



LINK ANNUAL REPORT 2016/2017



THE UK'S CASH MACHINE NETWORK



Company Information

Link Scheme Holdings Ltd
Company Number 10535808

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Introduction to LINK

The LINK Scheme is the network which connects the UK's cash machines and provides consumers with universal access to their cash.



Effectively, all of the UK's 70,000 cash machines are LINK-enabled



Almost 54,000 of the UK's 70,000 ATMs are free-to-use



There are over 100 million UK issued LINK-enabled cards in circulation

The LINK Scheme provides the operational service and contractual certainty which connects card issuers and cash machine operators together to enable card holders to access their cash.

LINK Membership comprises all the UK's main debit and cash machine card issuers (banks and building societies) and all the main cash machine operators (banks, building societies and independent ATM deployers or IADs).

Effectively, all of the UK's 70,000 cash machines are LINK-enabled and almost 54,000 of these ATMs are free-to-use. There are over 100 million UK issued LINK-enabled cards in circulation.

LINK's objective is to provide universal access to cash for consumers, and financial inclusion is a key common objective for all of LINK's Members.

LINK's Members compete vigorously to identify and secure new ATM locations. There is no central organisation or plan for ATM locations, rather competition to meet consumer demand. This has proved very effective and UK consumers enjoy excellent access to free-to-use cash machines.

LINK and its Members are committed to defending and improving access to cash. LINK has operated a Financial Inclusion Programme to support this since 2006. This Programme, funded by the industry, contains over 1,100 ATMs in deprived areas which previously had limited access to cash.

LINK has a Consumer Council to provide advice on relevant consumer issues and to represent consumers in the governance and development of the network. It gives advice to the Scheme's governing body and can independently publish its views.

Cash machine operators cover the cost of free-to-use ATMs through a per-transaction ATM interchange fee paid to them by the card issuing banks and building societies.

Card issuers pay operators of free cash machines a fee. LINK sets the fee under a formula approved by the OFT in 2001. ATM interchange is average cost-based and recalculated on an annual basis before being approved by the Membership. The cost process is simple in concept. The total cost of running the UK's free-to-use ATM estate (around £1bn a year) is divided by the number of transactions to give an average cost per transaction.

The LINK rules also support pay-to-use cash machines as they supplement the strong free-to-use network with additional machines to improve consumer access.

These cash machines do not receive ATM interchange for their transactions. They account for a very low proportion of the total number of cash withdrawals, less than 3%, and around 16,000 (23%) of all ATMs. All decisions about charging are made by the ATM operator in agreement with the owner of the premises where the ATM is located and not by LINK itself. The majority of pay-to-use ATMs are in low transacting locations.

Chairman's Report



Sir Mark Boleat
LINK Chairman

LINK is a vital national payment system relied on by almost every consumer in the UK to provide safe, reliable and easy access to cash.

Consumer demand for cash is expected to continue for many years, albeit declining, and LINK's role is to provide universal access to cash for as long as is needed. I was therefore delighted in March 2017 to take on the role of Chairman.

LINK is regulated by both the Bank of England and the Payment Systems Regulator as a systemically important payments system and I look forward to a close working relationship with these two organisations, as well as with the 38 Member organisations that make up LINK. These include every major bank and building society in the UK, independent ATM deployers, and businesses such as Tesco and Sainsbury's.

LINK is a not for profit company limited by guarantee and its Members are also the guarantors.

LINK faces several challenges. Key is how to maintain a broad network at an effective cost, given the anticipated decline in cash demand. It will be necessary to maintain LINK as competitively attractive for our Members, as they have the choice of other ATM networks in the UK. This means continually driving up efficiency and managing down cost. However, it is also important to maintain a broad network of free ATMs where consumers need them.

"LINK's role is to provide universal access to cash for as long as it is needed by consumers."

Sir Mark Boleat, Chairman

LINK's innovative Financial Inclusion Programme, which ensures access to free ATMs in deprived areas, is a leading example of how this can be achieved. It is also vital to maintain LINK at the forefront of risk management and cyber resilience, recognising the systemic importance of the Scheme to the UK's economy.

I am grateful for the support of my Board colleagues and LINK's Members as we continue to develop LINK and maintain its position as one of the leading payment systems in the UK.

Sir Mark Boleat

Chief Executive's Report



John Howells
LINK Chief Executive

LINK is the primary source of cash for UK consumers, with ATMs providing access for 85% of all cash by value last year.

Despite a slow decline in cash usage by consumers, cash purchases make up 45% of all consumer spending activity. LINK's focus is therefore to sustain safe, reliable, and easy access to cash for as long as consumers need it.

As part of this, LINK, along with all other core payment systems in the UK, is undergoing massive change, supported by our regulators, the Payment Systems Regulator and the Bank of England. This is focused on ensuring that consumers are well served by LINK, enjoy the benefits of competition and innovation, and have a highly secure and resilient service.

LINK is now run by a standalone company, Link Scheme Holdings Ltd. This company is not-for-profit and dedicated to the public interest and systemic integrity. It has a new and keenly competitive contract with Vocalink as the core processor. Governance has been completely overhauled and the previous Members' council has been replaced with a board of directors focused on consumers, Members and systemic integrity. The Members continue to be intimately involved in stewardship, including as guarantors of the company.

Consumers are well-served by LINK, and the network is recognised as one of the best consumer access to cash organisations in the world. However, new benefits are now coming on line as a result of continuing development. Free access to cash is extensively available across the UK with over 54,000 free-to-use LINK ATMs. These are supplemented by a pay-to-use network that brings additional convenience. LINK has a sophisticated and well respected Financial Innovation Programme, providing subsidised ATMs in deprived locations where local footfall would not support a machine under normal circumstances. This is closely supported by LINK's Consumer Council, and enabled by an extensive toolkit of resources for

consumer organisations and consumers that is detailed later in this report. As part of this work, LINK has this year launched an ATM locator App to support people in their ATM usage.

There are also developments in hand to continue support for consumer fraud protection, and further development of the Financial Inclusion Programme. We work closely with the Bank of England in its role as provider of the UK's bank notes. This work has included a major change to ATMs to support polymer notes, and we plan that this smooth implementation will continue for the introduction of polymer tens and twenties over the next year or so. LINK is proud of its focus on consumers and financial inclusion, and intends to maintain this as a core part of its strategy going forward.

"LINK is proud of its focus on consumers and financial inclusion, and intends to maintain this as a core part of its strategy going forward."

John Howells, LINK Chief Executive

LINK's Members are the organisations that provide the cards and machines that make LINK work, and their focus on superb service and system integrity is key to the success of the network. LINK has a very high level of performance, which is down to the dedication of the LINK team, our core suppliers and the Members that choose to join LINK. Membership is now at 38 organisations, and has been added to this year by new Members – Handelsbanken and Triodos Bank. Investment in system integrity is also at an all-time high, with a particular emphasis on the challenges of cyber risk.

We also continue to work, in close partnership with our critical processing supplier VocaLink. This has been a milestone year for VocaLink as it has concluded its sale to MasterCard. This has brought a number of important benefits to LINK, including full ownership of the trademark and message standard, and developments to allow easier competition for the supply contract when that time comes.

A key challenge facing LINK is how to maintain an extensive network of ATMs where needed by consumers, whilst recognising that consumer demand is slowly dropping, and that the size and shape of the network will need to respond accordingly. LINK's free-to-use ATMs are supported by a commercial interchange arrangement that costs £750 million a year. This is the subject of review by LINK's Members, supported by regulators, and LINK is determined to develop a sustainable way forward to meet the needs of consumers and Members.

I would like to thank the new Board for all of its support and hard work over the last year in guiding LINK through this time of great change, and also my team who have relished the challenge and delivered outstanding results for UK consumers.

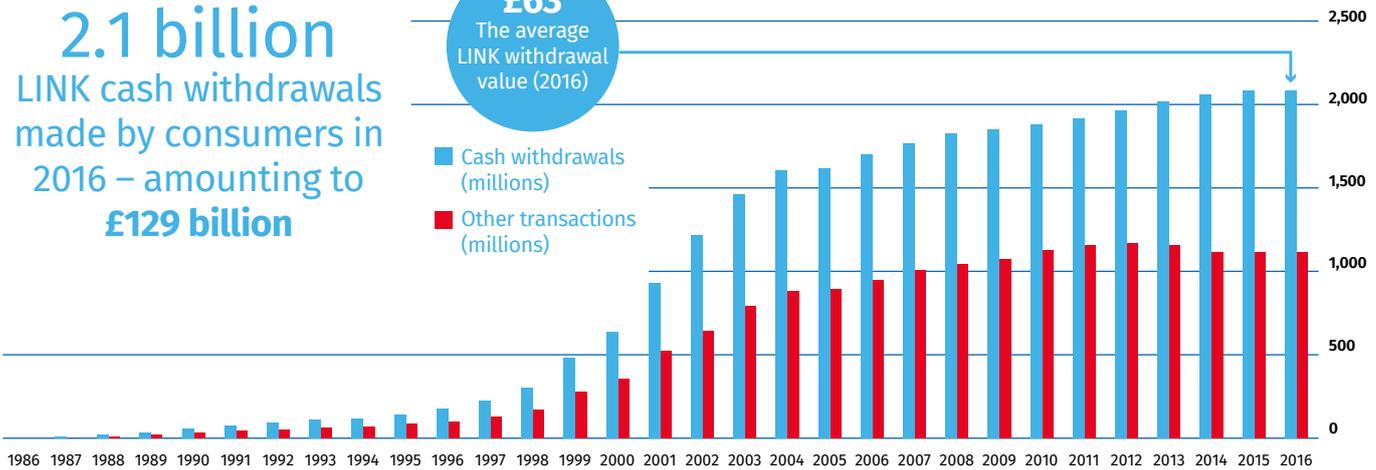


John Howells

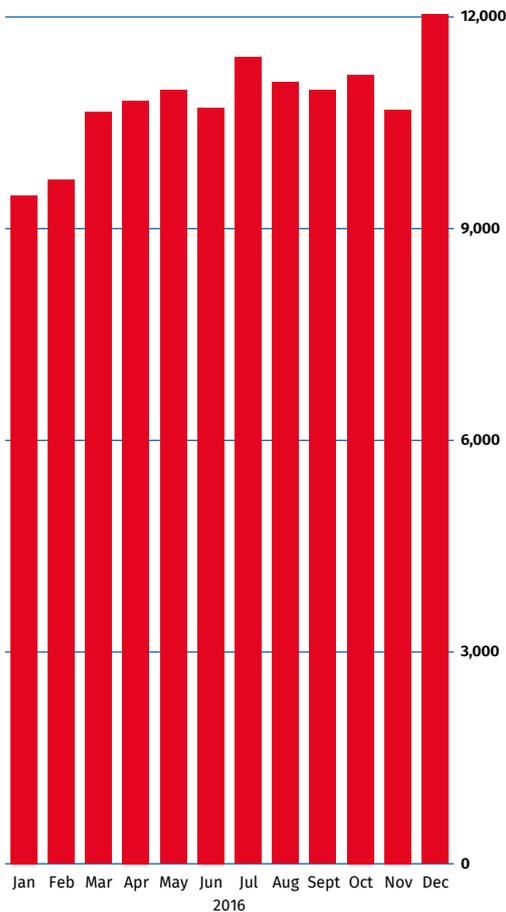
Statistics

2.1 billion
LINK cash withdrawals
made by consumers in
2016 – amounting to
£129 billion

£63
The average
LINK withdrawal
value (2016)



LINK Transaction Values (£ millions)

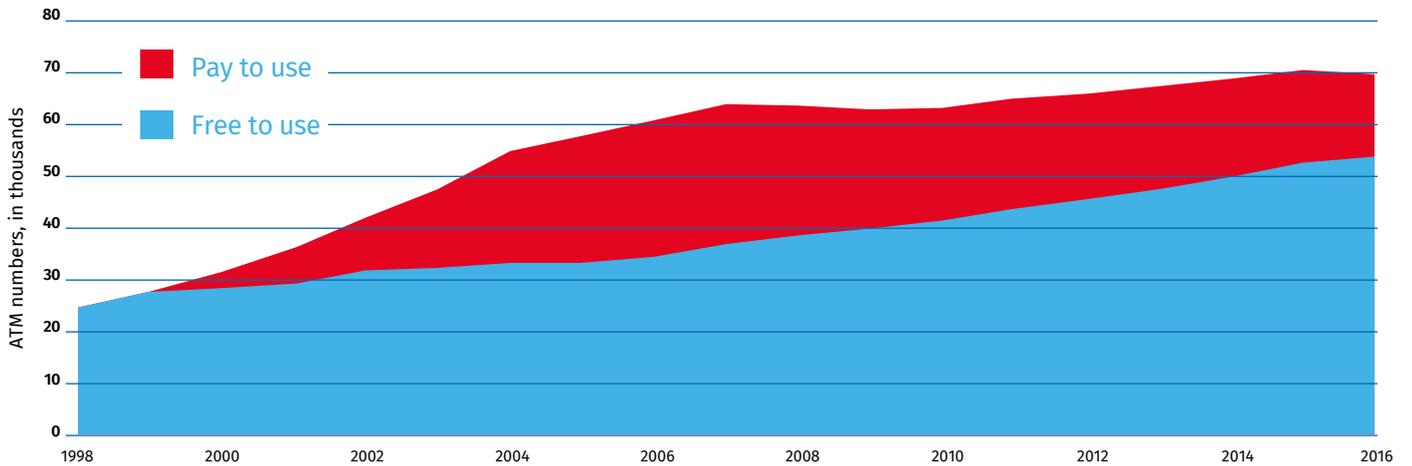


£730 million
Amount
withdrawn on
23 December
2016, the
busiest day
of the year.



12.08
on 23 December, the
busiest minute of 2016 –
there were 19,693 LINK
transactions.

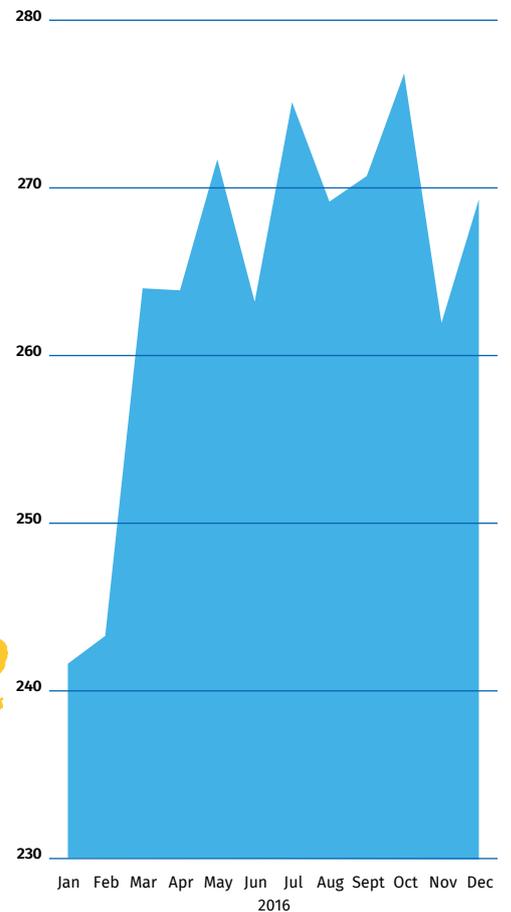
ATM numbers



20 miles

Distance, as the crow flies, of Britain's most remote ATM, at the Ferry House on the Isle of Mull, from the next nearest ATM.

LINK Transaction Volumes (millions)



Source: Link Scheme

LINK Board Members and Senior Management Team

Board Members

Sir Mark Boleat Chairman

Mark was appointed LINK Chairman in March 2017. He is also Chairman of the Housing and Finance Institute and former Chairman of the City of London's Policy and Resources Committee. He has spent 25 years working for major national, European and international trade associations.

The Rt. Hon. the Lord Hunt of Wirral MBE (David Hunt) Senior Independent Director Remuneration Committee Chairman

Nomination Committee Chairman
Lord Hunt is Chairman of the Financial Services Division of the international commercial law firm DAC Beachcroft LLP. Lord Hunt has been a parliamentarian for over 40 years serving as a Minister for 16 years under both Margaret Thatcher and John Major. He became a life peer in 1997.

Tracey Graham Independent Director Consumer Council Chairman

Tracey Graham is a Non Executive Director of the Royal London Group, Ibstock plc, ACAL plc, and Chairman of Investment Funds Direct Ltd. Tracey was CEO Talaris Ltd having led a Management buyout in 2008.

Liz Richards Independent Director Audit Committee Chairman

Liz has a background as CFO of private equity backed businesses. Liz is currently a non-executive director of Tracsis plc and Leeds Trinity University.

Adrian Roberts Member Director

Adrian has been Director of the UK ATM Business at Bank of Ireland Group since 2014 where he is responsible for over 2,700 ATMs including full Profit and Loss accountability.

Jonathan Simpson-Dent Member Director

Jonathan is Chief Commercial Officer for Cardtronics, and is responsible for all global sales, product and marketing activities for the company.

Fiona Walmsley Member Director

Fiona is Head of Workplace Services at Royal Bank of Scotland. Previously, she was Head of Cash, Coin and Self Service Operations.

John Howells Chief Executive

Senior management team

John Howells Chief Executive

John is CEO of the LINK Scheme and Link Scheme Holdings Ltd. He is a member of the Payment Systems Regulator's Panel and the LINK Scheme's Consumer Council.

Sue Wallace Chief Operating Officer

Sue is LINK's COO and has over 35 years' experience of working in payments, having held previous roles in Barclaycard and VocaLink.

Graham Mott Head of Strategy and External Relations

Graham joined in 2006 and his role includes external relations, public relations, public affairs and strategic issues like interchange, industry initiatives such as polymer, fraud management and ATM crime.

Mary Buffee Head of Consumer Affairs

Mary is responsible for ensuring that the consumer is at the heart of LINK's activity, focusing on access to cash, financial inclusion and working with consumer groups and Government to ensure that the ATM network engages all UK.

Mike Knight Finance Director

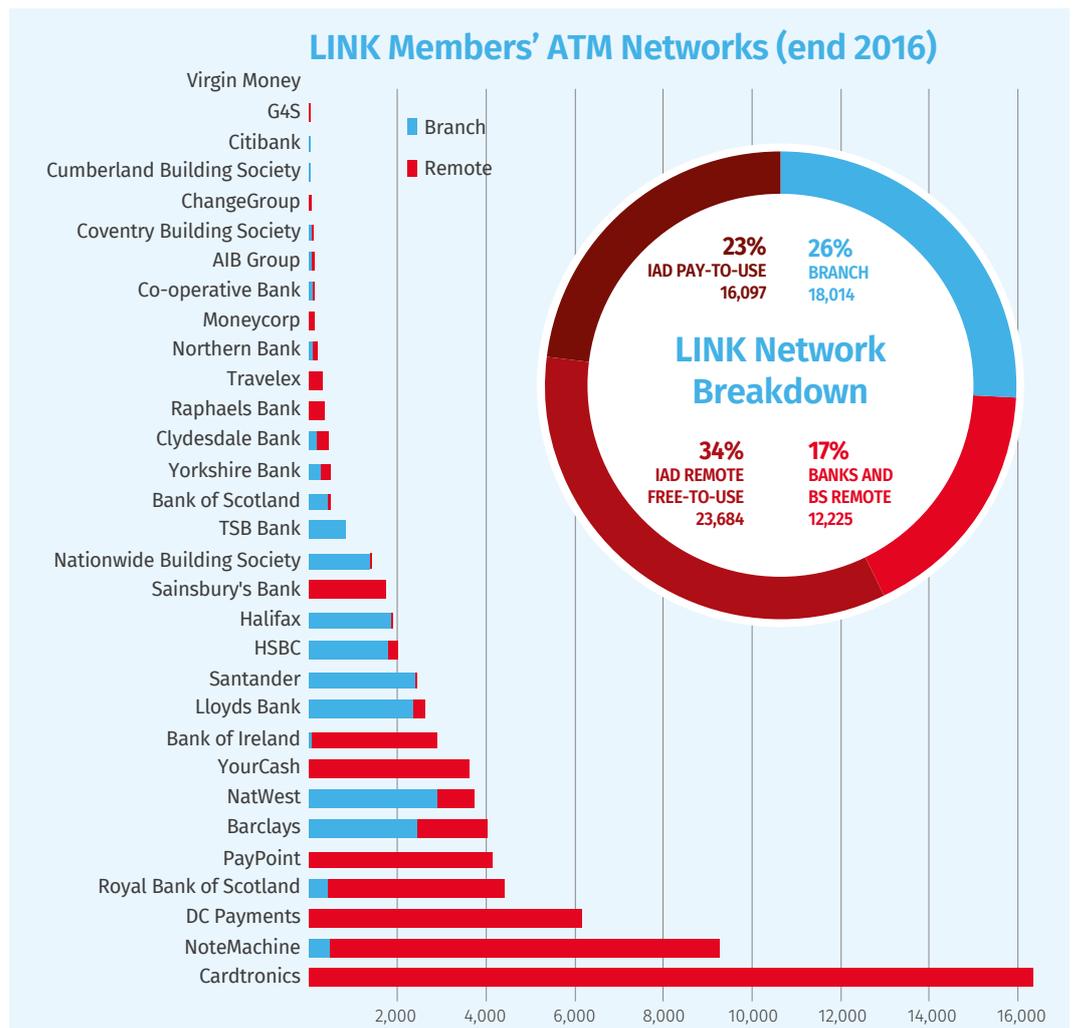
Principal at the FD Centre, Mike is a qualified Chartered Accountant and has an extensive business career in both SMEs and large corporates.

LINK Members

LINK currently has 38 Members consisting of banks, building societies, schemes and independent operators. Membership is open to all on equal terms – existing Members have no say over who joins.

“LINK’s Members’ focus on superb service and system integrity is key to the success of the network.”

John Howells, LINK Chief Executive



Source: Link Scheme

Consumers

Financial Inclusion Programme

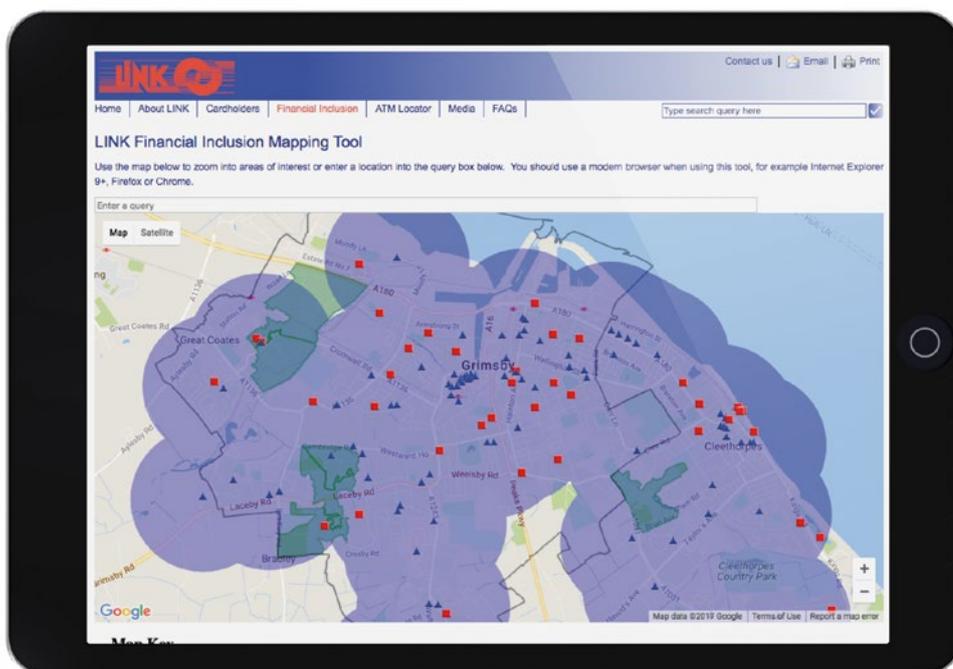
Over the past decade, the establishment and development of the LINK Financial Inclusion Programme has been critical to meeting the needs of the most vulnerable in society.

Since the Programme's inception 10 years ago, over 1,500 priority areas across the country have benefited from a new free-to-use ATMs. Cash is still the most popular consumer payment method in the UK, with over 48 million separate ATM cards used in LINK ATMs each month. Cash is also particularly important for consumers in lower socio-economic groups, as it allows them to budget more effectively.

LINK has continued to develop the Financial Inclusion Programme. It has launched a number of online tools to enable consumers to access their cash more easily. It has also identified over

950 new sites as a result of independent research carried out on LINK's behalf by Toynbee Hall. In the past couple of years, over a third of these new sites have also benefited from a free-to-use ATMs. LINK and its Members remain committed to the Programme and will continue to do so going forward.

The LINK website includes a Financial Inclusion Mapping Tool, below (www.link.co.uk/financial-inclusion/financial-inclusion-mapping-tool/), which helps consumers, policy makers and consumer groups identify areas which may still have requirements for additional ATM access. Resolved areas are shown in green while outstanding target areas are in red and each free-to-use ATM has its 1km access zone displayed.



“The core of the LINK Financial Inclusion Programme is the desire to offer access to cash in remote areas, often where there is no bank branch. We now have over 1,100 ATMs installed under the programme.”

Tracey Graham, Consumer Council Chairman

www.link.co.uk/financial-inclusion/financial-inclusion-mapping-tool/

Consumer Support

Consumer Council

The LINK Consumer Council was established in 2006. It comprises independent consumer representatives and LINK Members, and is chaired by LINK Director Tracey Graham. The Council provides advice on consumer issues relating to the UK cash machine network. It represents consumer interests and produces its own report towards the year end.

Members of the Consumer Council in 2016 and 2017 were:

Chairman Tracey Graham, LINK Director

Department of Work & Pensions

Charu Gorasia

Independent Representatives

Lady Margaret Bloom, CBE

Teresa Pearce, MP for Erith & Thamesmead

Consumer Representatives

Eimear Duffy, Consumer Council of Northern Ireland

Pippa Lane, Citizens Advice Bureau

Sian Williams, Toynbee Hall

LINK Member Representatives

Tim Allen, Barclays

Adam Bailey, Royal Bank of Scotland

Nigel Constable, NoteMachine

Tim Watkin-Rees, PayPoint



LINK ATM Locator App

LINK has developed and launched a new free ATM Locator App, the most comprehensive mobile tool for finding ATMs in the UK. Connected to LINK's ATM database it shows the location of all 70,000 LINK ATMs – effectively every cash machine in the UK.

Polymer £5 notes

September 2016 saw the introduction of the first Bank of England Polymer banknote with the new £5 note. This was the culmination of a long process and careful planning which started in September 2013 when the Bank of England announced a public consultation. To launch a new banknote is a considerable challenge for the ATM industry as all 5,000 ATMs which dispense £5 notes needed modification, and careful planning and testing was required. The next stage is a significantly greater challenge – £10 notes in September 2017.

Fraud and crime

The Consumer Council plays a major role in reviewing the consumer impact of ATM fraud and crime, which continue to present challenges to the ATM industry.

To help counter physical attacks, LINK supports the cross-industry ATM Security Working Group and is also runs and chairs the European Expert Group on Physical ATM Crime. LINK actively liaises with counterparts, technical experts and law enforcement bodies across Europe and the wider world to share intelligence and information as widely as possible.

LINK reminds customers that they should always protect their PIN and report any suspicious behaviour or unexpected transactions to the police or their bank or building society as soon as possible.



Governance and Regulation

LINK is regulated by both the Payment Systems Regulator (PSR) and the Bank of England. The PSR is concerned with ensuring that LINK meets the needs of its service users, and is effective at competition and innovation. The Bank's focus is on ensuring that LINK manages systemic integrity effectively. Both regulators work closely with the LINK Board and management team. As part of the work underway as a result of regulation, LINK has restructured its governance over the last year. In May 2017, Link Scheme Holdings Ltd took on responsibility for the operation of LINK from a Network Members Council which previously had that role. The Council has been wound up and all of LINK's Members are now becoming Members of Link Scheme Holdings Ltd. This company is a not for profit company limited by guarantee. It has a majority independent Board of directors, and a public interest duty. The LINK Board has three sub-committees – Audit, Remuneration and Nomination. The Members retain control of the company and have reserved powers over a number of matters such as rules and finances.

Audit Committee Members

Liz Richards (Chair)
Adrian Roberts
Fiona Walmsley

Remuneration Committee Members

Lord David Hunt (Chair)
Tracey Graham
Jonathan Simpson-Dent

Nomination Committee Members

Lord David Hunt (Chair)
Tracey Graham
Liz Richards

"I am delighted to see LINK implement the recommendations of the Independent Governance Review. This will bring great benefits to the organisation, its Members and, ultimately, everyone who uses the LINK Network itself."

Lord Hunt, Senior Independent Director



Accounts

Background

On 1 April 2016, the LINK Scheme (the “Scheme”) separated from VocaLink Limited. As a result, Link Scheme Ltd (“the Company”) became responsible for the governance of the Scheme and the operation of the LINK network. The assets and employees of the Scheme were transferred from VocaLink Limited to Link Scheme Ltd at a nominal value of £1. The intellectual property and licence rights were also transferred from VocaLink Limited to Link Scheme Ltd at a nominal value of £1.

On 26 January 2017 the Company became a wholly-owned subsidiary of Link Scheme Holdings Ltd, a company limited by guarantee.

On 2 May 2017, the sale of VocaLink Ltd to MasterCard was completed. As a result, the remedies agreed with Link Scheme Ltd and required by the Competition and Markets Authority are being implemented. These include the creation of a development fund of £2m for developing and implementing innovative products and services relating to the LINK Scheme.

The Company’s **Full Statutory Accounts, Report and Financial Statements** are audited by the Company’s auditor, PricewaterhouseCoopers LLP, Central Square, 29 Wellington Street, Leeds, LS1 4DL.

Summary statement of comprehensive income for the year ended 31 December 2016

| | Year ended 31 December 2016 | Period ended 31 December 2015 |
|--|--------------------------------|----------------------------------|
| | £ | £ |
| Turnover | 2,415,048 | - |
| Administrative expenses | (4,376,631) | 1,568,660 |
| Loss on ordinary activities before taxation | (1,961,583) | (1,568,660) |
| Taxation | - | - |
| Loss for the financial year/period | (1,961,583) | (1,568,660) |

Turnover consists of fees charged to Members by virtue of their Membership of the LINK scheme and fees for specific projects as agreed by the Members from time to time. Turnover is recognised in the period to which it relates and is shown net of VAT and other sales related taxes.

The Company collects the annual fees from Members which are due to the Payments Systems Regulator ("PSR") and pays them over to the PSR. Since Link Scheme Ltd is acting as an agent in this regard, these amounts are not included in the Company's turnover.

Prior to 1 April 2016, the Company incurred start up and transaction costs, particularly legal fees, in the

setting up of the new arrangements between the various parties. Since the Company had no income prior to 1 April 2016, this expenditure feeds through as losses for the financial years shown in the above table. These amounts were funded by "advance payments" to the Company of VocaLink's discount against the future payment processing fees it would charge to Members under its agreement for the provision of switching and settlement services (see Summary Statement of Financial Position below).

Post 1 April 2016 the Members' fees are set to cover the budgeted operating expenditure of the Company.

Summary statement of financial position as at 31 December 2016

| | 2016 | | 2015 | |
|---|-----------|-------------|-----------|-------------|
| | £ | £ | £ | £ |
| Fixed assets | | | | |
| Tangible assets | | 27,196 | | 9,560 |
| Current assets | | | | |
| Debtors | 239,093 | | 302,049 | |
| Cash at bank and in hand | 1,029,704 | | 132,538 | |
| | 1,268,797 | | 434,587 | |
| Creditors: amounts falling due within one year | (515,021) | | (592,806) | |
| Net current assets/(liabilities) | | 753,776 | | (158,219) |
| Total assets less current liabilities | | 780,972 | | (148,659) |
| Called up share capital | | 1 | | 1 |
| Capital contribution reserve | | 4,311,214 | | 1,420,000 |
| Profit and loss reserves | | (3,530,243) | | (1,568,660) |
| Total equity | | 780,972 | | (148,659) |

Summary statement of changes in equity for the year ended 31 December 2016

The Total equity of the Company at 31 December 2016 of £780,972 was derived from capital contributions of £4,311,214 less the accumulated deficit of £3,530,243 plus nominal share capital of £1.

The capital contributions came from two sources:

- Total of advance payments of £3,485,700
- Surplus of the Scheme accumulated over its years of operation within VocaLink transferred over to Link Scheme Ltd of £825,514

In March 2017 the Members contributed a total of £1.58m to provide a reserve equivalent to 6 months' operating expenditure of the Company as required under the Committee on Payment and Market Infrastructures (CPMI) IOSCO principles.

| | Share capital | Other reserves | Profit and loss reserves | Total equity |
|---|---------------|----------------|--------------------------|--------------|
| | £ | £ | £ | £ |
| Balance at 1 December 2014 | 1 | - | - | 1 |
| Period ended 31 December 2015: | | | | |
| Loss and total comprehensive expense for the financial period | - | - | (1,568,660) | (1,568,660) |
| Capital contribution | - | 1,420,000 | - | 1,420,000 |
| Balance at 31 December 2015 | 1 | 1,420,000 | (1,568,660) | (148,659) |
| Year ended 31 December 2016: | | | | |
| Loss and total comprehensive expense for the financial year | - | - | (1,961,583) | (1,961,583) |
| Capital contribution | - | 2,891,214 | - | 2,891,214 |
| Balance at 31 December 2016 | 1 | 4,311,214 | (3,530,243) | 780,972 |

“LINK is committed to the highest levels of systemic integrity as a payments system regulated by the Bank of England.”

Liz Richards, Audit Committee Chairman



If you would like to know more about LINK or have any suggestions or feedback, please get in touch.

www.link.co.uk/contact-us

www.link.co.uk