) is an effective sign up facility for Originators which not only helps with customer acquisition, but also with the conversion of existing customers from other payment methods. More than 860 companies adopted PDD in the past year: a growth of 30 per cent. Interestingly, PDD sign up was responsible for 26 per cent of all Direct Debit instructions taken out in the period covered by this report.

A new CD–ROM based interactive guide was developed which enabled Originators to estimate the savings to them of using PDD and how they could maximise the benefits to be gained from the use of the service.

To increase the adoption of PDD by Originators BACS will work in partnership with Members and agree targets and activities for the forthcoming year.

AUDDIS Progression

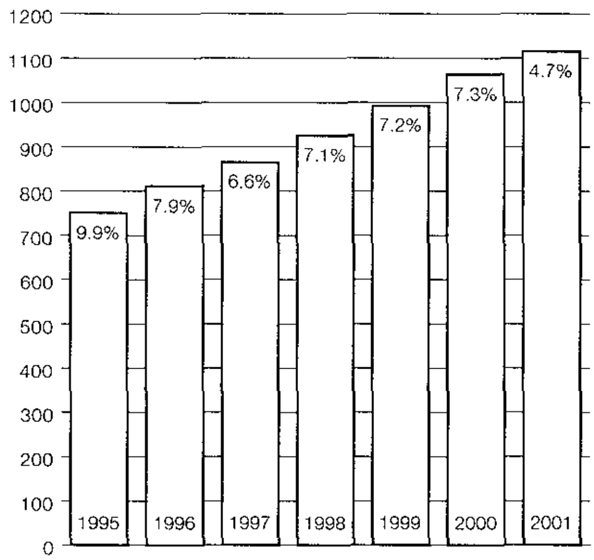
The Automated Direct Debit Instruction Service (AUDDIS) Progression team was established to accelerate the use of AUDDIS and PDD amongst Members' corporate customers. As a result new Direct Debit Instruction (DDI) volumes increased from 50 million to 62.4 million during the course of the year: a growth of 25 per cent. It is worth noting that more than 76 per cent of all new DDI are now lodged using AUDDIS, an increase of 23 per cent from the level at the time of the project inception in 2000.

Direct Credit

Direct Credit transactions increased by 50 million to 1,115 million items: a growth of 4.7 per cent.

Direct Credit Volumes 1995–2001

(m)



Chief Executive's Review (continued)

The marketing activity focused on three distinct areas where payment could be made by Direct Credit: unclaimed dividends, insurance claims, and reimbursement of expenses. In addition, small businesses were targeted and the benefits to them of adopting Direct Credit to make employee and business payments was explained.

Personal computer and telephone banking payments showed strong growth. It was estimated that some four million people actively used remote banking to make payments. Business-to-business payments by Direct Credit grew strongly and the Government increased its use of Direct Credit and Direct Debit to make and receive payments. Government payments are an important business opportunity for the future.

NewBACS

The NewBACS programme made significant progress. The delivery schedule was agreed and a Member Steering Committee was formed to oversee the programme. This places the NewBACS programme in a strong position to achieve its goals of comprehensive technology renewal and the delivery of re-engineered business processes in accordance with the programme timetable which extends over the next three years.

Work has commenced on the development of a new secure payments delivery and communications channel, BACSTEL-IP, which will link BACS and its business partners.

The Board endorsed the programme requirements and approved the funding needed by the BACSTEL-IP development. Members also agreed a new security framework based around public key infrastructure (PKI) security mechanisms which will further enhance the security of submissions to BACS.

Member Support

Advice and practical support was given to Members, their subsidiary companies, agency banks and customers to promote the increased use of automated payments. In addition, BACS worked closely with Members to understand their special needs and priorities in respect of NewBACS (including BACSTEL-IP, PKI, and a Next Day Service), and the Transfer of Direct Debits and Standing Orders Service.

Commercial Bureaux Support

The BACS Approved Bureaux (BAB) scheme promotes best practice standards among commercial bureaux, thus ensuring that a high level of service is provided for BACS Users who choose to submit via a bureau. In the course of the year the total number of BAB exceeded 600.

Infrastructure

BACS improved its computer processing and associated equipment infrastructure. As a direct result the Company consistently met its service level agreements with customers and this improvement was achieved against a background of a 10 per cent increase in the level of processing.

Investment was made in the following areas:

- The disc storage architecture was modernised which resulted in increased capacity and resilience.
- Networks were re-engineered and now meet the requisite industry standard which will ensure continuity of service for the future.
- Customer connection types to BACS were rationalised which simplified and improved current services. The completion of this work will result in many benefits. It will facilitate, amongst other things, migration to the new BACSTEL-IP service.

- The Company's UNIX processors were consolidated. As a consequence a high availability cluster was created and this improved resilience and reduced costs.
- A new, more efficient, archiving service for customer payment data was developed to meet Member requirements.

Investment in the infrastructure will continue in the forthcoming year in order that the forecast increases in processing volumes may be accommodated in the period leading up to the introduction of NewBACS.

Property Review

Construction began in March 2001 of a new computer centre for payments processing and related services. The initial phases included building work for all internal and external areas. In parallel with the construction process the procurement of capital plant (generators, chillers and UPS systems) was undertaken and deliveries to site took place from August onwards.

Major mechanical and electrical installations were completed by October and environment commissioning began in November. The installation of the communication infrastructure will commence in January 2002.

Company Management

The Information Technology Directorate was restructured in mid-term following the resignation of Tim Gregory from the post of Information Technology Director. The opportunity was taken to reorganise the structure in order that the appropriate focus was given to NewBACS.

In April, Martin Wilson, previously Head of Applications Management, was appointed Programme Director for NewBACS. In addition, the services of

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Standing, left to right: Derek Barnby, Colin Cunningham, David Sanderson and Martin Wilson. Seated, left to right: Rita Sidders, Gordon Younger and Tony Adams.

Derek Barnby were retained on an interim basis.

The Management Board therefore comprised:

- Tony Adams, Senior Director, Finance and Corporate Facilities;
- Derek Barnby, Director, Information Technology Operations;
- David Sanderson, Director, Product and Business Development;
- Rita Sidders, Director, Human Resources and Organisational Development; and
- Martin Wilson, Director, NewBACS Programme.

To further strengthen the Management Board, recruitment was initiated to fill the vacant post of Information Technology Director. This important post was established to ensure that the Company is

Chief Executive's Review (continued)

effectively guided through the many significant business and technical changes which it will no doubt face in the coming years. I am pleased to record that David Morgan accepted the post of Senior Director, Information Technology at the end of November and joined BACS in January 2002.

The Management Board and myself are dependent upon BACS Senior Managers whose hard work and dedication is a major factor in the continued growth success of the Company. I would like to thank them for the support which they, and their teams, have given over the past year.

I would also like to record thanks on behalf of the Company for the guidance and support provided by our Chairman, John Walsh, and his fellow Board Members during the year.

Organisational Development

Work focused on changing the way BACS operates internally in order to ensure that the Company is ready to meet the challenges placed on it by future business and industry requirements.

All managers and staff were involved in cultural and behavioural change work and took part in various activities and workshops. Amongst the key themes addressed were understanding customer relationships, accepting personal accountability and the development of the understanding of the Company's vision and future plans. Managers and team leaders also devoted time to improving the effectiveness of their teams. They also worked on their own leadership skills and finding ways which improved cross-department working. In addition to on-going technical training, development events ran throughout the year and these supported the new cultural and behavioural changes.

Health and Safety Management

BACS continued to develop and improve its health and safety system using appropriate tools, training and techniques. Cross-industry links were forged through collaborative work with organisations such as the Inter Bank Group and the Health and Safety Executive. No major accidents or incidents occurred during the period.

The Staff

Finally, I would like to thank the staff for their dedicated support and commitment in what has been a very challenging and demanding year. Excellent teamwork right across the business and working effectively in partnership with external partner organisations have been key to BACS progress and success. It is due to their efforts that the Company was again able to deliver an efficient, secure and reliable funds transfer service to the payments industry and its customers.

Gordon Younger

Gordon Younger
Chief Executive

24 January 2002

Report of the Directors

The Directors present their thirtieth annual report and the audited financial statements for the year ended 30th November 2001.

Principal Activity and Business Review

The principal activity of the Company is the provision of a national electronic funds transfer service for its Members with applications in both the personal and corporate sectors. In addition to the Members, a list of which is set out on page 30, more than 40,000 organisations throughout the UK, including the FTSE 100 companies, use the service for the processing of Direct Debit and Direct Credit transactions. A summary of business activities is given in the Chief Executive's Review on pages 6–10.

Turnover, Profit and Dividends

The turnover, operating profit and profit before tax for the current and previous year are shown below:

	2001 £000	2000 £000
Turnover	**53,729**	49,175
Operating profit	**611**	2,078
Interest receivable	**488**	419
Profit before tax	**1,099**	2,497

The Directors do not recommend the payment of a final dividend (2000: nil).

Employees

The Company continued its support for equal opportunities and ensured no discrimination took place in respect of internal and external recruitment, promotion, and career progression. Full and fair consideration was given to all suitable applicants irrespective of their race, sex or disability.

During 2001, significant recruitment activity took place with 83 new staff joining the Company. These new staff replaced the skills lost through resignations but also provided additional skills, notably within the Information Technology Directorate. Staff turnover during the period decreased from 14 per cent to 10.5 per cent including some voluntary redundancies and early retirements. The resignation rate for the organisation reduced to 6 per cent. Importantly, in respect of information technology departments the resignation rate dropped significantly to 4.5 per cent.

Performance measurement processes were run successfully during 2001 with individual objectives aligned to the Corporate Plan. Managers rewarded staff through bonus and salary, taking account of performance, market conditions and other criteria.

Training and development in 2001 provided staff with the appropriate technical and personal skills needed to do their jobs. Knowledge transfer continued as an important part of Corporate and Department Training Plans, particularly as part of the preparation for resourcing NewBACS in addition to maintaining support for current systems. Formal training was augmented by briefings and workshops some of which were run by staff and change agents.

Report of the Directors (continued)

Employees (continued)

Open learning technology was used to provide staff with 'just-in-time' technical and personal skills training. This was delivered direct to the 'desktop' using the BACS corporate intranet.

Regular consultations with UNIFI continued throughout the year, particularly on issues of pay, training, and development.

All staff were provided with information on matters of concern to them as employees and details of the Company's performance by the regular issue of internal publications, briefings, bulletin boards and by direct communication.

Charitable Contributions

The total amount given for charitable purposes by the Company was £8,500. No contributions to political parties were made.

Supplier Payment Policy

It is the Company's policy to negotiate and agree terms and conditions with its suppliers which include an undertaking to pay suppliers within 30 days of the date of invoice or other agreed payment period. Procedures are in place to ensure that suppliers are advised without delay when invoices, or parts of invoices, are contested.

Economic and Monetary Union

In relation to accounting issues arising from the introduction of the euro (see *Accounting Standards Board - Urgent Issues Task Force Abstract 21*) the impact on the Company has been negligible.

Directors

The names of the present Directors of the Company are shown on page 1. During the year and subsequently the following changes occurred.

Appointed:

I.W. Campbell	11th January 2001
S. Betteridge	20th April 2001
A.J. Douglas	28th August 2001
P. Baker	7th December 2001
S.C. Howlett	17th January 2002

Resigned:

K. Barry	11th January 2001
D.J. Hussey	20th April 2001
A.A. Orr	28th August 2001
S. Betteridge	7th December 2001
K. Dyson	17th January 2002

The names of the Alternate Directors are set out below, together with the dates of appointment where these took place during the year and subsequently.

D. Black	
T. Bolan	
D.N. Bradley	5th November 2001
M.P. Chambers	15th June 2001
A.N. Clare	26th January 2001
P.B. Feldman	
A.J. Hamilton	
D.J. Jones	
G. Noel	20th April 2001
L.M. Smith	17th January 2002
L. Thwaites	
A.C. Trolland	
S.L. Williams	

The following Alternate Directors resigned during the year and subsequently on the dates shown.

D.R. Hood	11th January 2001
M.K. Selman	26th January 2001
S. Betteridge*	20th April 2001
J.J. Gill	15th June 2001
N.P. Collins+	5th November 2001
P. Nixon	17th January 2002

* Appointed Director

+Appointed 11th January 2001

Directors' Interest

None of the Directors had any interest in the shares of the Company during the current or previous year.

Auditors

Deloitte & Touche have signified their willingness to continue in office as auditors and the resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

By order of the Board

C. Cunningham
Secretary

24 January 2002

Corporate Governance

BACS, while not a listed company, endorses the principles of openness, integrity and accountability upon which current corporate governance thinking is based. The Directors believe that action has been taken to ensure the appropriate level of compliance.

In particular the Company has applied the following procedures.

Board of Directors

In accordance with the Articles of Association, the Board of Directors comprises a non-executive Chairman, 12 non-executive Directors and the Chief Executive. The Articles provide for the appointment and removal of non-executive Directors by each of the Members, at their discretion. The Board meets regularly throughout the year, usually quarterly. A statement of the Directors' responsibilities is set out on page 16.

All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

Board Committees

The Board has the following three Committees which meet depending upon the nature and extent of business requirements:

- Audit Committee;
- Executive Committee; and
- Remuneration Committee.

The Audit Committee comprises the Chairman, five other non-executive Directors and the Chief Executive, and meets four times a year. The partner of Deloitte & Touche responsible for the Company's audit, the Senior Director, Finance and Corporate Facilities, the Company Secretary, and the Internal Audit Manager also attend the meetings. It is primarily responsible for assisting the Board of Directors to discharge its responsibilities for internal controls including security and risk assessment, accounting policies and financial reporting, and provides the forum through which the Company's external and internal auditors report to the Board of Directors.

Whilst the review of the Company's governance is under consideration the Executive Committee is acting as the Governance Programme Steering Committee. The Committee comprises eight directors, APACS Chief Executive (as its chairman), BACS Chief Executive, and the Company Secretary. The Committee is expected to meet about eight times during 2002.

The Remuneration Committee comprising the Chairman, Deputy Chairman and three other non-executive Directors is principally responsible for making recommendations on senior executives' remuneration. It meets twice a year.

Risk Management

The Company's senior management team are responsible for identifying the key strategic and operational risks facing the Company and they review these on a regular basis with the assistance of a risk management service under the direction of the Company Secretary. Controls implemented by management in order to reduce the severity of the risks are inspected by the Internal Audit Department who report on the effectiveness of those controls. Through the internal Management Board the key risks are reported to the Audit Committee which, on behalf of the Board of Directors, ensures that there are adequate and effective internal controls operating within the Company.

In addition to the monitoring by management of the risks and controls, an oversight activity is conducted by both the Association for Payment Clearing Services and the Bank of England.

Going Concern

After making enquiries the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' Responsibilities

For the year ended 30th November 2001

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

C. Cunningham
Secretary
24 January 2002

Auditors' Report

To the Members of BACS Limited

We have audited the financial statements of BACS Limited for the year ended 30th November 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company and the Group as at 30th November 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

30 January 2002

Consolidated Profit and Loss Account

For the year ended 30th November 2001

	Notes	**2001 £000**	**2001 £000**	2000 £000	2000 £000
Operating income					
Turnover	1		**53,729**		49,175
Operating expenditure					
Employee costs	2	**19,898**		19,290	
External charges		**26,710**		23,526	
Depreciation and other amounts written off tangible fixed assets	3	**6,938**		4,708	
			(53,546)		(47,524)
Other operating income			**428**		427
Operating profit			**611**		2,078
Interest receivable			**488**		419
Profit on ordinary activities before taxation			**1,099**		2,497
Tax on profit on ordinary activities	4		**(876)**		(822)
Profit for the financial year on ordinary activities after taxation	13		**223**		1,675
Profits retained and brought forward from previous years			**18,643**		16,968
Profits retained and carried forward			**18,866**		18,643

All activities derive from continuing operations.

The Company has taken advantage of s230 of the Companies Act not to present its own profit and loss account. The Company's profit before tax for the year was £714,000 (2000: £2,251,000).

There are no recognised gains or losses other than those shown in the profit and loss account above. Accordingly there is no Statement of Total Recognised Gains and Losses presented in these financial statements.

Consolidated Balance Sheet

As at 30th November 2001

	Notes	2001 £000	2001 £000	2000 £000	2000 £000
Fixed assets					
Intangible assets	5		**3,609**		–
Tangible assets	6(a)		**16,767**		12,908
Current assets					
Debtors	7	**8,827**		6,753	
Cash at bank and in hand		**5,714**		12,119	
		14,541		18,872	
Creditors					
Amounts falling due within one year	8	**(10,730)**		(7,696)	
Net current assets			**3,811**		11,176
Total assets less current liabilities			**24,187**		24,084
Provision for liabilities and charges	9(a)		–		(120)
Total net assets			**24,187**		23,964
Capital and reserves					
Called up share capital	12(a)		**3,188**		3,188
Share premium account	12(b)		**2,133**		2,133
Profit and loss account	13		**18,866**		18,643
Equity shareholders' funds	14		**24,187**		23,964

These financial statements were approved by the Board of Directors on 24 January 2002

Signed on behalf of the Board of Directors

John Walsh

J. Walsh
Chairman

S.J. Eacott
Deputy Chairman

G. Younger
Chief Executive

Company Balance Sheet

As at 30th November 2001

	Notes	**2001 £000**	**2001 £000**	2000 £000	2000 £000
Fixed assets					
Intangible assets	5		**3,609**		–
Tangible assets	6(b)		**16,522**		11,974
Investment in group undertaking	6(c)		–		440
Current assets					
Debtors	7	**8,506**		6,479	
Cash at bank and in hand		**5,702**		12,065	
		14,208		18,544	
Creditors					
Amounts falling due within one year	8	**(11,022)**		(7,492)	
Net current assets			**3,186**		11,052
Total assets less current liabilities			**23,317**		23,466
Provision for liabilities and charges	9(a)		**(21)**		(120)
Total net assets			**23,296**		23,346
Capital and reserves					
Called up share capital	12(a)		**3,188**		3,188
Share premium account	12(b)		**2,133**		2,133
Profit and loss account	13		**17,975**		18,025
Equity shareholders' funds	14		**23,296**		23,346

These financial statements were approved by the Board of Directors on 24 January 2002

Signed on behalf of the Board of Directors

J. Walsh
Chairman

S.J. Eacott
Deputy Chairman

G. Younger
Chief Executive

Consolidated Cash Flow Statement

For the year ended 30th November 2001

	2001	**2001**	2000	2000
	£000	**£000**	£000	£000
Net cash inflow from operating activities		**8,528**		7,452
Returns on investments and servicing of finance				
Interest received		**488**		419
Taxation				
Corporation tax paid		**(1,016)**		(182)
Capital expenditure				
Payments to acquire intangible fixed assets	**(3,457)**		–	
Payments to acquire tangible fixed assets	**(10,956)**		(4,072)	
Receipts from sale of tangible fixed assets	**8**		679	
		(14,405)		(3,393)
(Decrease)/Increase in cash		**(6,405)**		4,296

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Notes	**2001**	2000
		£000	£000
Operating profit	3	**611**	2,078
Depreciation	3	**6,938**	4,708
(Increase)/Decrease in debtors		**(2,027)**	468
Increase in creditors		**3,126**	78
(Decrease)/Increase in provision for liabilities and charges		**(120)**	120
Net cash inflow from operating activities		**8,528**	7,452

(b) Reconciliation of net cash flow to movement in net funds

	2001	2000
	£000	£000
(Decrease)/Increase in cash in the period – change in net funds	**(6,405)**	4,296
Net funds at 1st December	**12,119**	7,823
Net funds at 30th November	**5,714**	12,119

Accounting Policies

For the year ended 30th November 2001

These financial statements have been prepared in accordance with applicable accounting standards. The particular United Kingdom accounting policies are described below.

Accounting Convention

These financial statements are prepared under the historical cost convention.

Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiary.

Depreciation

Depreciation is provided in equal annual instalments over the estimated useful economic lives of the assets as set out below.

Leasehold land and buildings
Over the remaining period of the lease
Motor vehicles and plant
4 to 20 years
Computers and ancillary equipment
2 to 4 years
Fixtures, fittings, tools and equipment
4 to 10 years

Certain items of ancillary equipment are coterminously depreciated over the estimated useful economic life of the primary equipment.

Income Recognition

Charges for the Company's automated money transmission services are recognised in the month of processing.

Operating Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease. Provision is made for the future rental and related costs of leasehold property where it is vacant.

Development Expenditure

All systems and programming development expenditure has been written off when incurred except where such costs have met the criteria stipulated under *Statement of Accounting Practice 13 Accounting for research and development*. In these instances such expenditure is capitalised and amortised over a period not exceeding ten years commencing in the year in which the development becomes functional.

Pension Commitments

The Company operates a pension scheme covering the majority of its employees. The scheme is financed through a separate fund managed by Company and member nominated trustees. Contributions to the fund, which are charged against profits so as to spread the cost of pensions over employees' working lives with the Company, are based on actuarial advice.

The Company has paid all the contributions in accordance with the actuary's recommendations.

The Company also makes contributions to a personal pension scheme. Contributions to the scheme are charged to the profit and loss account as they fall due.

Taxation

The charge for taxation is based on the result for the year and takes into account deferred taxation relating to the year. Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Notes to the Financial Statements

For the year ended 30th November 2001

1. Turnover

Turnover originates within the UK and consists of the charges for the Company's automated money transmission services.

2. Information Regarding Employees and Directors

(a) Employee costs, including Executive Director	**2001 £000**	2000 £000
Wages and salaries	**16,969**	15,644
Social security	**1,406**	1,389
Pension costs	**1,252**	1,256
Home loan support	**86**	143
	19,713	18,432
Reorganisation costs and associated pension benefits	**185**	858
Total employee costs	**19,898**	19,290

(b) Pensions

BACS Limited operates a pension scheme which provides benefits based upon final pensionable pay.

A full actuarial valuation was carried out by Towers Perrin, the then scheme actuary at 5th April 2000. The contribution made to the scheme in the accounting period was £1,338,000. Future contributions are agreed to continue at 10 per cent of pensionable salaries.

During the year Towers Perrin were replaced by Punter Southall as scheme actuary. In accordance with Financial Reporting Standard (FRS) 17, the full actuarial valuation prepared by Towers Perrin has been reviewed and updated by Punter Southall as at 30th November 2001 based upon the following annual financial assumptions:

	%
Rate of increase in salaries	3.75
Rate of increase in pensions in payment	2.25
Discount rate for scheme liabilities	5.50
Inflation	2.25
Return on equities	8.00
Return on bonds	4.50
Return on corporate bonds	5.50
Return on cash	4.00
Return on net current assets	4.00

Notes to the Financial Statements (continued)

For the year ended 30th November 2001

2. Information Regarding Employees and Directors (continued)

(b) Pensions (continued)

The Group's total equity shareholders' funds which were £24,187,000 as at 30th November 2001 would have been £16,285,000 if the FRS 17 net scheme deficit of £7,902,000 disclosed below had been accounted for as a liability of the group at that date.

At 30th November 2001

	£000
Assets	
Equities	**53,540**
Bonds	**4,577**
Corporate bonds	**5,217**
Cash	**111**
Net current assets	**177**
Total market value of scheme assets	**63,622**
Liabilities – Present value of scheme liabilities	**(74,911)**
Deficit	**(11,289)**
Related deferred tax asset	**3,387**
Net pension deficit	**(7,902)**

The above annual financial assumptions are prescribed by FRS 17 and do not reflect the assumptions used by the independent qualified actuary in the triennial valuation at 5th April 2000 which determines the Company's contribution rate for future years as detailed above. Nonetheless, FRS 17 requires the Directors to disclose the assets and liabilities of this defined benefits scheme at 30th November 2001 using these FRS 17 assumptions.

(c) Number of persons employed (including part-time staff)	**2001 No.**	2000 No.
Total staff (average throughout the year)	**408**	402

(d) Directors' emoluments	**£000**	£000
Directors' remuneration and other emoluments	**212**	189
Pension contributions to defined contribution scheme	**29**	28
	241	217

The Chief Executive was the only paid Director. Neither the Chairman nor the non-executive or Alternate Directors received any emoluments during the year.

3. Operating Profit

Operating profit from continuing operations is stated after charging/(crediting)	**2001 £000**	2000 £000
Depreciation		
Charge for year	**6,940**	4,906
Release of prior years' provision	**–**	(339)
(Profit)/Loss on disposal of fixed assets	**(2)**	141
	6,938	4,708
Rental of premises	**743**	1,103
Hire of computer equipment	**200**	202
Auditors' remuneration		
Audit fee	**56**	52
Non-audit services	**71**	48

4. Tax on Profit on Ordinary Activities

The taxation charge on the profit for the year comprises	**2001 £000**	2000 £000
Corporation tax at 30% (2000: 30%)		
Current year	**943**	1,120
Prior years	**(20)**	(24)
Deferred taxation		
Current year	**(47)**	(274)
Taxation charge	**876**	822

The tax charge reflects disallowable expenses including accelerated depreciation, and also non-qualifying capital expenditure.

5. Intangible Fixed Assets

	Group £000	Company £000
Cost		
1st December 2000	–	–
Incurred during the year	**3,609**	**3,609**
30th November 2001	**3,609**	**3,609**
Amortised in the year	**–**	**–**
Net book value - 30th November 2001	**3,609**	**3,609**
Net book value - 30th November 2000	–	–

Development expenditure relates to the costs incurred in respect of NewBACS, a major new infrastructure system. The cost will be amortised over a 10 year period commencing on the implementation dates of the major deliveries of the new system. NewBACS represents a significant investment and the details of commitments in respect of this development can be found in note 10.

Notes to the Financial Statements (continued)

For the year ended 30th November 2001

6(a). Group Fixed Assets: Tangible Assets

	Total £000	Leasehold Land and Buildings £000	Motor Vehicles and Plant £000	Computers and Ancillary Equipment £000	Fixtures, Fittings, Tools and Equipment £000
Cost					
1st December 2000	**38,756**	**7,177**	**13,135**	**17,850**	**594**
Additions	**10,808**	***8,742**	**590**	**1,359**	**117**
Disposals	**(2,920)**	**–**	**(27)**	**(2,893)**	**–**
30th November 2001	**46,644**	**15,919**	**13,698**	**16,316**	**711**
Depreciation					
1st December 2000	**25,848**	**3,748**	**10,877**	**10,853**	**370**
Charge for year	**6,940**	**2,258**	**1,580**	**3,000**	**102**
Eliminated on disposals	**(2,911)**	**–**	**(28)**	**(2,883)**	**–**
30th November 2001	**29,877**	**6,006**	**12,429**	**10,970**	**472**
Net book value – 30th November 2001	**16,767**	**9,913**	**1,269**	**5,346**	**239**
Net book value – 30th November 2000	12,908	3,429	2,258	6,997	224

6(b). Company Fixed Assets: Tangible Assets

	Total £000	Leasehold Land and Buildings £000	Motor Vehicles and Plant £000	Computers and Ancillary Equipment £000	Fixtures, Fittings, Tools and Equipment £000
Cost					
1st December 2000	**33,793**	**7,177**	**13,135**	**12,887**	**594**
Additions	**10,808**	***8,742**	**590**	**1,359**	**117**
Disposals	**(845)**	**–**	**(27)**	**(818)**	**–**
30th November 2001	**43,756**	**15,919**	**13,698**	**13,428**	**711**
Depreciation					
1st December 2000	**21,819**	**3,748**	**10,877**	**6,824**	**370**
Charge for year	**6,251**	**2,258**	**1,580**	**2,311**	**102**
Eliminated on disposals	**(836)**	**–**	**(28)**	**(808)**	**–**
30th November 2001	**27,234**	**6,006**	**12,429**	**8,327**	**472**
Net book value – 30th November 2001	**16,522**	**9,913**	**1,269**	**5,101**	**239**
Net book value – 30th November 2000	11,974	3,429	2,258	6,063	224

* Leasehold Land and Buildings additions relate to the costs of the new computer hall.

6(c). Investment in Group Undertaking

	2001	2000
	£000	£000
Investment 1st December	**440**	1,546
Repaid	**(440)**	(1,106)
Investment 30th November	**–**	440

The investment at 30th November 2001 comprises share capital of £2 (30th November 2000: £2).

7. Debtors

	Group	**Company**	Group	Company
	2001	**2001**	2000	2000
	£000	**£000**	£000	£000
Trade debtors	**5,541**	**5,541**	4,596	4,596
Deferred tax asset	**321**	**–**	274	–
Other debtors	**145**	**145**	140	140
Prepayments and other accrued income	**2,820**	**2,820**	1,743	1,743
	8,827	**8,506**	6,753	6,479

The movement in the deferred tax balance of £274,000 at 1st December 2000 and £321,000 at 30th November 2001 is primarily due to capital allowances in excess of depreciation. The total amount of deferred tax asset not provided for at the year end is £837,000 (2000: £939,000).

8. Creditors: Amounts Falling Due Within One Year

	Group	**Company**	Group	Company
	2001	**2001**	2000	2000
	£000	**£000**	£000	£000
Trade creditors	**3,471**	**3,471**	1,484	1,484
Amounts due to Group undertaking	**–**	**521**	–	–
Corporation tax	**943**	**763**	923	769
Other taxation and social security	**243**	**194**	614	564
Accruals	**6,073**	**6,073**	4,675	4,675
	10,730	**11,022**	7,696	7,492

Notes to the Financial Statements (continued)

For the year ended 30th November 2001

9(a). Provision for Liabilities and Charges

	Group Deferred Taxation £000	Company Deferred Taxation £000	Group Leasehold Provision £000	Company Leasehold Provision £000
At 1st December 2000	–	–	**120**	**120**
Profit and loss account				
Current year	–	**21**	**(120)**	**(120)**
Prior years	–	–	–	–
At 30th November 2001	–	**21**	–	–

The leasehold provision related to the anticipated future rental and related costs of the vacant City Office, the lease of which was subsequently terminated.

The full potential liability for deferred tax has been provided in these financial statements. The analysis of the provision is shown below.

	Group 2001 £000	**Company 2001 £000**	Group 2000 £000	Company 2000 £000
Accelerated tax allowances on plant and machinery	**321**	**(21)**	274	–
Deferred tax asset/(liability) as at 30th November	**321**	**(21)**	274	–

9(b). Contingent Liability

In 1998 mortgages under the BACS House Loan Scheme were transferred to Halifax plc. Under the agreement BACS is liable for all losses incurred by Halifax plc in case of default until 2002, after which time no liability rests with the Company.

As part of the agreement and to partially compensate for such an undertaking, BACS received, in 1998, a premium from Halifax plc totalling £226,522 for the loan transfer. This premium is amortised over the period until 2002.

10. Commitments

(a) Capital
The amount not provided in the accounts on contracts placed for capital relating to the property relocation is £1.7m (2000: £nil). The amount not provided for in the accounts but authorised by the Directors in respect of NewBACS is £18.5m of which £9m has been contracted for.

(b) Other
At 30th November 2001 the Group was committed to making the following payments during the next year in respect of operating leases.

	2001 Land and Buildings £000	**2001 Other £000**	2000 Land and Buildings £000	2000 Other £000
Lease expiring				
within one year	**–**	**45**	–	39
between two and five years	**–**	**316**	240	236
over five years	**975**	**–**	778	–
	975	**361**	1,018	275

11. Subsidiary

The subsidiary undertaking at 30th November 2001 was Bankers' Automated Clearing Services Limited, a company registered in England and Wales, the capital of which consists of ordinary shares and is wholly owned by BACS Limited. The principal activity of the subsidiary is computer leasing.

12. Called Up Share Capital and Share Premium Account

	2001 £000	2000 £000
(a) Called up share capital		
Authorised ordinary shares of £1 each	**10,000**	10,000
Called up, allotted and fully paid ordinary shares of £1 each at 30th November	**3,188**	3,188
(b) Share premium		
At 30th November	**2,133**	2,133

Notes to the Financial Statements (continued)

For the year ended 30th November 2001

12. Called Up Share Capital and Share Premium Account (continued)

	2001 % Holding	2000 % Holding
(c) Members		
Abbey National plc	**2.53**	2.53
Bank of England	**1.40**	1.40
Bank of Scotland+	**2.98**	2.98
Barclays Bank PLC	**16.86**	16.86
Clydesdale Bank PLC	**3.76**	3.76
Coutts & Co*	**0.16**	0.16
Girobank plc	**1.69**	1.69
Halifax plc+	**2.67**	2.67
HSBC Bank plc	**20.18**	20.18
Lloyds TSB Bank plc	**17.53**	17.53
National Westminster Bank Plc*	**19.11**	19.11
Nationwide Building Society	**1.53**	1.53
Northern Rock plc	**0.18**	0.18
The Co-operative Bank p.l.c.	**2.62**	2.62
The Royal Bank of Scotland plc*	**6.80**	6.80
	100.00	100.00

+ Members of HBOS Group

* Members of The Royal Bank of Scotland Group

Shares are realigned in accordance with the principles of the Child Report and the last realignment of shareholdings took place on 1st June 1998.

13. Movement in Reserves

	Profit and Loss Group £000	Share Premium Group £000	Profit and Loss Company £000	Share Premium Company £000
At 1st December 2000	**18,643**	**2,133**	**18,025**	**2,133**
Retained profit/(loss) for the financial year	**223**	**-**	**(50)**	**-**
At 30th November 2001	**18,866**	**2,133**	**17,975**	**2,133**

14. Reconciliation of Movements in Shareholders' Funds

	Group 2001 £000	**Company 2001 £000**	Group 2000 £000	Company 2000 £000
Opening shareholders' funds	**23,964**	**23,346**	22,289	21,811
Profit/(Loss)for the year	**223**	**(50)**	1,675	1,535
Closing shareholders' funds	**24,187**	**23,296**	23,964	23,346

15. Related Party Disclosures

(a) Operating Income
The Company's income is principally derived from transaction charges for the Company's automated money transmission services with Member companies. During the year this income amounted to £52,477,000 and at the year end trade debtors of £4,463,000 were outstanding in this respect.

(b) Fleet Administration
The Company has a fleet administration contract with Lombard Vehicle Management, a subsidiary of National Westminster Bank Plc. During the year £368,000 was invoiced under the contract and there were no balances outstanding at the year end.

(c) Management Charges
The Company paid £133,000 during the year for management services to APACS Administration Limited, a company with common ownership. There were no balances outstanding at the year end.

(d) Inter-Bank Data Exchange Service
The Company developed and manages the Inter-Bank Data Exchange service on behalf of the Cheque and Credit Clearing Company Limited which has common ownership. Income during the year was £801,000 and at the year end £245,000 remained in debtors, relating to this service.

(e) House Loan Scheme
As detailed in note 9(b). Halifax plc administers the BACS Limited House Loan Scheme.

Consolidated Five Year Summary

1997-2001

	1997	1998	1999	2000	**2001**
Volumes – Items (m)	2,653	2,879	3,083	3,311	**3,522**
	£000	£000	£000	£000	**£000**
Turnover	45,455	44,442	46,368	49,175	**53,729**
Operating profit/(loss)					
continuing operations	2,975	1,182	(365)	2,078	**611**
Interest receivable	772	912	392	419	**488**
Profit before taxation	3,747	2,094	27	2,497	**1,099**
Taxation	(1,559)	(778)	(114)	(822)	**(876)**
Profit/(Loss) after taxation	2,188	1,316	(87)	1,675	**223**
Dividend – regular	(1,250)	–	–	–	**–**
Dividend – special	–	(5,005)	–	–	**–**
Net movement in profit and loss account	938	(3,689)	(87)	1,675	**223**
Net assets					
Fixed assets	13,164	12,949	13,967	12,908	**20,376**
Current assets	21,523	15,828	14,761	18,872	**14,541**
Current liabilities	(8,622)	(6,261)	(6,439)	(7,696)	**(10,730)**
Net current assets	12,901	9,567	8,322	11,176	**3,811**
	26,065	22,516	22,289	24,084	**24,187**
Other provisions	–	(140)	–	(120)	**–**
	26,065	22,376	22,289	23,964	**24,187**
Financed by:					
Share capital	3,188	3,188	3,188	3,188	**3,188**
Share premium	2,133	2,133	2,133	2,133	**2,133**
Profit and loss account	20,744	17,055	16,968	18,643	**18,866**
	26,065	22,376	22,289	23,964	**24,187**

Additional Information

The additional information consisting of the Consolidated Five Year Summary of the profit and loss account and balance sheet has been prepared from the accounting records of the Company. While it does not form part of the statutory financial statements, it should be read in conjunction with them and the responsibilities section of the Auditors' report thereon.

BACS Limited
Registered Office
3 De Havilland Road
Edgware, Middlesex
HA8 5QA

Telephone
0870 1650019
0870 0100699

www.bacs.co.uk

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