

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

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**25. Financial risk management (continued)**

Group trade and other receivables from third party financial institutions consists of £2.3m (2020: £1.4m) of deposits held with reputable financial institutions of high quality rating, as a financial safeguard in relation to Visa and Mastercard ('the card schemes') together with an amount of £21m (2020: £17m) representing funds receivable from card schemes relating to transactions processed in the last few processing days of the period. The group considers the funds advanced as collaterals to have low risk based on the external credit ratings of the counterparties which does not attract any material expected credit losses ("ECL"). The remainder of the balances relate to amounts due from parties who are not financial institutions where the group internally assess the credit risk through credit checks and customer payment history.

Whilst the group notionally has concentration risk in respect of having receivables from two card schemes, these card schemes are underpinned by financial stability/creditworthiness within the wider financial markets. Card schemes interpose themselves between issuing and acquiring banks to ensure the performance of transactions being processed by using several layers of financial safeguards to cover losses resulting from the default of one or more member. Accordingly, the credit risk emanating from the group's exposures to card schemes are deemed by the directors to be insignificant.

The group is also exposed to credit risk to the extent that the card schemes of which it is a member may charge-back credit card purchases. In order to manage its credit card exposures arising from its payment processing operations, the group compiles and updates due diligence reports in respect of its merchants and establishes appropriate transaction volumes and value limits. The group monitors its merchants' adherence to limits in relation to charge-backs on a daily basis to prevent any collection losses that are inherent in the group's payment processes.

It is the group's policy to provide for a 100% ECL for negative merchant balances accumulated over periods exceeding 90 days, including merchants with a negative balance that never transacted. The group also consider the credit worthiness for merchant balances not exceeding 90 days but for which significant increase in credit risk is observed.

Credit concentration risk also exists with respect to the group's cash equivalents, which are held with a reputable financial institution of high quality standing which are A rated. ECL on cash and cash equivalents is insignificant due to the low risk based on the external credit rating of the counterparties.

**(b) Market risk**

**Foreign exchange risk**

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. The group takes on exposures to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. To reduce its currency exposure, the group generally matches its assets and liability positions represented by the amounts due from card schemes and funds attributable to merchants with the relative amounts due to the merchants. The remaining open foreign exchange exposures mainly consist of part of the funds advanced as collateral to card schemes, bank balances and part of the amounts receivable from group undertakings denominated in foreign currency.