

Company number: 4743602

**LCH.CLEARNET GROUP LIMITED**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2013**

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Company information**

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**Board of Directors**

<u>Type of director</u>	<u>Name</u>	<u>Note</u>
Executive	Ian Axe	Resigned 25 September 2013
Executive	Suneel Bakhshi (CEO)	Appointed 3 February 2014
Independent	Jacques Aigrain (Chairman)	See * below
Independent	Ian Abrams	
Independent	Jill Considine	Appointed 25 April 2014
Independent	Lex Hoogduin	
Independent	Herve Saint-Saveur	Resigned 31 December 2013
Independent	Neil Walker	Appointed 25 January 2013
Shareholder representative	Martin Abbot	Resigned 30 September 2013
Shareholder representative	Nazir Badat	Resigned 1 May 2013
Shareholder representative	Michael Bagguley	
Shareholder representative	Laurent Curtat	
Shareholder representative	Dominique Cerutti	Appointed 13 June 2013
Shareholder representative	Robert Greiffeld	Appointed 1 May 2013
Shareholder representative	Finbarr Hutcheson	Resigned 1 May 2013
Shareholder representative	Alexander Justham	Appointed 1 May 2013
Shareholder representative	Ashok Krishnan	Appointed 25 February 2014
Shareholder representative	Vivien Levy-Garboua	
Shareholder representative	Edward McAleer	Resigned 1 May 2013
Shareholder representative	Olivier Motte	Resigned 1 May 2013
Shareholder representative	Edward Pla	Resigned 1 May 2013
Shareholder representative	Yves Perrier	Appointed 1 January 2014
Shareholder representative	Bruno Prigent	Resigned 1 May 2013
Shareholder representative	Xavier Rolet	Appointed 1 May 2013
Shareholder representative	Lawrence Shaw	Resigned 1 May 2013
Shareholder representative	Yunho Song	Resigned 6 February 2014
Shareholder representative	Naveed Sultan	Resigned 1 May 2013
Shareholder representative	David Warren	Appointed 1 May 2013
Shareholder representative	Christopher Willcox	Resigned 1 May 2013
Shareholder representative	Denise Wyllie	

\* Jacques Aigrain is the non-executive independent chairman. He was executive chairman for an interim period following the resignation of Ian Axe on 25 September 2013 until Suneel Bakhshi joined the Board on 3 February 2014.

**Secretary:** Robert Franklin

**Auditors:** Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

**Registered office:** Aldgate House  
33 Aldgate High Street  
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Registered in England, number: 4743602

LCH.Clearnet Group Limited is a majority owned subsidiary of London Stock Exchange Group plc and is the parent of the LCH.Clearnet group of companies.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Strategic report**

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**Business model**

The LCH.Clearnet Group (the Group) is a leading multi-national clearing house. The Group provides services through which counterparty risk is mitigated across multiple asset classes for sell side clearing members, buy side clients and for exchange markets globally.

Each major operating subsidiary is a central counterparty (CCP) and provides CCP clearing services and other related services to its clearing members.

As CCPs, the Group's operating companies sit in the middle of a trade as the buyer to every seller and the seller to every buyer. If either party defaults on the trade, the relevant CCP owns the defaulter's risk and becomes accountable for its liabilities. During the life of a trade, or that of a portfolio of trades, the Group's operating companies process all cash flows and mark the trade or book to market, calling variation and initial margin in relation to prevailing risk of the overall portfolio. This process is called clearing.

The tenor of a trade can be anything from two days to 50 years, depending on the product type and terms of the deal. During the life of a trade, markets can move significantly and the capability of a CCP's risk and liquidity management becomes vital. Fundamental to each CCP's risk process is its ability to collect quality collateral from clearing members and clients as credit support for their cleared positions. This collateral is often referred to as margin. Margin is calculated on a daily basis, or multiple times a day for certain asset classes, which is important during turbulent markets and is based on clearing members' positions and market risk. If a clearing member fails, this collateral is used by a CCP to fulfil the failed organisation's obligations. This ensures that the party on the other side of the trade is not negatively impacted by the default.

**Operating subsidiaries**

LCH.Clearnet Limited continues to satisfy the requirements of the Bank of England as a Recognised Clearing House in the UK and the requirements of all other regulatory bodies to whose rules it is subject. It provides CCP clearing services in respect of a broad range of cash and derivative products traded on or through various exchanges and trading platforms in the UK, Europe, Asia and the US as well as those traded in the over-the-counter (OTC) markets.

Banque Centrale de Compensation SA (trading as LCH.Clearnet SA), regulated by the L'Autorité de Contrôle Prudentiel et de Résolution (ACPR), acts as the clearing house for regulated markets in France, the Netherlands, Belgium and Portugal and for fixed income products and credit default swaps (CDS) traded either on regulated markets or trading platforms located in France, UK and Italy. Its principal business is the provision of CCP clearing services in respect of equities and bonds, interest rate and commodity futures and options, equity and index futures and options, OTC bonds and repurchase agreements and CDS.

LCH.Clearnet LLC is a New York based, Delaware registered company. LCH.Clearnet LLC is regulated as a derivatives clearing organisation (DCO) by the CFTC. Its principal business is the provision of CCP clearing services in respect of OTC swaps.

**Strategic objectives**

The Group's principal objectives are:

- to reduce risk and safeguard the financial infrastructure in the markets that the Group serves
- to deliver market leading and cost-effective clearing services
- to be the leading multi-asset clearing house, independently serving diverse markets around the world

The strategy for achieving these objectives is:

- to maintain a sound risk management approach and resilient systems; the Group is committed to setting and maintaining the highest standards across all asset classes cleared
- to work closely with regulators to ensure the Group remains compliant with all necessary regimes
- to work closely with market participants to develop and deliver new markets and clearing services

**LCH.Clearnet Group Limited**  
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**Strategic report (continued)**

**Key performance indicators**

Financial and non-financial key performance indicators utilised by the directors to measure the Group's progress are as follows:

	2013	2012	Variance
<b>OTC derivatives</b>			
<i>SwapClear</i>			
SwapClear members	103	72	43%
Notional cleared (\$trn)	507.8	383.0	33%
Notional outstanding (\$trn)	426.0	339.9	25%
<i>CDSClear</i>			
CDSClear members	11	8	38%
Notional cleared (\$trn)	172.7	45.0	284%
Notional outstanding (\$trn)	23.0	12.0	92%
<i>ForexClear</i>			
ForexClear members	20	14	43%
Notional cleared (\$trn)	888.3	446.0	99%
<b>Non-OTC</b>			
Fixed income: notional cleared (€trn)	72.7	70.4	3%
Commodities: lots cleared (m)	123.3	112.2	10%
Listed derivatives: contracts cleared (m)	174.3	203.9	(15%)
Cash equities: trades cleared (m)	347.5	337.7	3%
<b>Average cash collateral (€bn)</b>	<b>39.3</b>	<b>44.8</b>	<b>(12%)</b>

Discussion of the key performance indicators is included in the development and performance section below.

**Development and performance**

*SwapClear*

SwapClear (operating in LCH.Clearnet Limited and LCH.Clearnet LLC), the world's leading interest rate swap clearing service, led the move to mandatory central clearing, delivering even higher levels of efficiency and liquidity to an increasing roster of members and clients. At 31 December 2013, it commanded a leading market share. During the year, SwapClear cleared \$57.5 trillion of client notional, bringing the total since launch to over \$69.8 trillion client notional, nearly five times the level of our nearest competitor.

During the year, membership increased by 31 members to 103, with more than 139 market makers now using the service. The foundations of SwapClear's success include the introduction of real-time trade registration, currency and tenor extensions to its Overnight Index Swap (OIS) offering, as well as a timely initial margin recalibration, which ensured optimal risk management performance in a range of rate environments. These developments reflect a generally increased investment in infrastructure and solutions.

In the US, SwapClear expanded its global footprint with the launch of LCH.Clearnet LLC, a US-domiciled Derivatives Clearing Organisation (DCO) and the new SwapClear US domiciled IRD service.

In the coming months, SwapClear will expand and adapt its service globally to cater for more time zones, develop its proprietary compression offering, and introduce inflation-linked swaps and other product extensions. On re-certification of LCH.Clearnet, SwapClear intend to roll out more customer protection offerings under EMIR regulations, reflecting its continued focus and provenance in risk management.

**LCH.Clearnet Group Limited**  
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**Strategic report (continued)**

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*CDSClear*

CDSClear (operating in LCH.Clearnet SA) offers industry leading default management provisions and clears the broadest set of European credit indices. In July 2013, CDSClear extended its reach to include European clients and US clearing members. In December 2013 the CFTC granted LCH.Clearnet SA registration as a derivatives clearing organisation (DCO), enabling the service to provide US client clearing for broad based indices. In the same month, CDSClear's product set was expanded with the introduction of 187 single-name CDS.

*ForexClear*

ForexClear (operating in LCH.Clearnet Limited) is LCH.Clearnet's market-leading service clearing interbank foreign exchange (FX) non-deliverable forwards in multiple currencies. The service offers the only 24-hour OTC FX clearing service for 20 members. In 2013, the service became fully US compliant through the implementation of real time trade information systems, and launched client clearing. In the upcoming year, ForexClear will be working with industry participants to define settlement solutions to allow clearing of all FX products, and working to expand its global offering.

*Fixed Income*

LCH.Clearnet SA is the leading clearer of the European repurchase agreement and cash bond markets, comprising 15 European government repurchase agreement and cash bond markets. RepoClear is LCH.Clearnet Limited's market leading service clearing cash bond and repurchase agreement trades across a number of European markets. RepoClear is one of Europe's largest clearers of fixed income and plays an important role in the facility of interbank liquidity.

*Commodities and Listed Derivatives*

LCH.Clearnet Limited and LCH.Clearnet SA provide clearing services for interest rate and equity derivatives as well as a range of commodities markets, including power and associated energy markets, base and precious metals and agricultural products. It also provides clearing for OTC forward freight agreements for the most actively traded routes.

In May 2013, LCH.Clearnet launched clearing for NASDAQ OMX NLX, a new London based multilateral trading facility offering a range of both short-term interest rate and long-term interest rate euro- and sterling-based listed derivatives.

During the year, LCH.Clearnet Limited successfully migrated Liffe derivatives to their own clearing platform and a Euronext continental derivatives agreement with LCH.Clearnet SA was renewed to clear listed derivatives until December 2018.

*Cash Equities*

Cash Equities provides clearing services for a wide coverage of European regulated exchanges and multilateral trading facilities. LCH.Clearnet is uniquely positioned to provide risk management and clearing services from Asian market hours through European Trading to the close of the US markets. It has been at the forefront of industry initiatives to introduce competition and provide cost efficiencies for users of the European cash equities markets through the implementation of interoperable arrangements with other CCPs.

In the last year, clearing volumes have increased due to increases in trading activity, as well as an increase in venues and customers. In October 2013, LCH.Clearnet became the first CCP to offer clearing of OTC Equity Contracts for Difference (CFDs), helping investors access the best market price for a trade while benefiting from reduced counterparty risk, collateral efficiencies and cross-margining opportunities between cash equities and CFDs.

### **Future development**

Work is underway with the London Stock Exchange Group (LSEG) to identify further efficiencies in addition to the synergies already documented at the time of the LSEG acquisition. Investment continues where needed to drive growth, enhance risk management and ensure ongoing regulatory compliance.

Further discussions are in progress regarding the way in which the Group's services are structured, governed and managed, to ensure they meet EMIR and other regulatory requirements for clearing houses.

The appointment of Suneel Bakhshi as Group Chief Executive was announced in October 2013 and he joined the LCH.Clearnet Board on 3 February 2014.

### **Principal risks and uncertainties**

The Group's activities expose it to a number of risks, principally market risk (foreign exchange risk, interest rate risk, volatility in financial markets), sovereign risk, credit risk and liquidity risk. The Group manages these risks through various control mechanisms and its approach to risk management is to be prudent yet responsive to changes in the risk environment.

Note 2 provides descriptions of these risks and details the means by which the Risk Management department mitigates them.

### **Going concern and liquidity risk**

The Directors have made an assessment of the Group's ability to continue as a going concern and to meet current and future regulatory capital requirements and are satisfied that it has the resources to continue in business for the foreseeable future, being at least 12 months from the date on which these accounts were approved by the Board. Contracts for the majority of the exchanges for which the Group clears have a notice period of at least one year. It has a large number of clearing members and is not unduly reliant on any single clearing member or group of clearing members.

LCH.Clearnet Limited and LCH.Clearnet SA submitted applications to their national competent authorities for reauthorisation under EMIR in line with regulatory deadlines and, at the time of issuing this report, continue to work with the authorities and the defined process towards reauthorisation.

Furthermore, the Directors are not currently aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

Details of the Group's financial instruments are provided in note 21 and its capital management processes in note 22.

By order of the Board



Jacques Aigrain  
Chairman  
14 May 2014

**LCH.Cleynet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Directors' report**

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The directors of LCH.Cleynet Group Limited (the Company), registered in England and Wales with company number 4743602, present their report to the shareholders, together with the audited consolidated financial statements for the year ended 31 December 2013. The principal activity of the Company is the holding of investments in operating subsidiaries. The London Stock Exchange Group (LSEG) acquired a majority shareholding in the Company on 1 May 2013.

**Directors**

The current directors and changes made during the year ended and subsequent to 31 December 2013 are detailed on page 1.

**Indemnity of directors**

Directors are entitled to be indemnified by the Group against all costs, charges, losses and liabilities incurred by them in the proper exercise of their duties. Directors who have resigned during the year may also benefit from the same indemnity arrangement.

**Transactions with directors and related parties**

Details of transactions with related parties are set out in note 20 to the consolidated financial statements. There were no transactions, other than those disclosed in note 16, with directors during the year.

**Capital raise**

On 28 May 2013 the Company issued 32,000,000 fully paid shares to existing shareholders participating in the €320.0 million capital raise to meet the increased regulatory capital requirements of the Group and its subsidiaries. The shares were issued at €10.00 per share representing €1.00 nominal and €9.00 share premium.

**Staff**

It is the policy of the Group as a whole to ensure that no staff members or job applicants face discrimination on the grounds of ethnic origin, colour, religion, gender, sexual orientation, age or disability. Should an employee become disabled during his or her career with the Group every effort will be made to ensure continued employment. Staff involvement is encouraged through regular meetings and information is shared with staff through web based communication. The Group recognises its responsibilities to provide a safe working environment for its staff and measures are in place to ensure that the appropriate health and safety at work regulations are strictly observed in all workplaces.

**Disclosure of information to the auditors**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware there is no relevant audit information of which the Group's auditors are unaware
- the director has taken all steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information

**Auditors**

Ernst & Young LLP were reappointed at the Company's most recent annual general meeting (AGM) and have indicated their willingness to be reappointed under the provisions of the Companies Act 2006.

By order of the Board



Jacques Aigrain  
Chairman  
14 May 2014

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Statement of directors' responsibilities**

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The directors are responsible for preparing the strategic report, directors' report and financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing the financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements
- make judgements and estimates that are reasonable and prudent

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **Independent auditor's report to the members of LCH.Clearnet Group Limited for the year ended 31 December 2013**

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We have audited the financial statements of LCH.Clearnet Group Limited for the year ended 31 December 2013 which comprise of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Cash Flows, the Consolidated and Company Statement of Changes in Equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Directors' Responsibilities Statement (set out on page 7), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Directors Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

**Independent auditor's report to the members of LCH.Clearnet Group Limited (continued)  
for the year ended 31 December 2013**

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

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

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

*Ernst & Young LLP*

Angus Grant (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
14 May 2014

**Notes:**

1. The maintenance and integrity of the LCH.Clearnet web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Consolidated income statement**

	2013			2012			
	Note	Before impairment & non-recurring items €'m	Impairment & non-recurring items €'m	Total €'m	Before impairment & non-recurring items (restated) €'m	Impairment & non-recurring items €'m	Total (restated) €'m
<b>Revenue</b>							
<b>Clearing fees</b>		<b>306.9</b>	<b>–</b>	<b>306.9</b>	253.9	–	253.9
Interest income		288.9	–	288.9	270.9	–	270.9
Interest expense		(203.8)	–	(203.8)	(136.6)	–	(136.6)
<b>Net interest income</b>		<b>85.1</b>	<b>–</b>	<b>85.1</b>	134.3	–	134.3
Settlement and other income		57.2	–	57.2	58.1	–	58.1
Settlement fees payable		(18.3)	–	(18.3)	(13.9)	–	(13.9)
<b>Net settlement and other income</b>		<b>38.9</b>	<b>–</b>	<b>38.9</b>	44.2	–	44.2
Rebates		(51.0)	–	(51.0)	(6.2)	–	(6.2)
<b>Net revenue</b>	4	<b>379.9</b>		<b>379.9</b>	426.2	–	426.2
<b>Costs and expenses</b>							
Employee benefits expense	16	(140.5)	13.3	(127.2)	(141.7)	(7.4)	(149.1)
Depreciation and amortisation charge		(24.6)	(8.7)	(33.3)	(24.5)	–	(24.5)
Other operating expenditure		(120.7)	(34.2)	(154.9)	(132.5)	(20.2)	(152.7)
<b>Total costs and expenses</b>		<b>(285.8)</b>	<b>(29.6)</b>	<b>(315.4)</b>	(298.7)	(27.6)	(326.3)
<b>Operating profit</b>		<b>94.1</b>	<b>(29.6)</b>	<b>64.5</b>	127.5	(27.6)	99.9
Finance income		3.3	–	3.3	4.0	–	4.0
Finance costs		(13.1)	–	(13.1)	(12.6)	–	(12.6)
<b>Profit before taxation</b>	5	<b>84.3</b>	<b>(29.6)</b>	<b>54.7</b>	118.9	(27.6)	91.3
Taxation expense	6	(21.2)	10.6	(10.6)	(38.0)	6.4	(31.6)
<b>Profit for the year</b>	4	<b>63.1</b>	<b>(19.0)</b>	<b>44.1</b>	80.9	(21.2)	59.7

The results for both years are in respect of continuing operations.

Details of the restated comparatives can be found on page 17.

The notes on pages 17 to 59 form an integral part of these consolidated financial statements.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Consolidated statement of comprehensive income**

	Note	2013 €'m	2012 €'m
<b>Profit for the year</b>		<b>44.1</b>	59.7
<b>Amounts that will subsequently be reclassified to profit for the year when specific conditions are met:</b>			
Exchange differences on retranslation of foreign operations		(0.3)	(1.3)
<b>Amounts that will not subsequently be reclassified to profit for the year:</b>			
Actuarial gain recognised in the UK pension scheme	16	2.4	7.5
Deferred tax relating to the UK actuarial gain	6	(6.8)	(1.8)
Actuarial gain/(loss) recognised in overseas employee benefit plans	16	0.2	(4.0)
Deferred tax relating to the overseas actuarial (gains)/losses	6	(0.6)	1.2
Other		0.6	–
Other comprehensive income for the year, net of tax		(4.5)	1.6
<b>Total comprehensive income for the year, net of tax</b>		<b>39.6</b>	61.3

The results for both years are in respect of continuing operations.

The notes on pages 17 to 59 form an integral part of these consolidated financial statements.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Consolidated statement of financial position**

	Note	2013 €'m	2012 €'m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	7	220.0	198.3
Property, plant and equipment	9	15.9	18.5
Trade and other receivables	11	44.6	84.2
Employment benefits	16	19.3	–
Deferred taxation asset	6	16.8	14.8
<b>Total non-current assets</b>		<b>316.6</b>	<b>315.8</b>
<b>Current assets</b>			
Cash and cash equivalents	10	31,696.3	26,345.4
Other financial assets	21	9,510.1	13,997.3
Income tax receivable		5.9	12.1
Trade and other receivables	11	40.5	33.7
Balances with clearing members	12	411,020.4	455,364.1
<b>Total current assets</b>		<b>452,273.2</b>	<b>495,752.6</b>
<b>Total assets</b>		<b>452,589.8</b>	<b>496,068.4</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	14	(43.0)	(69.0)
Derivative financial liabilities	21	(11.1)	(35.4)
Income tax payable		(3.2)	–
Provision for liabilities	19	(18.9)	–
Trade and other payables	17	(169.9)	(187.8)
Balances with clearing members	12	(444,619.5)	(489,518.1)
<b>Total current liabilities</b>		<b>(444,865.6)</b>	<b>(489,810.3)</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	14	(179.2)	(179.0)
Default funds	15	(6,718.6)	(5,595.1)
Trade and other payables	17	(40.9)	(51.8)
Employment benefits	16	(5.0)	(8.1)
<b>Total non-current liabilities</b>		<b>(6,943.7)</b>	<b>(5,834.0)</b>
<b>Total liabilities</b>		<b>(451,809.3)</b>	<b>(495,644.3)</b>
<b>Net assets</b>		<b>780.5</b>	<b>424.1</b>

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Consolidated statement of financial position (continued)**

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	Note	2013 €'m	2012 €'m
<b>Capital and reserves</b>			
Called up share capital	13	74.2	42.2
Share premium	13	316.1	28.1
Capital reserves	13	15.3	15.3
Capital redemption reserve	13	59.5	59.5
Translation reserve	13	(1.6)	(1.3)
Retained earnings	13	317.0	280.3
<b>Total equity</b>		<b>780.5</b>	<b>424.1</b>

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**Jacques Aigrain**  
Chairman, LCH.Clearnet Group Limited

The notes on pages 17 to 59 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board on 14 May 2014.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Consolidated statement of cash flows**

	2013 €'m	2012 €'m
<b>Cash flows arising from operating activities</b>		
<b>Profit for the year</b>	<b>44.1</b>	59.7
Taxation expense	10.6	31.6
Finance income	(3.3)	(4.0)
Finance costs	13.1	12.6
Depreciation and amortisation	24.6	24.5
Impairment of intangible assets	8.7	-
Decrease/(increase) in trade and other receivables	32.4	(23.9)
Decrease in employee benefit obligations	(16.6)	(4.0)
Decrease in trade and other payables	(38.5)	(83.8)
Unrealised fair value losses/(gains) on financial instruments	3.3	(34.7)
Margin monies cash outflow	(554.9)	(2,290.4)
Increase in default funds	1,123.5	3,535.5
<b>Net cash inflow from operations</b>	<b>647.0</b>	1,223.1
Taxation paid	(4.0)	(29.9)
<b>Net cash inflows from operating activities</b>	<b>643.0</b>	1,193.2
<b>Investing activities</b>		
Investment in intangible assets	(50.6)	(17.7)
Purchase of property, plant and equipment	(3.3)	(10.6)
Redemption of other financial assets	4,487.1	4,761.2
Interest received	3.3	1.6
<b>Net cash inflow from investing activities</b>	<b>4,436.5</b>	4,734.5
<b>Financing activities</b>		
Proceed from issue of ordinary shares	320.0	-
Net of fees thereon	(3.2)	-
Interest paid	(13.1)	(11.9)
Repayment of borrowings	(60.0)	-
Finance lease principal payments	(0.3)	(0.3)
<b>Net cash generated from/(used in) financing activities</b>	<b>243.4</b>	(12.2)
<b>Increase in cash and cash equivalents</b>	<b>5,322.9</b>	5,915.5
Cash and cash equivalents at 1 January	26,345.4	20,414.0
Effects of foreign exchange movements	(6.6)	15.9
<b>Cash and cash equivalents at 31 December</b>	<b>31,661.7</b>	26,345.4

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Consolidated statement of cash flows (continued)**

	Note	2013 €'m	2012 €'m
<b>Cash and cash equivalents at 31 December comprise:</b>			
Investments in secured short term deposits		26,508.9	20,655.6
Cash at bank and in hand		5,187.4	5,689.8
	10	<b>31,696.3</b>	26,345.4
Bank overdrafts	14	<b>(34.6)</b>	–
		<b>31,661.7</b>	26,345.4

The notes on pages 17 to 59 form an integral part of these consolidated financial statements.



**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Consolidated statement of changes in equity**

	Called up share capital €'m	Share premium €'m	Capital reserves €'m	Capital redemption reserve €'m	Trans- lation reserve €'m	Retained earnings €'m	Total €'m
Shareholders' equity at 1 January 2012	40.6	–	15.3	59.5	–	217.7	333.1
Profit for the year to 31 December 2012	–	–	–	–	–	59.7	59.7
Other comprehensive expense	–	–	–	–	(1.3)	2.9	1.6
Total comprehensive income	–	–	–	–	(1.3)	62.6	61.3
Shares issued	1.6	28.1	–	–	–	–	29.7
Shareholders' equity at 31 December 2012	42.2	28.1	15.3	59.5	(1.3)	280.3	424.1
Profit for the year to 31 December 2013	–	–	–	–	–	44.1	44.1
Other comprehensive expense	–	–	–	–	(0.3)	(4.2)	(4.5)
Total comprehensive income	–	–	–	–	(0.3)	39.9	39.6
Shares issued (note 13)	32.0	288.0	–	–	–	–	320.0
Costs of share issue	–	–	–	–	–	(3.2)	(3.2)
<b>Shareholders' equity at 31 December 2013</b>	<b>74.2</b>	<b>316.1</b>	<b>15.3</b>	<b>59.5</b>	<b>(1.6)</b>	<b>317.0</b>	<b>780.5</b>

The notes on pages 17 to 59 form an integral part of these consolidated financial statements.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the consolidated financial statements**

**1. Summary of significant accounting policies and basis of preparation**

**Basis of preparation**

These consolidated financial statements have been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) effective for 2013 reporting and endorsed by the EU, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the valuation of financial assets and liabilities held at fair value through profit and loss. A summary of significant accounting policies is set out below, together with an explanation of changes to previous policies on the adoption of new accounting standards.

The Group uses a columnar format for the presentation of its income statement. This aids the understanding of its results by presenting profit for the year before impairments and non-recurring items. Profit before non-recurring items is reconciled to profit before taxation on the face of the income statement.

The financial statements are presented in millions of euros except where otherwise indicated.

**Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries with all inter-company balances and transactions eliminated. As permitted by Section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's result for the year is disclosed in note 5.

The consolidated financial statements are presented in millions of euros except where otherwise indicated.

**Changes in accounting treatment**

The results for the period ending 31 December 2012 have been restated in order to classify fees charged on non-cash collateral within other income rather than interest income (the revenue recognition policy below has been amended to reflect this change in policy).

The impact on the income statement is as follows:

	2012 As originally reported €'m	2012 Adjustment €'m	2012 As restated €'m
Interest income	303.6	(32.7)	270.9
Settlement and other income	25.4	32.7	58.1
<b>Net revenue</b>	<b>426.2</b>	<b>-</b>	<b>426.2</b>

This restatement has no other impact on the income statement or statement of financial position. There are no other restatements in the financial statements as a result of the adoption of new accounting standards or prior year adjustments.

**Judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the consolidated financial statements (continued)**

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The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are:

- the measurement and impairment of goodwill and other intangible assets
- the estimated useful economic life of assets
- the measurement of defined benefit pension obligations
- the assessment of contingent liabilities

The Group determines whether indefinite life goodwill is impaired on an annual basis and this requires an estimation of the value in use of cash generating units to which the goodwill is allocated.

Other intangible assets are assessed when an indication of impairment arises. This requires the estimation of future cash flows and choosing a suitable discount rate (see note 8). The Group regularly reviews its estimate of useful economic lives to ensure it fairly reflects the period over which the Group expects to derive economic benefits from its assets.

Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 16).

#### **Going concern**

The Directors have made an assessment of the Group's ability to continue as a going concern and to meet current and future regulatory capital requirements and are satisfied that it has the resources to continue in business for the foreseeable future, being at least 12 months from the date on which these accounts were approved by the Board.

Contracts for the majority of the exchanges for which the Group clears have a notice period of at least one year. It has a large number of clearing members and is not unduly reliant on any single clearing member or group of clearing members. LCH.Clearnet Limited and LCH.Clearnet SA submitted applications to their national competent authorities for reauthorisation under EMIR in line with regulatory deadlines and, at the time of issuing this report, continue to work with the authorities and the defined process towards reauthorisation. Furthermore, the Directors are not currently aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

#### **Presentational currency**

The Group's consolidated financial statements are presented in euros, which is the functional currency of the Company. Items included in the financial statements of each of the Group's entities are measured using their functional currency.

#### **Basis of consolidation**

Subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the subsidiary so as to obtain benefit from its activities and is achieved through direct ownership of voting rights.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All significant intra-group balances and transactions have been eliminated on consolidation.

#### **Investments**

In its separate financial statements the Company recognises its investments in its subsidiaries at cost less the value of any impairment provision that may be necessary. Income is recognised from these investments in relation to any distributions received.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the consolidated financial statements (continued)**

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**Foreign currencies**

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into euros at the rates of exchange ruling on the statement of financial position date. Transactions in foreign currencies are recorded at the prevailing foreign exchange rates at the date of the transaction. Exchange differences on the retranslation of LCH.Clearnet LLC are recorded in the translation reserve. All other exchange differences are recorded in the income statement.

**Goodwill**

Goodwill arising on an acquisition is the fair value of consideration less the fair value of the net assets acquired. Goodwill is capitalised in the statement of financial position within intangible assets.

Following initial recognition goodwill is measured at initial value less any accumulated impairment losses.

**Intangible assets other than goodwill**

Intangible assets other than goodwill are initially recognised at cost and are capitalised on the statement of financial position. Following initial recognition the assets are amortised at rates calculated to write off their cost on a straight line basis over their estimated useful lives.

An internally generated intangible asset arising from the Group's business development is created if the asset can be identified, its cost measured reliably and it is probable that it will generate future economic benefits. Amortisation is charged from the date the developed product, service, process or system is available for use. Self developed software is amortised over periods between three and five years.

Other intangible assets represent investment in business development that is not expected to be recovered from third parties; this would only be recognised if the requirements for internally generated intangible assets (as detailed above) are met. Amortisation is charged from the date the expenditure is incurred over a five year period.

**Property, plant and equipment**

Property, plant and equipment is initially recognised at cost and capitalised in the statement of financial position and is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based on current prices, of each asset over its expected useful life as follows:

- leasehold refurbishment over the term of the lease (up to a maximum of ten years)
- computer equipment and purchased software over three years
- office equipment and other fixed assets between three and five years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

**Impairment of goodwill, intangible assets, and property, plant and equipment**

Goodwill and intangible assets in the course of development are subject to an annual impairment review or a more frequent review if there are events or changes in circumstances that indicate that the carrying amount of the asset may not be fully recoverable. Other intangible assets and property, plant and equipment are subject to an impairment review if there are events or changes in circumstances that indicate that the carrying amount of the asset may not be fully recoverable.

For the purpose of impairment testing, goodwill and other assets are allocated to cash generating units monitored by management, usually at statutory company level. The impairment review involves a comparison of the carrying amount of the goodwill or other asset allocated to the related cash generating units, with its recoverable amount, which is the higher of fair value less costs to sell and value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of less the costs associated with the sale.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the consolidated financial statements (continued)**

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Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. The carrying values of goodwill, intangible assets or property, plant and equipment are written down by the amount of any impairment and this loss is recognised in the income statement in the year in which it occurs.

The carrying amount of goodwill allocated to a cash generating unit is taken into account when determining the gain or loss on disposal of the unit.

#### **Financial instruments**

The Group classifies its financial instruments into the following categories: financial assets and liabilities at fair value through profit or loss, held to maturity investments, loans and receivables, cash and short term deposits, trade and other payables, interest bearing loans and borrowings and derivative financial instruments.

Financial assets and liabilities at fair value through profit or loss are financial instruments which are either acquired for trading purposes, or as designated by management. Financial instruments held in this category are initially recognised and subsequently measured at fair value with transaction costs taken directly to the income statement. Changes in fair value are recorded within net interest income. Interest earned or incurred is accrued in interest income or expense, or finance income or cost according to the purpose of the financial instrument.

Balances with clearing members are included in this category upon initial recognition and are recorded on a settlement date basis. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group has the intention and ability to hold to maturity. After initial measurement held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate less impairment. The amortisation of any premium or discount is included in interest income.

If the Group were to sell or reclassify a significant amount of held to maturity investments before maturity (other than in certain specific circumstances) the entire category might have to be reclassified as available for sale. The Group would then be prohibited from classifying any financial asset as held to maturity during the following two years.

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition at fair value, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment.

Cash and short term deposits comprise cash in hand and current balances with banks and similar institutions which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of six months or less. For the purposes of the cash flow statement cash and cash equivalents are as defined above, but with an original maturity of three months or less, net of bank overdrafts (which are included within interest bearing loans and borrowings in current liabilities on the statement of financial position).

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the consolidated financial statements (continued)**

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Other financial assets include government backed certificates of deposit issued by banks, notes and treasury bills directly issued by state or national governments. These assets are initially recognised and subsequently measured at fair value.

Interest bearing loans and other borrowings, including preferred securities, and default funds are initially recorded at fair value. Subsequent measurement is at amortised cost using the effective interest method, and amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Where derivative financial instruments are used, such as interest rate swaps and foreign currency forward exchange contracts, they reduce exposure to interest rate movements and foreign currency movements. The change in fair value of these hedging instruments is recognised in the income statement. The Group does not hold derivative financial instruments for trading purposes, but derivatives that do not qualify for hedge accounting are accounted for as trading instruments and are initially recognised and subsequently measured at fair value.

The Group establishes fair value using recognised valuation techniques. These include the use of externally available market prices, discounted cash flow analysis and other valuation techniques commonly used by market participants. Where discounted cash flow analysis and other valuation techniques are used assumptions are validated against market observable inputs.

#### **Interest bearing loans and borrowings**

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance cost.

#### **Derecognition of financial assets and financial liabilities**

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

#### **Taxation**

Deferred and current tax assets and liabilities are only offset when they arise in the same reporting tax group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income tax relating to items recognised directly in other comprehensive income is charged or credited as appropriate to other comprehensive income and there is no effect on profit for the year.

##### *Current tax*

Current tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to relevant taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date on which the Board approves the financial statements.

##### *Deferred tax*

Deferred income tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes using tax rates and laws enacted or substantively enacted by the date on which the Board approves the financial statements.

Deferred tax liabilities are recognised for all temporary differences. Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the consolidated financial statements (continued)**

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the deductible temporary differences can be utilised, except where the deferred income tax asset arises through investments in subsidiaries and it is not probable that the temporary differences will reverse in the foreseeable future.

#### **Provisions**

Provisions are recognised for current obligations arising as consequences of past events where it is probable that a transfer of economic benefits will be necessary to settle the obligation and it can be reliably estimated. All provisions, except for those arising under pension liabilities, are undiscounted.

#### **Share capital**

Called up share capital comprises ordinary shares. Other capital reserves are described in note 13. Other instruments are classified as liabilities if there is an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the income statement in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

The share premium comprises the difference between the issue proceeds of shares and their nominal value.

#### **Revenue recognition**

Clearing fee income and rebates, together with other fee income and net settlement fees, are recognised on a transaction by transaction basis in accordance with the Group's fee scales.

Net interest income is the total of revenue earned on the cash and other financial assets held that have been generated from clearing member activity, less interest paid to clearing members on their margin and other monies lodged with the Group. Interest expense or income is recorded using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. Non-cash collateral fees are charged on non-cash collateral provided by members and are included in other fee income.

Finance income is revenue earned on the Group's own cash and financial assets balances and is also recognised on an effective interest rate basis.

#### **Employee benefits**

The Group operates a defined benefit section of the pension scheme for its UK employees which requires contributions to be made to a separate trustee administered fund. This was closed to new members from 30 September 2009 and closed to further employee contributions on 31 March 2013.

The Group has also committed to assume obligations in respect of certain staff in the Euronext defined benefit pension scheme in Amsterdam who transferred their employment to LCH.Clearnet SA in 2004. The obligations in respect of certain staff in an independent defined benefit scheme in Porto were assumed in 2006. An updated valuation of these funds was carried out at 31 December 2013 by a qualified independent actuary.

The Group also has obligations in respect of unfunded early retirement plans in Paris. This is in compliance with a 2001 agreement with Euronext Paris personnel and these provisions are included in employee benefits. They have been calculated by a qualified independent actuary.

A full actuarial valuation of the UK LCH pension scheme was carried out at 30 June 2010 and partially updated to 31 December 2013 by a qualified independent actuary. Major assumptions used by the actuary are included within note 16.

The cost of providing benefits under the defined benefit plans is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight line basis over the vesting period or immediately

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the consolidated financial statements (continued)**

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if the benefits have vested. When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement.

The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under IAS 19 (Revised 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.

Actuarial gains and losses are recognised in full in the statement of comprehensive income in the period in which they occur. The defined benefit pension liability in the statement of financial position comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information, and in the case of quoted securities is the published mid market price.

The Group also operates a defined contribution section of the pension plan in the UK which has been open since January 2010 for new staff. The contribution payable to a defined contribution plan is in proportion to the services rendered to LCH.Clearnet Limited by the employees and is recorded as an expense in the income statement within employee benefits.

#### **Dividends**

Revenue is recognised when the Company's right to receive payment is established.

#### **Leases**

The Group is a lessee. Leases of property, plant and equipment where substantially all the risks and rewards of ownership have passed to the Group are capitalised in the statement of financial position as property, plant and equipment. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The capital element of future obligations under finance leases is included as a liability in the statement of financial position. The interest element of rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful economic life of the asset or the lease term.

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases are charged in the consolidated income statement on a straight line basis over the lease term. Lease incentives are recognised over the lease term.

Where a lease becomes onerous the full value of net future costs is immediately recognised in the income statement.

#### **New accounting standards, amendments and interpretations**

*Standards issued and adopted for the financial year beginning 1 January 2013*

The Group has applied the following standards for the first time in the current year; the impact of these is limited to the disclosure notes.



**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the consolidated financial statements (continued)**

	<b>Effective date for periods beginning on or after</b>
Amendments to IFRS7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS13 Fair Value Measurement	1 January 2013
Amendments to IAS19 Employee Benefits	1 January 2013
Amendments to IAS1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income	1 July 2012

*Standards issued but not effective for the financial year beginning 1 January 2013 and not early adopted*

The following standards, amendments and interpretations have been issued by the IASB and IFRIC with an effective date, subject to EU endorsement. The Directors do not expect adoption of these standards to have a material effect on the results of the Group.

	<b>Effective date for periods beginning on or after</b>
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	1 January 2014 <sup>1</sup>
IFRS10 Consolidated Financial Statements	1 January 2014 <sup>1</sup>
IFRS 11 Joint Arrangements	1 January 2014 <sup>1</sup>
IFRS 12 Disclosure of Interests in Other Entities	1 January 2014 <sup>1</sup>
IAS 27 (2011) Separate Financial Statements	1 January 2014 <sup>1</sup>
IAS 28 (2011) Investments in Associates and Joint Ventures	1 January 2014 <sup>1</sup>
Amendments to IFRS 10, IFRS 12 & IAS 27	1 January 2014 <sup>3</sup>
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014 <sup>2</sup>
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014 <sup>2</sup>
IFRIC Interpretation 21 Levies	1 January 2014 <sup>2</sup>
IFRS 9 Financial Instruments	1 January 2018 <sup>2</sup>

<sup>1</sup>Endorsed by the EU on 11 December 2012 and to be implemented, at the latest, for periods beginning on or after 1 January 2014.

<sup>2</sup>Subject to endorsement by the EU.

<sup>3</sup>Endorsed by the EU on 20 November 2013 and to be implemented, at the latest, for periods beginning on or after 1 January 2014.

## **2. Financial risk management**

### **Introduction**

The Group's activities expose it to a number of financial risks, principally market risk (foreign exchange risk, interest rate risk, financial market volatility), sovereign risk, credit risk and liquidity risk.

The Group manages these risks through various control mechanisms and its approach to risk management is to be prudent yet responsive to changes in the risk environment.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the consolidated financial statements (continued)**

Overall responsibility for risk management rests with the Group Board. Day to day responsibility is delegated to the Group Chief Risk Officer, who ensures effective delegation to the executives in the operating subsidiaries on the basis of risk policies that are discussed and agreed by the Group's Risk Committees and Boards. The individual application of these policies is undertaken by senior executives within the risk management team who control and manage the exposures to clearing members and counterparty or agent banks on the basis of these policies. Risk policies are harmonised across the Group where relevant. The continued appropriateness of risk policies and key risk data is reviewed by the Risk Committees and Boards, and audits of processes within risk management are undertaken regularly.

**Foreign exchange risk**

*Risk description*

Group companies generally incur expenses in their respective local currencies while earning revenues and investment income in several major currencies. The Group is exposed to foreign exchange risk primarily with respect to the translation to its reporting currency, the euro, of net assets and liabilities arising in other currencies, principally UK sterling and US dollars. Movement in other currencies is not significant.

*Risk management approach*

The Group converts foreign currency balances to euros regularly based upon agreed thresholds which partially mitigates the impact of exchange rate fluctuations on the Group's financial performance. The Group may also hedge future currency cash flows where they can be reasonably anticipated. Exchange differences on the retranslation on the net assets of LCH.Clearnet LLC are recorded in the translation reserve. Any exchange differences on translation of net assets and liabilities that remain are recorded in the income statement.

*Foreign exchange sensitivity*

FX exposure in the Company, LCH.Clearnet LLC, LCH.Clearnet SA and LCH.Clearnet (Luxembourg) S.à.r.l is not significant.

The table below summarises the foreign exchange exposure on the net monetary position of LCH.Clearnet Limited, expressed in euros, the Group's presentational currency, to the major trading currencies and the effect of a reasonable shift of the relevant exchange rates on the Group's net profit and net assets. The reasonable shift in exchange rates is calculated as the average movement over the past two years. Movements in other currencies are not significant.

	2013		2012	
	£ €'m	\$ €'m	£ €'m	\$ €'m
Net exposure	18.4	8.9	(18.5)	1.5
Reasonable shift	0.2%	2.9%	2.8%	0.6%
Total increase/(decrease) on profit/net assets of positive movements	-	(0.3)	0.5	-
Total increase/(decrease) on profit/net assets of negative movements	-	0.3	(0.5)	-

**Interest rate risk**

*Risk description*

The Group is exposed to interest rate risk arising from the cash and investment balances it maintains, the initial margin and default fund balances it holds from clearing members and the loans and borrowings it has issued.

*Risk management approach*

Interest bearing assets are generally invested for a longer term than the interest bearing liabilities, whose interest rate is generally reset daily. This makes investment revenue vulnerable to volatility in overnight rates and shifts in

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spreads between overnight and term rates. Interest rate exposures are managed within defined risk appetite parameters against which sensitivities are monitored daily. The risk to the Group's capital is managed within interest rate risk limits expressed as a percentage of each subsidiary's capital and calculated under stressed scenarios.

*Interest rate sensitivity analysis*

The Group aims to minimise its exposure to interest rate fluctuations. Any exposure is predominantly due to the mismatch between the Group's interest bearing assets, net of interest rate swaps, and interest bearing member liabilities. Since the return paid on member liabilities is generally reset to prevailing market interest rates on an overnight basis the Group is only exposed for the time it takes to reset the interest rates on its investments. The maximum fixed exposure on any asset in the treasury portfolio is six months and subject to an overall interest rate limit.

The following table shows the estimated impact on the consolidated profit after tax and the effect on retained earnings within shareholders' equity for each category of financial instrument held at the statement of financial position date:

	2013			2012		
	+25bp €'m	+50bp €'m	+100bp €'m	+25bp €'m	+50bp €'m	+100bp €'m
Net exposure of cash and member margin balances	(5.4)	(10.8)	(21.6)	(13.2)	(26.4)	(52.7)
Interest rate swaps	1.1	2.2	4.4	7.7	15.3	30.7
	(4.3)	(8.6)	(17.2)	(5.5)	(11.1)	(22.0)
Tax effect of above	1.0	2.1	4.2	1.3	2.7	5.4
<b>Decrease in profit after tax</b>	<b>(3.3)</b>	<b>(6.5)</b>	<b>(13.0)</b>	<b>(4.2)</b>	<b>(8.4)</b>	<b>(16.6)</b>
	-25bp €'m	-50bp €'m	-100bp €'m	-25bp €'m	-50bp €'m	-100bp €'m
Net exposure of cash and member margin balances	5.4	10.8	21.6	13.2	26.4	52.7
Interest rate swaps	(1.1)	(2.2)	(4.4)	(7.7)	(15.3)	(30.7)
	4.3	8.6	17.2	5.5	11.1	22.0
Tax effect of above	(1.0)	(2.1)	(4.2)	(1.3)	(2.7)	(5.4)
<b>Increase in profit after tax</b>	<b>3.3</b>	<b>6.5</b>	<b>13.0</b>	<b>4.2</b>	<b>8.4</b>	<b>16.6</b>

**Financial market volatility (latent market risk)**

*Risk description*

Volatility within the financial markets in which the Group operates can adversely affect its earnings and its ability to meet its business objectives. As a CCP the Group has a balanced position in all cleared contracts and runs no significant market risk unless a clearing member defaults. In such an event the Group faces market risk which is correlated to clearing member positions and market conditions.

*Risk management approach*

The market and credit risk management policies of the Group are reviewed and approved by its Risk Committees and Boards at least annually. A variety of measurement methodologies, including both empirical and analytical margin models, stress testing and scenario analysis, are used daily to quantify and assess the levels of credit and market risk to which the Group is exposed, and hence the amount of resources that should be held to cover such risks, under both normal and extreme but plausible market conditions.

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Initial margins for all clearing services are calibrated and back-tested to a 99.7% confidence level which has the effect of reducing the probability of loss from the default of a clearing member with the worst acceptable credit to the level of an AAA rated credit for the next 12 months.

This potential market risk is reduced by collecting variation margin on marked to market positions and by establishing initial margin requirements which are the Group's estimate of likely future market risk under normal market conditions. Margin add-ons are calculated for clearing member specific concentration, liquidity, wrong way and credit risks. Both variation and initial margin are collected daily and, if necessary, replenished intraday.

The Group accepts both cash and high quality non-cash collateral to cover margin requirements. The list of acceptable non-cash collateral is restricted and haircuts are set for each security type taking into account market, credit, foreign exchange, country and liquidity risks and calibrated to a 99.7% confidence level. All non-cash collateral is revalued daily.

As at 31 December 2013 the total margin liability of clearing members amounted to €66.0 billion, against which the Group had received €30.8 billion in cash, €34.2 billion in non-cash securities and €1.0 billion in guarantees. The maximum margin liability during the year was €81.4 billion.

Additionally, new applicants for clearing must meet strict credit, financial and operational criteria before access to membership is granted, which are regularly reviewed as part of the Group's risk policies and subject to independent validation at least annually.

The operating subsidiaries also require all clearing members to contribute to pre-funded default funds to be used should the margins of a defaulted clearing member not fully cover close out costs, and also have access to supplementary financial resources including a proportion of their own capital and further clearing member contributions to ensure the continuity of ongoing operations. The operating subsidiary default funds and other resources are segregated by clearing service and designed to be sufficient at all times to cover the default of the two clearing member groups giving rise to the greatest losses above margin in default under extreme but plausible market conditions.

As at 31 December 2013 the total of clearing member contributions to the default funds amounted to €6.7 billion (note 15). The maximum amount during the year was €7.2 billion. Clearing members are committed to contribute further amounts in the event of a clearing member default equivalent to approximately twice this amount.

The models which calculate margins and default fund contributions are monitored and tested daily, are independently validated at least annually and meet all applicable regulatory requirements.

### **Sovereign risk**

#### *Risk description*

Distress amongst sovereigns through market concerns over the levels of government debt and the ability of certain governments to service their debts over time could have adverse effects on the Group's cleared products, margin collateral, investments, the clearing membership and the financial industry as a whole.

#### *Risk management approach*

Specific risk frameworks manage sovereign risk for both fixed income clearing and margin collateral, and all clearing members are monitored regularly against a suite of sovereign stress scenarios which model escalations in sovereign risk. In addition, investment limits and both counterparty and clearing membership monitoring frameworks are sensitive to changes in ratings and other financial market indicators, to ensure that the Group is able to measure, monitor and mitigate exposures to sovereign risk and respond quickly to anticipated changes.

The Risk Committees and Boards continually monitor such risks in the Eurozone and other sovereigns and enhancements to the risk framework implemented in 2011-2012 continue to protect the Group against potentially severe market volatility in the sovereign debt markets.

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The Group has investments in the following Sovereigns (or equivalent issuer) as at 31 December 2013:

Sovereign (or equivalent)	Investment value € billion	Proportion
France	3.3	28%
European Union	2.6	22%
USA	2.0	17%
Germany	1.4	12%
United Kingdom	0.9	8%
Other	1.5	13%
<b>Total</b>	<b>11.7</b>	<b>100%</b>

The above total includes all other financial assets (€9,510.1 million) along with central bank cash deposits.

**Credit risk**

*Risk description*

Credit risk is the risk that a counterparty of the Group will be unable or unwilling to meet a financial commitment to the Group. Credit risk exposure arises as a direct result of the reinvestment of the cash the Group holds primarily as part of its CCP activities, in collecting margin and default fund contributions from its clearing members.

*Risk management approach*

The cash portfolio is invested in accordance with clear risk policies which require secure investment of a significant portion of the cash portfolio via reverse repurchase agreements with credit institutions, receiving high quality government securities as collateral, by investing directly in such securities or by the placement of cash with central banks. The Group only makes treasury deposits with banks and financial institutions with a credit rating of at least A and also by reference to counterparty limits with respect to concentration and maturity.

Securities received as collateral are subject to a haircut on their market value. Small amounts of cash may be deposited in the money markets on an unsecured, short term basis only with high quality banking institutions and limited to an average of 5% and a maximum of 10% of all credit institution investment. The average maturity of the portfolio of all counterparties classified as "government", "explicitly guaranteed" and "supnationals" will not exceed two years.

The investment portfolio at 31 December 2013 was €41.2 billion, of which 94% was invested securely with an overall average maturity of 26 days. The maximum portfolio size during the year was €50.3 billion. Note 21 contains further analysis of the investment portfolio including by type and fair value hierarchy.

All counterparties, including clearing members, interoperating CCPs, investment counterparties, custodians and settlement and payment institutions, are assessed according to an internal credit scoring framework. This framework incorporates financial analysis, external ratings, market implied ratings, expected default frequency, a support assessment and an operational capability assessment. The rating model is independently validated at least annually and the rating scale is continuously monitored for performance. A minimum credit score is set for joining any clearing service and for institutions to be eligible for investment. Increased margins are applied to clearing members when their credit score deteriorates below the entry level. Other actions may include reduced credit tolerances and forced reduction of exposures.

The Group's exposures to clearing member balances and the treasury portfolio are managed through the Group's risk policies. Clearing members are subject to strict eligibility criteria which are monitored on a regular basis and, in addition, are required to contribute to the default funds as well as depositing initial margin and daily variation margin when entering into clearing contracts.

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The Group currently interoperates with several other CCPs in Europe for cash cleared products. Interoperability with another CCP poses risks similar to the risks to which the Group is exposed with its clearing members. Credit risk is managed according to the same credit assessment framework applied to clearing members and other counterparties. To cover the latent market risk arising on interoperating exposures, all interoperating CCPs are subject to daily margining.

As at 31 December 2013 the total interoperating margin placed with and received under reciprocal arrangements with other CCPs amounted to €3,850.4 million and €3,459.9 million respectively.

Financial assets are neither past due nor impaired. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the statement of financial position date.

*Analysis by credit rating*

The table below shows the Group's clearing member balances and treasury portfolio by reference to the credit rating of the counterparty. The treasury portfolio includes cash at bank and other financial assets.

	Note	2013 €'m	2012 €'m
<b>Fair value of balances with clearing members</b> (ratings as measured by Fitch)			
Members rated AAA		25,719.3	16,529.3
AA+		–	–
AA		385.3	2,711.9
AA-		41,195.1	73,616.9
A+		32,627.4	62,243.8
A		116,493.2	174,279.0
A-		82,456.4	74,577.0
BBB+		76,824.8	678.9
BBB		14,680.7	14,642.4
BBB-		9,137.9	0.3
BB+		1,945.4	1,534.1
BB		2,907.9	–
B+		356.6	–
Unrated		2,085.3	29,739.7
	12	406,815.3	450,553.3
<b>Group treasury portfolio</b> (ratings assigned with reference to major agencies)			
AAA/AA+/AA- Government backed		9,932.9	21,476.8
AA/AA+/AAA Secured		8,695.2	1,382.4
AA/AA+/AAA Unsecured		453.9	–
AA-/A+/A/A- Secured		20,160.6	16,880.9
A+/AA- Unsecured		1,963.8	602.6
		41,206.4	40,342.7

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The total credit risk of the Group is represented by the total financial assets of the Group as disclosed in note 21.

**Concentration risk**

*Risk description*

Concentration risk may arise through having large connected individual exposures and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors.

*Risk management approach*

Direct concentration risk arises in several areas of the Group's activities, and in order to avoid excessive concentrations of risk the Group maintains a diversified portfolio of high quality liquid investments and uses a diversified range of custodians, payment and settlement banks and agents.

Indirect concentration risks, conditional upon a clearing member default, are managed within risk policy through various means, including restrictions on certain non-cash collateral issuers and the monitoring of exposures by member groups.

The largest concentration of treasury exposures as at 31 December 2013 was 8.0% of the total investment portfolio to the French Government (2012: 12.7% to the European Central Bank).

**Liquidity risk**

*Risk description*

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due, in particular to meet obligations to pay margin or physical settlement monies due to clearing members and investment counterparties or in the event of a clearing member default.

Liquidity risk exists as a result of day to day operational flows such as repayments of cash collateral to clearing members, provision of liquidity to facilitate settlement and cash flows resulting from investment activity. In the case of a clearing member default the Group must transfer or liquidate the defaulter's portfolio. The default management process may give rise to additional liquidity requirements from both losses arising from close out and the need to meet the defaulter's settlement and margin obligations until the portfolio is closed out or transferred.

*Risk management approach*

Liquidity risk is managed by ensuring that the operating clearing houses in the Group have sufficient cash to meet their payment obligations and by the provision of facilities to meet short term imbalances between available cash and payment obligations. The Group subsidiaries maintain liquidity buffers against expected daily operational liquidity needs, based on the maximum relevant liquidity outflow observed from an extensive data history, and against the default of one or more clearing members when additional liquidity will be required so that the Group can continue to meet its obligations to clearing members as a CCP.

The Group's liquidity management is subject to strict minimum liquidity targets set by senior executives within its Risk and Capital & Liquidity Management (CaLM) departments. These targets are reviewed regularly and reported to the Risk Committees and Boards. On a day to day basis CaLM is tasked with ensuring that the Group can meet its financing needs at all times, in particular to ensure the business continues to operate smoothly in the event of the default of one or more clearing members.

The ability to access liquidity under extreme market conditions is modelled daily. Liquid resources include available cash balances, secured financing facilities and for LCH.Clearnet SA, which is a bank within the Eurozone, access to central bank liquidity.

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The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand €'m	Less than three months €'m	Three months to one year €'m	One to five years €'m	Over five years €'m	Total €'m
<b>As at 31 December 2013</b>						
Cash and short term deposits	16,581.5	15,114.8	–	–	–	31,696.3
Other financial assets	234.1	4,654.6	3,675.9	945.5	–	9,510.1
<b>Treasury portfolio</b>	<b>16,815.6</b>	<b>19,769.4</b>	<b>3,675.9</b>	<b>945.5</b>	<b>–</b>	<b>41,206.4</b>
Fair value of transactions with clearing members – asset	206,196.7	192,081.0	8,401.9	134.6	1.1	406,815.3
Other clearing member balances – asset	4,149.8	55.3	–	–	–	4,205.1
Fair value of transactions with clearing members – liability	(206,196.7)	(192,081.0)	(8,401.9)	(134.6)	(1.1)	(406,815.3)
Initial margin and other clearing member balances – liability	(11,161.6)	(26,644.4)	(0.4)	(40.9)	–	(37,847.3)
Default fund	–	–	–	(6,718.6)	–	(6,718.6)
<b>Net balance with clearing members</b>	<b>(7,011.8)</b>	<b>(26,589.1)</b>	<b>(0.4)</b>	<b>(6,759.5)</b>	<b>–</b>	<b>(40,360.8)</b>
Trade and other receivables	6.4	10.4	17.0	44.6	–	77.9
Trade and other payables	(33.7)	(131.3)	–	(40.9)	–	(205.9)
Preferred securities	–	–	(11.8)	(215.5)	–	(227.3)
Interest rate swaps – net outflows	–	(5.0)	(2.7)	(3.4)	–	(11.1)
<b>As at 31 December 2012</b>						
Cash and short term deposits	15,626.1	10,719.3	–	–	–	26,345.4
Other financial assets	1,481.5	4,929.8	5,431.9	2,149.8	–	13,993.0
<b>Treasury portfolio</b>	<b>17,107.6</b>	<b>15,649.1</b>	<b>5,431.9</b>	<b>2,149.8</b>	<b>–</b>	<b>40,338.4</b>
Fair value of transactions with clearing members – asset	–	450,553.3	–	–	–	450,553.3
Other clearing member balances – asset	–	4,810.8	–	–	–	4,810.8
Fair value of transactions with clearing members – liability	–	(450,460.1)	–	–	–	(450,460.1)
Initial margin and other clearing member balances – liability	–	(39,058.0)	–	–	–	(39,058.0)
Default fund	–	(1.1)	(3.3)	(5,612.7)	–	(5,617.1)
<b>Net balance with clearing members</b>	<b>–</b>	<b>(34,155.1)</b>	<b>(3.3)</b>	<b>(5,612.7)</b>	<b>–</b>	<b>(39,771.1)</b>
Trade and other receivables	9.9	–	–	84.2	–	94.1
Trade and other payables	(179.3)	–	–	(51.8)	–	(231.1)
Preferred securities	–	–	(11.8)	(227.3)	–	(239.1)
Interest rate swaps – net outflows	–	(0.1)	(6.6)	(28.7)	–	(35.4)



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All of the financial assets of the Group are either based upon floating rates or fixed rates with an interest term of less than six months. For the default funds, the tenor of the liability is matched with the interest reset dates of the asset. The weighted average maturity of the total treasury portfolio is 26 days, with strict risk criteria related to interest rate exposure being applied.

Interest due on the financial liabilities is based upon rates set on a daily basis. Certificates of deposit (bank issued and government backed) and treasury bills are all carried at fair value. For assets not marked to market there is no material difference between the carrying value and fair value.

**Settlement risk**

*Risk description*

Settlement risk is the risk that the Group makes a payment or delivery without simultaneously receiving the delivery or payment from the counterparty.

*Risk management approach*

The Group fully mitigates this risk through the use of guaranteed and irrevocable delivery versus payment mechanisms where available.

**Settlement bank risk**

*Risk description*

The Group is exposed to the risk that a settlement bank could fail, creating credit losses and liquidity pressures for the Group.

*Risk management approach*

The Group uses a combination of central bank, payment agent and commercial settlement bank models. The policy requires that only minimal unsecured balances at commercial settlement banks remain overnight, placing the majority at available central banks. Any such unsecured balances are deducted from commercial bank deposit limits. Intraday credit exposures to commercial concentration banks are also monitored and closely controlled.

For monies due from clearing members, if the payment agent or commercial settlement bank is not able to transfer funds to the Group, the clearing members remain liable for the fulfilment of their payment obligations.

**Custody risk**

*Risk description*

Custody risk is the risk of loss on securities in safekeeping as a result of the custodian's insolvency, negligence, misuse of assets, poor administration or inadequate record keeping.

*Risk management approach*

Although the risk of insolvency of central securities depositories or custodian banks used by the Group is low the Group mitigates this risk through a due diligence framework ensuring appropriate legal arrangements and operational processes, in addition to minimum eligibility requirements, credit assessment, regular reviews required by policy and a requirement for back-up contingency arrangements to be in place.

**Other risk management**

In addition to the financial risks above the Group is also exposed to operational, pension, compliance, legal and reputational risk.

*Operational risk*

Operational risk is the risk of loss arising through failures associated with personnel, processes or systems or from external events. It is inherent in every business organisation and covers a wide spectrum of issues. First line operational risk is managed by the business, for example through procedures, documentation of processes, independent authorisation and reconciliation of transactions.

The Group has adopted a framework, supported by tailored enterprise-wide software, systematically to identify, assess, monitor and manage operational risks. This is achieved through self assessment of risks and controls, the collection and analysis of loss data and the development of key risk indicators as appropriate, enabling the embedding of operational risk awareness within the corporate culture. An independent department performs second line operational risk management, validating the self-assessments of risks and controls and reporting on operational risk to senior management and Board.

Business operations are subject to a programme of internal audit reviews, which are independent of line management, and the results are reported directly to the Group's senior management and Audit Committees. Following each review, management will put in place an action plan to address any issues identified. Internal Audit evaluates the adequacy and effectiveness of the Group's systems of internal control, as well as the level of compliance with policies, and reports, in addition to management's own combined assurance reporting, to the Audit Committees and senior management. Any significant weaknesses are reported to the relevant Boards.

The Group maintains comprehensive contingency plans to support its operations and ensure business continuity. These facilities are regularly tested.

*Pension risk*

Pension risk arises from the potential deficit in the Group's defined benefit pension plans due to a number of factors such as mortality rates or changes in inflation assumptions. The schemes are exposed to inflation, interest rate risks and changes in the life expectancy for members. As the schemes' assets include a significant investment in equity shares, the Group is exposed to equity market risk.

The main scheme in the Group is the LCH pension scheme in the UK and it is governed under the relevant laws and managed by the Trustees who are required to undertake a formal funding valuation every three years and, where assets are deemed to be insufficient, to agree a schedule of contributions to be paid by LCH.Clearnet Limited to make good any shortfall over a period of time. More details of the pension scheme and assumptions used in valuing their assets and liabilities are included in note 16.

*Compliance, legal and reputational risk*

Compliance, legal or regulatory risk arises from a failure or inability to comply with the laws, regulations or codes applicable specifically to the financial services industry. Non-compliance can lead to fines, public reprimands, enforced suspensions of services, or in extreme cases, withdrawal of authorisation to operate.

The Group is subject to various authorisation and regulatory requirements regimes. Central counterparties attract specific interest from regulators as they are a critical part of the market infrastructure. Specific resources and expertise are applied to meet the various regulatory requirements.

A key part of the role of the legal function is to identify and, in conjunction with senior managers across the Group, mitigate the legal risks of LCH.Clearnet.

The maintenance of the Group's strong reputation is key to its continued profitability and is the responsibility of the Board, management and staff. In particular the efficiency, reliability and effectiveness of the day to day operations of the Group are paramount to its reputation.

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**3. Exchange rates**

The most significant exchange rates to the euro for the Group are as follows:

	2013 Closing rate	2013 Average rate	2012 Closing rate	2012 Average rate
Euro (€) to US dollar (\$)	1.37	1.33	1.32	1.29
Euro (€) to pound sterling (£)	0.83	0.85	0.81	0.81

**4. Segment information**

For management purposes the Group is organised into business units based on legal entities and has three reporting operating segments:

- LCH.Clearnet Limited based in the UK, with a branch in New York. The LCH.Clearnet LLC operations are also included within this segment
- LCH.Clearnet SA based in mainland Europe with its main operations in France, branches in Belgium and the Netherlands and a representative office in Portugal
- Other, including the remainder of the Group's activities

These segments reflect the way in which the Group's chief operational decision makers monitor results and determine resource allocation within the Group. The LCH.Clearnet LLC results are included in the LCH.Clearnet Limited segment based on meeting the quantitative and qualitative requirements of IFRS 8.

The appropriate segment has directly attributable costs allocated to it. Where costs are not directly attributable, the relevant portion is allocated on a reasonable basis to each segment. Assets that are jointly used by two or more segments are allocated across segments.

Transfer pricing between segments is set on an arm's length basis in a manner similar to transactions with third parties.

LCH.Clearnet Limited, LCH.Clearnet LLC and LCH.Clearnet SA derive revenues through their activities as clearing houses. They provide CCP services in respect of OTC markets, a broad range of cash and derivative products traded on or through various exchanges and trading platforms in the UK (LCH.Clearnet Limited), Europe (LCH.Clearnet SA) and the US (LCH.Clearnet Limited and LCH.Clearnet LLC).

Of other Group companies, LCH.Clearnet (Luxembourg) S.á.r.l. earns royalties from Group companies who use the intellectual property held by it in their operations, and LCH.Clearnet Group Limited earns revenue from the operating subsidiaries in the form of management fees and dividends.

Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

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**Segmental information**

	Ltd €'m	2013 SA €'m	Other €'m	Total €'m
<b>Revenue</b>				
Clearing revenue	220.5	86.4	–	306.9
Interest income	128.5	160.4	–	288.9
Interest expense	(68.4)	(135.4)	–	(203.8)
Net Interest income	60.1	25.0	–	85.1
Other revenue	(26.5)	14.4	–	(12.1)
Inter-segment revenue	4.6	(0.3)	(4.3)	–
<b>Net revenue</b>	<b>258.7</b>	<b>125.5</b>	<b>(4.3)</b>	<b>379.9</b>
Segment result before impairment and non-recurring items	48.2	37.5	8.3	94.1
Impairment and non-recurring items	13.3	(29.8)	(13.0)	(29.6)
Operating profit	61.5	7.7	(4.7)	64.5
Finance income	3.2	0.1	–	3.3
Finance costs	(0.1)	–	(13.0)	(13.1)
<b>Profit/(loss) before tax</b>	<b>64.6</b>	<b>7.8</b>	<b>(17.7)</b>	<b>54.7</b>
Tax	(15.4)	(2.6)	7.4	(10.6)
<b>Profit/(loss) for the year</b>	<b>49.2</b>	<b>5.2</b>	<b>(10.3)</b>	<b>44.1</b>
<b>Other segment information</b>				
Capital expenditure on fixed assets	16.0	29.2	17.0	62.2
<b>Non-cash items</b>				
Fair value (gain)/loss on financial instruments	(0.3)	3.6	–	3.3
Depreciation of property, plant and equipment	3.9	1.9	–	5.8
Amortisation	4.7	4.9	9.2	18.8

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	2012 (restated)			Total €'m
	Ltd €'m	SA €'m	Other €'m	
<b>Revenue</b>				
Clearing revenue	167.9	86.0	-	253.9
Interest income	79.1	191.6	0.2	270.9
Interest expense	(28.0)	(108.4)	(0.2)	(136.6)
Net Interest income	51.1	83.2	-	134.3
Other revenues	19.4	27.2	40.9	87.5
Inter-segment revenue	(0.5)	(8.1)	(40.9)	(49.5)
<b>Segment revenue</b>	<b>237.9</b>	<b>188.3</b>	<b>-</b>	<b>426.2</b>
Result before impairment and non-recurring items	28.5	97.0	2.0	127.5
Impairment and non-recurring items	(12.7)	(7.5)	(7.4)	(27.6)
Operating profit	15.8	89.5	(5.4)	99.9
Finance income	2.7	1.2	0.1	4.0
Finance costs	(0.2)	-	(12.4)	(12.6)
Profit/(loss) before tax	18.3	90.7	(17.7)	91.3
Tax expense	(5.4)	(29.9)	3.7	(31.6)
Profit/(loss) for the year	12.9	60.8	(14.0)	59.7
<b>Other segment information:</b>				
Capital expenditure on fixed assets	11.3	3.3	14.5	29.1
<b>Non-cash items:</b>				
Fair value (gain)/loss on financial instruments	1.4	(36.1)	-	(34.7)
Goodwill addition (consideration issued in shares)	-	-	29.7	29.7
Depreciation of property, plant and equipment	4.3	0.8	-	5.1
Amortisation	3.2	5.0	11.2	19.4

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**Assets and liabilities**

	2013			Total €'m
	Ltd €'m	SA €'m	Other €'m	
<b>Total assets</b>	232,525.7	219,946.0	118.1	452,589.8
<b>Total liabilities</b>	(231,939.1)	(219,684.0)	(186.2)	(451,809.3)
<b>Net assets</b>	586.6	262.0	(68.1)	780.5

	2012			Total €'m
	Ltd €'m	SA €'m	Other €'m	
Total assets	265,978.7	229,930.3	159.4	496,068.4
Total liabilities	(265,792.3)	(229,606.6)	(245.4)	(495,644.3)
Net assets	186.4	323.7	(86.0)	424.1

**Geographic information**

	2013 €'m	2012 €'m
<b>Revenues from external customers</b>		
UK	246.4	237.9
Europe	126.1	188.3
Other	7.4	-
<b>Net revenue per consolidated income statement</b>	379.9	426.2

**Non-current assets**

	2013 €'m	2012 €'m
UK	95.0	103.5
Europe	190.9	182.6
Other	30.7	29.7
<b>Total</b>	316.6	315.8

Revenue is based on the location of the Group entity which earns the revenue.

Non-current assets are as defined in the statement of financial position.

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**5. Profit before taxation**

The following items have been included in arriving at profit before taxation:

	2013 €'m	2012 €'m
<b>Depreciation and amortisation</b>		
Depreciation of property, plant and equipment	5.8	5.1
Amortisation of intangible assets	18.8	19.4
Impairment of intangible assets	8.7	–
	<b>33.3</b>	<b>24.5</b>
<b>Other operating expenditure includes:</b>		
Hire of plant and machinery under operating leases	0.3	0.3
Property lease rentals	13.4	10.4
Foreign exchange (gains)/losses	1.6	(1.4)
<b>Auditor's remuneration:</b>		
Fees payable for the audit of the Company	0.1	0.1
Fee's payable to the auditor of the Company for other services:		
Fees payable for the audit of the Company's subsidiaries	0.7	0.6
Other assurance services on behalf of the Group	0.7	1.1
Other assurance services on behalf of the Company's subsidiaries	0.6	0.8
<b>Non-recurring items</b>		
Transformation plan costs including redundancy costs and loss on property refurbishments	–	24.1
Fees relating to the Group's acquisition by LSEG	12.2	–
Curtailment gain relating to UK pension scheme closure	(17.6)	–
Synergy plan costs including SA social plan	24.5	–
Other costs	1.8	3.5
<b>Total non-recurring items</b>	<b>20.9</b>	<b>27.6</b>
<b>Net finance expense</b>		
Interest charged in respect of:		
Preferred securities	12.3	12.3
Interest on bank loans and overdrafts and finance leases repayable within five years	0.8	0.3
	<b>13.1</b>	<b>12.6</b>
Interest receivable in respect of recoverable development costs	(3.2)	(2.4)
Interest received on own funds	(0.1)	(1.6)
<b>Net finance expense</b>	<b>9.8</b>	<b>8.6</b>

The retained profit for the year includes a loss of €22.3 million (2012: loss of €10.5 million) relating to the Company, LCH.Clearnet Group Limited.

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**6. Taxation**

The major components of taxation expense are:

	2013 €'m	2012 €'m
<b>Current income tax</b>		
United Kingdom current tax charge	(10.2)	(0.8)
Adjustments in respect of current taxation in previous years	0.9	(0.3)
Overseas current tax charge	(10.9)	(17.7)
Adjustments in respect of current taxation in previous years	0.2	0.8
<b>Total current taxation</b>	<b>(20.0)</b>	<b>(18.0)</b>
<b>Deferred tax</b>		
Relating to the origination and reversal of temporary differences	9.4	(13.6)
<b>Tax expense reported in the consolidated income statement</b>	<b>(10.6)</b>	<b>(31.6)</b>
<b>Consolidated statement of comprehensive income</b>		
Tax relating to actuarial (gain)/loss on overseas pension schemes	(0.6)	1.2
Tax relating to actuarial gain on UK pension scheme	(6.8)	(1.8)
<b>Tax expense reported in the statement of comprehensive income</b>	<b>(7.4)</b>	<b>(0.6)</b>

**Reconciliation of tax expense**

The income statement tax charge for the year differs from the standard rate of corporation tax in the UK as explained below:

	2013 €'m	2012 €'m
<b>Accounting profit before taxation</b>	<b>54.7</b>	<b>91.3</b>
Tax at UK statutory corporation tax rate of 23.25% (2012: 24.5%)	(12.7)	(22.4)
Effect of:		
Tax on pension surplus recognised in other comprehensive income	3.9	-
Adjustments in respect of prior periods	3.8	1.0
Disallowed expenses and non-taxable income	(3.4)	(1.6)
Re-measurement of deferred tax – change in corporation tax rate	(1.2)	(0.8)
Net effect of higher rates of overseas taxation	(1.7)	(8.3)
Exempt foreign income	1.3	0.2
Foreign exchange adjustment	(0.6)	0.3
<b>Total tax charge</b>	<b>(10.6)</b>	<b>(31.6)</b>
<b>Effective corporate tax rate</b>	<b>19.4%</b>	<b>34.6%</b>

The Finance Bill 2013 was substantively enacted on 17 July 2013. The reduction to the standard rate of corporation tax from 23% to 21% will be effective from 1 April 2014 and from 21% to 20% from 1 April 2015. Accordingly the



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deferred tax balances at 31 December 2013 have been stated at 20%.

Exchange differences have arisen on the translation of the closing sterling tax creditor which is payable to HM Revenue and Customs.

Deferred tax	Consolidated statement of financial position		Consolidated income statement	
	2013 €'m	2012 €'m	2013 €'m	2012 €'m
Post-employment benefits	(7.8)	–	1.2	(3.0)
Reduced depreciation for tax purposes	6.5	8.5	(0.5)	1.4
Other temporary differences	18.1	6.3	11.5	(12.0)
<b>Deferred tax credit/(charge)</b>			<b>12.2</b>	<b>(13.6)</b>
<b>Deferred tax asset</b>	<b>16.8</b>	<b>14.8</b>		

	UK €'m	Luxembourg €'m	Other overseas €'m	Total €'m
<b>Net deferred tax asset at 1 January 2013</b>	<b>9.7</b>	<b>1.0</b>	<b>4.1</b>	<b>14.8</b>
Deferred tax in income statement	(1.6)	3.2	7.8	9.4
Deferred tax relating to actuarial gains	(6.8)	-	(0.6)	(7.4)
<b>Net deferred tax asset at 31 December 2013</b>	<b>1.3</b>	<b>4.2</b>	<b>11.3</b>	<b>16.8</b>

	UK €'m	Luxembourg €'m	Other overseas €'m	Total €'m
Net deferred tax asset at 1 January 2012	12.0	1.0	16.0	29.0
Deferred tax in income statement	(0.5)	–	(13.1)	(13.6)
Deferred tax relating to actuarial loss	(1.8)	–	1.2	(0.6)
<b>Net deferred tax asset at 31 December 2012</b>	<b>9.7</b>	<b>1.0</b>	<b>4.1</b>	<b>14.8</b>

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**7. Intangible assets**

	2013				2012			
	Self-developed software €'m	Goodwill €'m	Other €'m	Total €'m	Self-developed software €'m	Goodwill €'m	Other €'m	Total €'m
<b>Cost</b>								
<b>At 1 January</b>	178.2	533.5	–	711.7	162.4	503.8	–	666.2
Transfers	(7.0)	–	7.0	–	–	–	–	–
Additions	35.2	–	15.4	50.6	17.7	29.7	–	47.4
Disposals	(8.0)	–	–	(8.0)	(1.9)	–	–	(1.9)
<b>At 31 December</b>	<b>198.4</b>	<b>533.5</b>	<b>22.4</b>	<b>754.3</b>	<b>178.2</b>	<b>533.5</b>	<b>–</b>	<b>711.7</b>
<b>Accumulated amortisation</b>								
<b>At 1 January</b>	120.0	393.4	–	513.4	102.5	393.4	–	495.9
Transfer	(3.1)	–	3.1	–	–	–	–	–
Amortisation charge for the year	17.2	–	1.6	18.8	19.4	–	–	19.4
Impairment in the year	8.7	–	–	8.7	–	–	–	–
Disposals	(6.6)	–	–	(6.6)	(1.9)	–	–	(1.9)
<b>At 31 December</b>	<b>136.2</b>	<b>393.4</b>	<b>4.7</b>	<b>534.3</b>	<b>120.0</b>	<b>393.4</b>	<b>–</b>	<b>513.4</b>
<b>Net book value at 31 December</b>	<b>62.2</b>	<b>140.1</b>	<b>17.7</b>	<b>220.0</b>	<b>58.2</b>	<b>140.1</b>	<b>–</b>	<b>198.3</b>

The portion of capitalised self-developed software costs disclosed above that relates to software not currently brought into use amounted to €31.5 million (2012: €25.9 million). No amortisation has been charged during the year against these assets (2012: €nil).

Other intangible assets represent investment in business development.

**8. Impairment testing of intangible assets**

*Assumptions*

Goodwill is carried in relation to LCH.Clearnet SA and LCH.Clearnet (US) LLC, both wholly owned subsidiaries. The recoverable amount associated with these subsidiaries is determined based on value in use calculations.

In respect of other intangible assets/self developed software, impairment has been assessed by reviewing the carrying value of the asset against its recoverable amount, which has been determined by value in use calculations for the relevant cash generating unit using cash flow projections approved by the Board.

The key assumptions used in the valuations are as follows:

- cash flow projections derived from financial forecasts prepared by management covering a five year period
- cash flows beyond the five year period (applicable to goodwill only) are extrapolated using an estimated long term growth rate of 2.0% (2012: 2.0%)
- cash flows are discounted using a pre-tax discount rate of 12.0% (2012: 12.2%)

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*Impairment results*

Having completed the tests as described above, goodwill was found not to be impaired. The excess of value in use over carrying value is €33.4 million at 31 December 2013 in respect of goodwill.

An impairment of €8.7 million was recognised in relation to self-developed software; of this €8.4 million (in the LCH.Cleartnet SA segment) relates to one project for which the relevant cash generating unit is not anticipated to generate sufficient positive cash flows. The balance of €0.3 million was split across reporting segments.

Other intangibles were found not to be impaired.

*Sensitivity analysis*

Reasonably possible changes in key assumptions at 31 December 2013 are detailed below and the impact on the impairment recognised noted:

<b>Goodwill</b>	<b>Base case</b>	<b>Adjusted</b>	<b>Increase in impairment</b>
			<b>€'m</b>
Cash flow growth beyond the five year period	2%	0%	<b>5.4</b>
Future development of business lines	various	-10%	<b>16.3</b>
Pre-tax discount rate	12%	15%	<b>21.6</b>
<b>Other intangible assets/self-developed software</b>	<b>Base case</b>	<b>Adjusted</b>	<b>Increase in impairment</b>
			<b>€'m</b>
Future development of business lines	various	-10%	<b>2.6</b>
Pre-tax discount rate	12%	15%	<b>1.0</b>

**9. Property, plant and equipment**

**As at 31 December 2013**

	<b>Leasehold refurbishment €'m</b>	<b>Computer equipment and software €'m</b>	<b>Office equipment and other fixed assets €'m</b>	<b>Total €'m</b>
<b>Cost</b>				
<b>At 1 January</b>	12.2	33.6	6.0	51.8
Additions	0.3	2.3	0.7	3.3
Disposals	–	(1.2)	–	(1.2)
<b>At 31 December</b>	12.5	34.7	6.7	53.9
<b>Accumulated depreciation</b>				
<b>At 1 January</b>	3.6	24.3	5.4	33.3
Depreciation charge for the year	1.1	4.4	0.4	5.9
Disposals	–	(1.2)	–	(1.2)
<b>At 31 December</b>	4.7	27.5	5.8	38.0
<b>Net book value at 31 December</b>	<b>7.8</b>	<b>7.2</b>	<b>0.9</b>	<b>15.9</b>

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As at 31 December 2012				
	Leasehold refurbishment €'m	Computer equipment and software €'m	Office equipment and other fixed assets €'m	Total €'m
<b>Cost</b>				
At 1 January	7.8	26.7	5.9	40.4
Additions	4.4	6.9	0.1	11.4
<b>At 31 December</b>	<b>12.2</b>	<b>33.6</b>	<b>6.0</b>	<b>51.8</b>
<b>Accumulated depreciation</b>				
At 1 January	(2.6)	(20.5)	(5.1)	(28.2)
Depreciation charge for the year	(1.0)	(3.8)	(0.3)	(5.1)
<b>At 31 December</b>	<b>(3.6)</b>	<b>(24.3)</b>	<b>(5.4)</b>	<b>(33.3)</b>
<b>Net book value at 31 December</b>	<b>8.6</b>	<b>9.3</b>	<b>0.6</b>	<b>18.5</b>

Assets with a net book value of €0.5 million (2012: €0.8 million) are held under finance leases and included within computer equipment.

**10. Cash and cash equivalents**

	2013 €'m	2012 €'m
Cash at bank and in hand	5,187.4	5,689.8
Short term deposits	26,508.9	20,655.6
	<b>31,696.3</b>	<b>26,345.4</b>

€26,508.9 million (2012: €20,357.6 million) of short-term deposits are fully collateralised by sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Group's Risk Committees.

Of this amount, €769.3 million (2012: €432.1 million) is own cash. €54.1 million of this amount is restricted as the Group's CCP-level own resources to be used in the default waterfalls. Upon EMIR authorisation, this will be allocated by default fund on a pro rata basis for LCH.Clearnet Limited and LCH.Clearnet SA.

**11. Trade and other receivables**

	2013 €'m	2012 €'m
<b>Non-current</b>		
Other receivables	44.6	84.2
<b>Current</b>		
Other receivables	34.6	15.9
Provision for bad debts	(1.3)	-
Prepayments	6.7	16.3
Accrued income	0.5	1.5
	<b>40.5</b>	<b>33.7</b>

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Other receivables include to amounts recoverable from clearing members relating to the development of clearing systems.

A doubtful debt provision has been made in respect of €1.3 million due from one customer.

**12. Balances with clearing members**

	2013 €'m	2012 €'m
<b>Assets</b>		
Fair value of transactions with clearing members, less variation margin	406,815.3	450,553.3
Other clearing member balances	4,205.1	4,810.8
	<b>411,020.4</b>	<b>455,364.1</b>
<b>Liabilities</b>		
Fair value of transactions with clearing members, less variation margin	(406,815.3)	(450,460.1)
Initial margin and other clearing member balances	(37,804.2)	(39,058.0)
	<b>(444,619.5)</b>	<b>(489,518.1)</b>

The balances due from clearing members recorded in the statement of financial position of €406,815.3 million (2012: €450,553.3 million) are fully secured by collateral held by the Group. To date this collateral has not been utilised.

At 31 December 2013 the total of fully collateralised loans in respect of fixed income transactions was €436,575.3 million (2012: €446,783.3 million). This collateral has in turn, been passed on to fixed income counterparties to secure the Group's liabilities in respect of fixed income contracts.

The total net amount of non-cash collateral, including that in respect of initial margin, relating to other balances due from clearing members was €34,208.5 million (2012: €33,506.0 million) and the total amount of guarantees held was €997.4 million (2012: €2,387.4 million). To date this collateral has not been utilised.

Balances with clearing members include €3,850.4 million due from and €3,459.9 million due to Cassa di Compensazione Garanzia S.p.A (CC&G), a fellow LSEG subsidiary company.

**13. Issued capital and reserves**

**Share capital**

*Ordinary shares*

On 30 May 2013 the Company issued 32,000,000 new ordinary shares of €1.00 each for consideration of €320.0 million. The shares were issued to existing shareholders in order to raise additional regulatory capital for the Group. The fees incurred of €3.2 million in relation to the share issue have been recognised directly in equity.

The company has 74,193,814 fully paid-up ordinary shares of €1.00 each in issue as at 31 December 2013 (2012: 42,193,814).

*Non-cumulative callable preference shares (NCPS)*

The company is authorised to issue NCPS of €1.00 each in the event that the Group's capital ratios fall below the minimum required by the relevant regulatory authority for a period of six months. As at 31 December 2013, none of these shares have been issued (2012: nil).

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**Other reserves**

*Share premium*

An additional €288.0 million was recognised in share premium when the Company issued 32.0 million ordinary €1.00 shares with a premium of €9.00 each on 30 May 2013.

*Capital reserves*

The capital reserve of €15.3 million (2012: €15.3 million) represents the difference between the called-up share capital of the Company and the called-up share capital, share premium account and capital redemption reserve of LCH.Clearnet Limited at 19 December 2003, when the Group was formed, less the amount transferred to retained earnings in 2007 as part of a court approved capital restructuring.

*Capital redemption reserve*

The balance of €59.5 million (2012: €59.5 million) represents the nominal value of the ordinary shares that were repurchased and cancelled in 2007, 2008, and 2009.

*Translation reserve*

The balance €(1.6) million (2012: €(1.3) million) represents the movement when retranslating the Group's non-euro denominated subsidiaries net assets.

*Distributable reserves*

Retained earnings of €317.0 million (2012: €280.3 million) includes €19.9 million of non-distributable reserves reflecting the nominal value of the redeemable convertible preference shares redeemed in 2007. €68.5 million (2012: €90.8 million) of the Company's reserves are regarded as distributable.

**14. Interest bearing loans and borrowings**

	2013 €'m	2012 €'m
<b>Current</b>		
Finance leases	0.3	0.3
Other loans	8.1	68.7
Bank overdrafts	34.6	–
	<b>43.0</b>	<b>69.0</b>
<b>Non-current</b>		
Preferred securities	178.4	177.9
Finance leases	0.8	1.1
	<b>179.2</b>	<b>179.0</b>

*Preferred securities*

The Group issued €200 million non-voting, non-cumulative preferred securities on 18 May 2007. Interest is payable annually in arrears at a fixed rate of 6.576% until 18 May 2017 and then at 2.1% above three month EURIBOR. The preferred securities are redeemable in whole at the option of the Group on 18 May 2017 or any distribution date thereafter. The preferred securities are listed on the Dublin Stock Exchange through Freshwater Finance PLC.

In January 2009 the Group repurchased preferred securities with a nominal value of €20.0 million at a cost of €10.5

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million. The fair value of these securities as at 31 December 2013 was €20.1 million (2012: 16.0 million).

*Other loans*

The Group has an €8.0 million loan from OTC Derivnet Limited which was repayable by 13 February 2014 or with one month's notice, whichever was the sooner. Interest is charged monthly at a rate of EURIBOR + 1.1% and is added to the outstanding loan balance. The outstanding balance was repaid in February 2014.

On 28 January 2013, the Group entered into a facility agreement with a syndicate of banks to borrow €100 million for a maximum term of one year at an interest rate of EURIBOR + 1.65%. This facility replaced the existing \$80 million facility which was repaid in full in February 2013. The new facility was fully repaid in May 2013 following the change of control of the Group and the capital raise of €320.0 million

*Bank overdrafts*

In order to assist with day to day liquidity management the Group maintains a number of uncommitted money market and overdraft facilities with a number of major banks. Effective interest rates on these facilities vary depending on market conditions.

**15. Default funds**

The purpose of the default funds is to absorb any losses incurred by the Group in the event of clearing member default if margin collateral is insufficient to cover the management and close out of the positions of the defaulting clearing member. Default funds are held separately by each CCP entity to cover the risks that each company faces, and are split into several different funds in each company to cover the different business lines of that company. The total default funds held by the Group at 31 December 2013 were €6,718.6 million (2012: €5,595.1 million).

**16. Employee benefits**

**Staff costs – all employees and directors**

	2013 €'m	2012 €'m
Wages and salaries	109.4	109.0
Social security costs	20.1	21.4
Pension costs	11.0	11.3
<b>Staff costs before non-recurring items</b>	<b>140.5</b>	<b>141.7</b>
Staff costs included in non-recurring items (note 5)	(13.3)	7.4
<b>Total staff costs</b>	<b>127.2</b>	<b>149.1</b>

Average monthly number of staff employed during the year	804	767
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**Staff costs – key management personnel**

	2013 €'m	2012 €'m
Remuneration	11.0	9.7
Compensation for loss of benefits from previous employment	0.5	0.7
Pension contributions	0.5	0.3
Compensation for loss of office	0.9	0.4
<b>Aggregate emoluments of Group Executive Committee</b>	<b>12.9</b>	<b>11.1</b>

Key management personnel of the Group consist of the members of the Group Executive Committee (ExCo); there

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were 13 members at 31 December 2013 (2012: 13). During the year five members joined and five left; salary costs have been included on a pro rata basis where employees were appointed to the Committee during the year. Where members left ExCo at the same time as they were compensated for loss of employment, the full value of such costs has been included.

ExCo included two (2012: one) directors of the Company during the year (Ian Axe and, with effect from 25 September 2013, Jacques Aigrain).

The costs above exclude bonuses deferred under the rules of the ExCo bonus scheme (but includes €1.0 million in relation to such deferrals from prior years that was paid during the year) and amounts awarded under the Group's long term incentive plan (LTIP) (no amounts paid during the year). Under the LTIP, employees can benefit from an increase in the value of a notional share; awards typically vest after three years following the grant date, and may also be subject to clawback for a further three years following vesting.

**Directors' remuneration**

	2013 €'m	2012 €'m
Remuneration	5.6	3.5
Total	5.6	3.5

Where directors left the Board at the same time as they were compensated for loss of employment, the full value of such costs has been included. Employer's pension contributions of €34,000 were made in respect of directors during the year. Remuneration of the highest paid director is €3,774,153 (2012: €2,062,708). This includes €nil (2012: €540,094) deferred under the rules of the ExCo bonus scheme which is recognised in the income statement over the period to the vesting date. No Directors are accruing retirement benefits under a defined benefit scheme. The highest paid director participates in the Group's LTIP (as described above).

Independent non-executive directors received fees for their services. The Board determines fees that reflect the level of individual responsibilities, attendance of meetings and membership of Board committees. Non-executive directors representing shareholders did not receive fees.

**Pension commitments**

*Defined contribution schemes*

The Group pays fixed contributions to the defined contribution scheme and there is no legal or constructive obligation to pay further contributions. The assets of the plan are held separately from those of the Group in a fund under the control of the trustees. The total expense charged in the income statement of €8.1 million (2012: €1.5 million) represents contributions payable to the plan by the Group at rates specified in the rules of the plan.

*Defined benefit schemes*

The Group operated a defined benefit pension scheme for its employees in the UK (the defined benefit section of the LCH pension scheme), which was closed to new members from 30 September 2009. Details of the regulatory environment and risks can be found in note 2.

The scheme was closed to further employee contributions on 31 March 2013. As a result of this closure, LCH.Clearnet Ltd made a curtailment gain of £14.5 million (€17.6 million) which has been recognised as a non-recurring item during the year (note 5). A gain has also been recognised due to the settlement of the Euronext defined benefit pension scheme in Amsterdam.

IAS 19 (Revised 2011) changes, amongst other things, the accounting for defined benefit plans. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under IAS 19 (Revised 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. The impact of this change would be an €0.8 million reduction in



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interest income, with an offsetting gain in other comprehensive income in the year ending 31 December 2012, which has not been reflected in the financial statements, but has in this note. The impact of this change in the year ending 31 December 2013 is an increase of €1.5 million in interest income, with an offsetting reduction in other comprehensive income.

The valuations of the UK scheme conducted for financial reporting purposes are based on the triennial actuarial valuation as at 30 June 2010. The other schemes were subject to a full valuation at 31 December 2010. A summary of the principal assumptions used is detailed below. The Group is not aware of any events subsequent to 31 December 2013, which would have a material impact on the results of the valuation. There was no impact of the asset ceiling test.

	2013				2012			
	UK	France	A'dam	Porto	UK	France	A'dam	Porto
<b>Weighted-average assumptions to determine benefit obligations:</b>								
Discount rate	4.6%	3.0%	3.0%	3.0%	4.5%	3.0%	3.0%	3.0%
Rate of salary increase	n/a	3.0%	n/a	3.0%	4.5%	3.0%	3.5%	3.0%
Rate of price Inflation	3.4%	2.0%	n/a	2.0%	3.0%	2.0%	2.0%	2.0%
Rate of pension increases	2.2%	n/a	n/a	1.5%	2.8%	n/a	0.5%	1.5%

**Post retirement mortality in years:**

Currently aged 60 male	29.2	23.3	n/a	20.6
Currently aged 60 female	31.2	27.5	n/a	20.6
Currently aged 45 male	30.3	23.3	n/a	n/a
Currently aged 45 female	32.5	27.5	n/a	n/a

The discount rate for the UK scheme has been determined from a curve of AA corporate bond rates by duration which is consistent with the estimated weighted average duration of the scheme's liabilities at around 25 years. Scheme assets are stated at their market value at the respective statement of financial position dates.

**Changes in benefit obligation**

	2013		
	UK	France	A'dam/ Porto
	€'m	€'m	€'m
<b>Benefit obligation as at 1 January</b>	189.8	6.3	6.6
Pension (income)/expense:			
Current service cost	2.5	0.4	0.3
Past service gain (curtailment gain)	(17.6)	(1.7)	(2.0)
Net interest	8.1	0.2	0.2
<b>Subtotal included in the income statement</b>	<b>(7.0)</b>	<b>(1.1)</b>	<b>(1.5)</b>
Re-measurement (losses)/gains:			
Effect of changes in demographic assumptions	–	0.2	–
Effect of changes in financial assumptions	3.1	–	–
Effect of experience adjustments	0.3	(0.2)	(0.5)
<b>Subtotal included in other comprehensive income</b>	<b>3.4</b>	<b>–</b>	<b>(0.5)</b>
Reduction in obligation due to settlement	–	–	(4.2)
Benefits paid	(3.3)	(0.2)	–
Foreign exchange	(3.7)	–	–
<b>Benefit obligation as at 31 December</b>	<b>179.2</b>	<b>5.0</b>	<b>0.4</b>

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	2012		A'dam/ Porto
	UK	France	€'m
	€'m	€'m	€'m
Benefit obligation as at 1 January	171.2	4.5	3.5
Pension (income)/expense:			
Current service cost	9.3	0.3	0.2
Past service gain (curtailment gain)	–	–	–
Net interest	8.3	0.2	0.2
Subtotal included in the income statement	17.6	0.5	0.4
Re-measurement (losses)/gains:			
Effect of changes in demographic assumptions	–	–	–
Effect of changes in financial assumptions	8.3	1.5	2.7
Effect of experience adjustments	(8.7)	(0.1)	–
Subtotal included in other comprehensive income	(0.4)	1.4	2.7
Reduction in obligation due to settlement	–	–	–
Benefits paid	(3.3)	(0.1)	–
Foreign exchange	4.7	–	–
Benefit obligation as at 31 December	189.8	6.3	6.6

**Changes in scheme assets**

	2013		A'dam/ Porto
	UK	France	€'m
	€'m	€'m	€'m
<b>Fair value of scheme assets as at 1 January</b>	<b>189.4</b>	<b>–</b>	<b>4.3</b>
Pension income:			
Net interest	8.2	–	0.1
Subtotal included in the income statement	8.2	–	0.1
Re-measurement gains:			
Return on plan assets (excluding interest income)	5.8	–	(0.3)
Subtotal included in other comprehensive income	5.8	–	(0.3)
Employer contributions	2.2	0.2	0.6
Benefits paid	(3.3)	(0.2)	(0.1)
Reduction in assets due to settlement	–	–	(4.2)
Foreign exchange	(3.8)	–	–
<b>Fair value of scheme assets as at 31 December</b>	<b>198.5</b>	<b>–</b>	<b>0.4</b>

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	2012		
	UK €'m	France €'m	A'dam/ Porto €'m
Fair value of scheme assets as at 1 January	159.5	–	3.4
Pension income:			
Net interest	8.0	–	0.2
Subtotal included in the income statement	8.0	–	0.2
Re-measurement gains:			
Return on plan assets (excluding interest income)	7.9	–	0.1
Subtotal included in other comprehensive income	7.9	–	0.1
Employer contributions	13.0	0.1	0.6
Benefits paid	(3.3)	(0.1)	–
Reduction in assets due to settlement	–	–	–
Foreign exchange	4.3	–	–
Fair value of scheme assets as at 31 December	189.4	–	4.3

An analysis of the pension assets is set out below:

Pension scheme asset allocation	2013		2012	
	UK €'m	A'dam/ Porto €'m	UK €'m	A'dam/ Porto €'m
<b>Fair value of scheme assets with a quoted market price:</b>				
Cash and cash equivalents	7.7	–	9.5	–
Equity instruments	104.5	0.3	106.0	1.6
Debt / LDI instruments	86.3	–	66.3	2.4
Real estate	–	0.1	7.6	0.1
Other	–	–	–	0.2
<b>Total</b>	<b>198.5</b>	<b>0.4</b>	<b>189.4</b>	<b>4.3</b>

The Trustees have in place a set of de-risking trigger mechanisms which will gradually further reduce the Scheme's allocation to growth assets (e.g. equities) and increase the allocation to lower risk investments such as diversified growth funds and the liability driven investment portfolio.

Sensitivity analysis		UK €'m	France €'m	A'dam/ Porto €'m
Discount rate	+25 basis points	191.1	5.2	0.4
Discount rate	-25 basis points	168.3	4.8	0.4
Mortality	-1 year age rating	182.8	5.0	0.4

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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**Payments from the defined benefit obligation**

The weighted average duration of the defined benefit pension schemes is 25.13 years (2012: 27.21 years). The following payments are expected to be made in future years out of the defined benefit plan obligation:

	UK €'m	France €'m	A'dam/ Porto €'m
Within the next 12 months	3.1	–	–
Between 2 and 5 years	12.9	0.6	–
Following 5 years	17.8	1.4	–
<b>Total</b>	<b>33.8</b>	<b>2.0</b>	<b>–</b>

**Contributions**

The Group expects to make contributions of €90,000 to its defined benefit pension plans in 2014 (2013: €7.1 million).

**17. Trade and other payables**

	2013 €'m	2012 €'m
<b>Non-current</b>		
Other payables	40.9	51.8
<b>Current</b>		
Trade payables	10.6	12.9
Other payables including taxation and social security	89.1	95.9
Accruals and deferred income	70.2	79.0
	<b>169.9</b>	<b>187.8</b>

Non-current payables of €40.9 million (2012: €51.8 million) relate to funding arrangements for the development of new clearing systems.

Current other payables include a balance of €58.5 million (2012: €60.1 million) owed to the administrator of MF Global UK Limited. €53.5 million of this balance was paid in January 2014.

**18. Commitments and contingencies**

**Operating leases**

At 31 December 2013 the Group had annual commitments under non-cancellable operating leases.

	2013 Property €'m	2012 Property €'m
Within one year	8.8	11.6
More than one year, but less than five	29.3	21.2
More than five years	27.3	28.6
	<b>65.4</b>	<b>61.4</b>

The London office lease expires in 2026. The Paris office lease has a break clause in 2015 and expires in 2018. The New York office lease expires in 2023.

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**Finance leases**

The Group has finance leases for various items of computer equipment.

	2013		2012	
	Minimum payments €'m	Present value of payments €'m	Minimum payments €'m	Present value of payments €'m
Within one year	0.4	0.3	0.4	0.3
In two to five years	0.8	0.8	1.2	1.1
Total minimum lease payments	1.2	1.1	1.6	1.4
Less: future financing charges	(0.1)	–	(0.2)	–
	1.1	1.1	1.4	1.4

**Supplier agreements**

On 14 October 2013, LCH.Clearnet SA and the ATOS group agreed a new five year IT service contract, effective on 1 January 2014. The estimated maximum value of the commitment to December 2018 is up to €57.0 million, assuming no early termination.

**Treasury assets supporting operational facilities**

At 31 December 2013 the Group had assets and collateral in support of the following operational facilities:

	2013 €'m	2012 €'m
Central bank activity <sup>1</sup>	5,246.8	6,149.2
Concentration bank services	313.3	615.4
Fixed income settlement <sup>2</sup>	21,373.9	19,900.0
	26,934.0	26,664.6

<sup>1</sup>LCH.Clearnet SA pledges securities that have been provided as collateral for clearing activity with Banque de France for the purpose of securing overnight borrowing.

<sup>2</sup>LCH.Clearnet Limited holds collateral as security against triparty cash loans as well as government debt and government backed bank issued debt, which is used to support RepoClear settlement activity.

**19. Provisions**

In December 2013, the Group initiated a restructuring plan for LCH.Clearnet SA, the Group's French CCP. Accordingly, a net amount of €18.9 million has been provided for on the statement of financial position. The provision has not been discounted as it is expected that this amount will be utilised during 2014.

**20. Related party transactions**

**Key management personnel**

Details of key management personnel and their total remuneration are disclosed in note 16.

**Ultimate parent company and group companies**

At 31 December 2012 LCH.Clearnet Group Limited was the ultimate holding company and the parent company of both the smallest and largest group that presented consolidated accounts.

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On 1 May 2013, London Stock Exchange Group plc (LSEG) acquired 55.5% of the ordinary share capital of LCH.Clearnet Group Limited and is now the immediate and ultimate parent company of the Group with a total holding of 57.78% and the largest group that prepares consolidated accounts.

Copies of the consolidated financial statements for London Stock Exchange Group plc for the year ended 31 March 2014 are available from the Company Secretary, London Stock Exchange Group plc, 10 Paternoster Square, London, EC4M 7LS.

Details of the principal Group companies are set out in note 23 to these consolidated financial statements. Transactions or balances with LCH Group entities that have been eliminated in these consolidated financial statements are not reported.

Since 1 May 2013, the Group has been part of LSEG. All transactions with LSEG owned companies are as the result of commercial arrangements agreed between the Group and other LSEG companies prior to the Company becoming part of LSEG.

As at 31 December 2013, the Group owed London Stock Exchange plc (LSE), a fellow subsidiary of LSEG, €0.2 million (in relation to fees collected on behalf of LSE) and €0.2 million to CC&G (in relation to transaction fees) and LSE owed the Group €0.2 million (in relation to recharged independent director fees and project costs). Note 12 gives details of the Group's inter-operability balances with CC&G.

**21. Financial instruments**

**Financial assets and liabilities**

	Note	2013 €'m	2012 €'m
<b>Financial assets at fair value through profit or loss</b>			
Fair value of transactions with clearing members	12	406,815.3	450,553.3
Government backed, bank issued certificates of deposits		3,066.7	4,300.2
Treasury bills		4,899.6	7,448.6
<b>Held-to-maturity assets (in other financial assets)</b>			
Government backed, bank issued certificates of deposits		1,543.9	2,248.5
Other financial assets in the statement of financial position		9,510.1	13,997.3
<b>Loans and receivables</b>			
Trade and other receivables	11	77.9	94.1
Other clearing member balances	12	4,205.1	4,810.8
Cash and short-term deposits in the statement of financial position	10	31,696.3	26,345.4
<b>Financial liabilities at fair value through profit or loss</b>			
Fair value of transactions with clearing members	12	(406,815.3)	(450,460.1)
<b>Financial liabilities at amortised cost</b>			
Trade and other payables	17	(205.9)	(231.1)
Initial margin and other member balances	12	(37,804.2)	(39,058.0)
Default funds	15	(6,718.6)	(5,595.1)
Other loans and bank overdrafts	14	(43.8)	(70.1)
Preferred securities	14	(178.4)	(177.9)
<b>Derivative financial instruments at fair value through profit or loss</b>			
Derivative financial liabilities		(11.1)	(35.4)

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Prepayments, other taxes and accrued income within trade and other receivables are not classified as financial assets. Other taxes and provisions within trade and other payables are not classified as financial liabilities.

Certificates of deposit (both bank issued and government backed) are all carried at fair value. For assets not marked to market there is no material difference between the carrying value and fair value.

Based on market prices at 31 December 2013 the fair value of the Group's preferred securities is €181.2 million (2012: €144.0 million) at the year end compared to the amortised cost carrying value of €178.4 million (2012: €177.9 million) as shown in note 14.

All financial assets held at fair value are designated as such at initial recognition by the Group.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs, which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The Group has no financial instruments in this category

The Group held the following significant financial instruments measured at fair value:

	2013			2012		
	Level 1 €'m	Level 2 €'m	Total €'m	Level 1 €'m	Level 2 €'m	Total €'m
<b>Assets measured at fair value</b>						
Fair value of transactions with clearing members	5.3	406,810.0	406,815.3	3,770.0	446,783.3	450,553.3
Treasury bills	4,899.6	–	4,899.6	7,448.6	–	7,448.6
Government backed, bank issued certificates of deposit	3,066.7	–	3,066.7	4,300.2	–	4,300.2
<b>Liabilities measured at fair value</b>						
Fair value of transactions with clearing members	(5.3)	(406,810.0)	(406,815.3)	(3,676.8)	(446,783.3)	(450,460.1)
Derivative financial liabilities	–	(11.1)	(11.1)	–	(35.4)	(35.4)
<b>Other items where fair value is known</b>						
Government backed, bank issued certificates of deposit	1,543.9	–	1,543.9	2,248.5	–	2,248.5
Preferred securities	(181.2)	–	(181.2)	(144.0)	–	(144.0)

For assets and liabilities classified as level 1, the fair value is based on market price quotations at the reporting date. For assets and liabilities classified as level 2, the fair value is calculated using valuation techniques with market observable inputs. Frequently applied techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, interest rate curves and forward rate curves.

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**Income statement**

Amounts included in the income statement in relation to financial instruments are as follows:

	2013 €'m	2012 (restated) €'m
Interest income on assets held at fair value	75.6	139.2
Interest income on assets held at amortised cost	154.7	129.7
Net fair value (loss)/gain on revaluation of other financial assets held at fair value included in net interest income	(32.8)	9.3
Net fair value gain on interest rate swaps	29.5	25.4
<b>Total revaluation (losses)/gains</b>	<b>(3.3)</b>	<b>34.7</b>
<b>Interest income</b>	<b>288.9</b>	<b>270.9</b>
Interest expense on liabilities held at amortised cost	(203.8)	(136.6)
<b>Net interest income</b>	<b>85.1</b>	<b>134.3</b>
Finance income on assets held at amortised cost	3.3	4.0
Finance expense on overdrafts and finance leases held at amortised cost	(0.8)	(0.3)
Finance expense on loans and borrowings held at amortised cost	(12.3)	(12.3)
<b>Net finance expense</b>	<b>(9.8)</b>	<b>(8.6)</b>

**Offsetting financial assets and financial liabilities**

The Group reports financial assets and financial liabilities on a net basis on the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.



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The following table shows the impact of netting arrangements on all financial assets and liabilities that are reported net on the balance sheet.

<b>As at 31 December 2013</b>	<b>Gross amounts €'m</b>	<b>Amount offset €'m</b>	<b>Net amount as reported €'m</b>
Derivative financial assets	28,572,945	(28,571,553)	1,392
Reverse repurchase agreements	619,260	(214,683)	404,577
Other	88,265	(87,419)	846
<b>Total assets</b>	<b>29,280,470</b>	<b>(28,873,655)</b>	<b>406,815</b>
Derivative financial liabilities	(28,572,945)	28,571,553	(1,392)
Reverse repurchase agreements	(619,260)	214,683	(404,577)
Other	(88,265)	87,419	(846)
<b>Total liabilities</b>	<b>(29,280,470)</b>	<b>28,873,655</b>	<b>(406,815)</b>
<b>As at 31 December 2012</b>	<b>Gross amounts €'m</b>	<b>Amount offset €'m</b>	<b>Net amount as reported €'m</b>
Derivative financial assets	36,054,823	(36,052,072)	2,751
Reverse repurchase agreements	696,239	(249,455)	446,784
Other	92,384	(91,459)	925
<b>Total assets</b>	<b>36,843,446</b>	<b>(36,392,986)</b>	<b>450,460</b>
Derivative financial liabilities	(36,054,823)	36,052,072	(2,751)
Reverse repurchase agreements	(696,239)	249,455	(446,784)
Other	(92,384)	91,459	(925)
<b>Total liabilities</b>	<b>(36,843,446)</b>	<b>36,392,986</b>	<b>(450,460)</b>

As CCPs, the Group's operating companies sit in the middle of members' transactions and hold default funds and margin amounts as a contingency against the default of a member. As such, further amounts are available to offset in the event of a default reducing the asset and liability of €406,815 million (2012: €450,460 million) to nil. Default funds for derivatives of €4,485.9 million, repos of €1,650.9 million and other transactions of €376.4 million are held by the Group. In addition, the Group holds margin of €10,551.6 million for derivatives, €12,245.1 million for repurchase agreements and €3,992.9 million for other transactions, as well as additional variation margin amounts which are not allocated by business line.

## **22. Capital management**

The Group's approach to capital management is to maintain a strong capital base that will support the development of the business, meet regulatory capital requirements at all times and maintain good credit ratings.

Capital plans are included within the Group's medium term financial plan which is presented to the Board annually. The capital plans take into account current and future regulatory requirements and the development of the Group's business.

### *Compliance with capital adequacy regulations*

The Group is lead regulated by the ACPR in Paris as a Compagnie Financiere under French law and is subject to standard capital adequacy rules under Basel II.

LCH.Clearnet SA is regulated as a credit institution by the ACPR and as a CCP and an investment service provider by the AMF and is subject to standard capital adequacy rules under Basel II. Since December 2013, it is also regulated by the CFTC as a DCO.

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LCH.Clearnet Limited is regulated by the Bank of England as a Recognised Clearing House under the Financial Services and Markets Act 2000 and by the CFTC as a DCO.

LCH.Clearnet LLC is regulated by the CFTC as a DCO.

The Group and its subsidiaries have been fully compliant with the respective capital adequacy regulations throughout 2013.

LCH.Clearnet Limited and LCH.Clearnet SA submitted applications to their national competent authorities for reauthorisation under EMIR in line with regulatory deadlines and, at the time of issuing this report, continue to work with the authorities and the defined process towards reauthorisation.

*Basel II*

In accordance with the Basel II Pillar 1 framework the Group is required to maintain a ratio of total capital to risk weighted assets that cannot fall under a threshold of 8% and a ratio of Tier 1 capital to risk weighted assets that must always exceed a threshold of 4%. At 31 December 2013 the ratio of total capital to risk weighted assets increased to 74.9% (2012: 46.1%) and the ratio of Tier 1 capital to risk weighted assets increased to 74.9% (2012: 39.6%).

*Capital base*

The Group uses its Internal Capital Adequacy Assessment Process to identify additional risks and to assess extra capital under Pillar 2 which are not covered within the Pillar 1 framework.

The amount of perpetual preferred securities issued in 2007 that can be recognised as Tier 1 capital is limited to 35% of the total amount of Tier 1 capital with the remaining balance recognised as Tier 2 as long Tier 2 capital does not exceed 100% of Tier 1 Capital.

At 31 December 2013 the Group had excess capital over the Pillar 1 requirement of €625.9 million, an increase of €292.5 million from 2012 (€333.4 million). The excess capital over the total Pillar 1 and Pillar 2 requirement was €365.4 million, an increase of €212.8 million from 2012 (€152.6 million).

*Basel III*

On 1 January 2014 the Capital Requirement Directive IV came into effect, the impact of this new regulation was a reduction in regulatory capital mostly due to the gradual grandfathering of the company's preferred securities (reduced by 20% in the first year) and an increase in the regulatory requirement due to the treatment of treasury activity as a trading book classification.

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**23. Subsidiary companies**

Investments in subsidiary companies are stated at cost less impairment. The Company's principal subsidiaries are as follows:

Country of incorporation	Company name	Principal activity	Percentage held
England and Wales	LCH.Clearnet Limited	CCP	100%
England and Wales	LCH.Clearnet Service Company Limited	Dormant	100%
France	LCH.Clearnet SA	CCP	100%
USA	LCH.Clearnet LLC	CCP	100% <sup>1</sup>
Luxembourg	LCH.Clearnet (Luxembourg) S.à.r.l	Investment	100% <sup>1</sup>
England and Wales	LCH.Clearnet Funding LP	Financing	100% <sup>1</sup>
England and Wales	LCH.Clearnet GP Limited	Financing	100%
England and Wales	LCH.Clearnet PLP Limited	Financing	100%

<sup>1</sup> Indirect holding through the Company's other subsidiaries

The country of incorporation is also the principal area of operation. LCH.Clearnet SA also operates in the Netherlands, Belgium and Portugal and LCH.Clearnet Limited also operates in the USA.

The partners of LCH.Clearnet Funding LP have taken advantage of the exemption in Regulation 7 of The Partnerships (Accounts) Regulations 2008 from preparing the equivalent Annual Report and Annual Financial Statements as would be required under the Companies Act 2006.

The Group also owns the following dormant UK companies that are not material to the Group:

Bondclear Limited  
 Bondnet Limited  
 ForexClear Limited  
 SwapClear Limited  
 EquityClear Limited  
 International Commodities Clearing House Limited  
 LCH Pensions Limited  
 The London Clearing House Limited  
 The London Produce Clearing House Limited  
 RepoClear Limited  
 RepoNet Limited

**24. Material events after the balance sheet date**

During April 2014, the operating agreements in respect of the SwapClear, CDSClear and ForexClear OTC business lines were renegotiated to ensure compliance with the EMIR regulatory regime. The renegotiated terms were backdated to 1 January 2014. Key aspects of the amended terms of the operating agreements include changes to the governance arrangements and the replacement of surplus share arrangements in LCH.Clearnet Limited with revenue share arrangements. The principal effects on the accounting treatment at 1 January 2014 are:

- the recognition of intangible assets in respect of self-developed software of €68.1 million
- the de-recognition of the other intangible assets of €17.7 million in relation to investment in the relevant business development and current receivables of €2.8 million
- the recognition of financial liabilities of €47.6 million which will be amortised on a systematic basis over the useful life of the associated assets

**25. Contingent liabilities**

The Group is currently engaged in communication regarding concerns raised by administrators in relation to a past default exercise which could give rise to a claim against it. The likelihood of success of any such claim, and the amount which would be recovered should the claim succeed, are currently uncertain and accordingly no provision for any liability has been made at 31 December 2013.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Company statement of financial position**

	Note	2013 €'m	2012 €'m
<b>Non-current assets</b>			
Investments	27	696.8	415.8
Deferred taxation asset		0.4	1.1
<b>Total non-current assets</b>		<b>697.2</b>	<b>416.9</b>
<b>Current assets</b>			
Cash at bank and in hand		2.5	8.0
Other financial assets	29	51.5	76.6
Income tax receivable		8.0	14.8
Trade and other receivables	26	1.2	1.6
<b>Total current assets</b>		<b>63.2</b>	<b>101.0</b>
<b>Total assets</b>		<b>760.4</b>	<b>517.9</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	28	(8.1)	(68.7)
Trade and other payables	30	(15.7)	(10.8)
<b>Total current liabilities</b>		<b>(23.8)</b>	<b>(79.5)</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	28	(198.4)	(197.9)
<b>Total non-current liabilities</b>		<b>(198.4)</b>	<b>(197.9)</b>
<b>Total liabilities</b>		<b>(222.2)</b>	<b>(277.4)</b>
<b>Net assets</b>		<b>538.2</b>	<b>240.5</b>
<b>Equity</b>			
Called up share capital	13	74.2	42.2
Share premium	13	316.1	28.1
Capital redemption reserve	13	59.5	59.5
Retained earnings		88.4	110.7
<b>Total equity</b>		<b>538.2</b>	<b>240.5</b>

  
**Jacques Aigrain**  
Chairman, LCH.Clearnet Group Limited

Notes 26 to 31 form an integral part of these financial statements.

The financial statements were approved by the Board on 14 May 2014.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Company statement of cash flows**

	2013 €'m	2012 €'m
<b>Cash flows arising from operating activities</b>		
Comprehensive loss for the year	(19.1)	(10.5)
Taxation	(3.2)	(3.5)
Finance income	(1.3)	(1.3)
Finance cost	14.3	13.6
Dividends received from subsidiary undertakings	–	(2.2)
Decrease in trade and other receivables	7.9	1.1
Increase/(decrease) in trade and other payables	5.4	(0.4)
Unrealised fair value gains on financial instruments	(4.1)	(2.6)
<b>Net cash outflow from operations</b>	<b>(0.1)</b>	<b>(5.8)</b>
Tax received	6.8	–
<b>Net cash inflow/(outflow) from operating activities</b>	<b>6.7</b>	<b>(5.8)</b>
<b>Investing activities</b>		
Investment in subsidiaries	(281.0)	(44.6)
Redemption/(investment) of other financial assets	25.1	(2.6)
Interest received	1.3	1.3
<b>Net cash outflow from investing activities</b>	<b>(254.6)</b>	<b>(45.9)</b>
<b>Financing activities</b>		
Proceeds from loans issued	100.0	68.7
Loan amounts repaid	(160.6)	–
Net proceeds from the issue of ordinary shares	316.8	–
Interest paid	(13.8)	(13.6)
Dividends received from subsidiary undertakings	–	2.2
<b>Net cash generated from financing activities</b>	<b>242.4</b>	<b>57.3</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(5.5)</b>	<b>5.6</b>
Cash and cash equivalents at 1 January	8.0	2.4
<b>Cash and cash equivalents at 31 December</b>	<b>2.5</b>	<b>8.0</b>
<b>Cash and cash equivalents at 31 December comprise:</b>		
Cash at bank and in hand	2.5	8.0
	<b>2.5</b>	<b>8.0</b>

Notes 26 to 31 form an integral part of these financial statements.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Company statement of changes in equity**

	Called up share capital €'m	Share premium €'m	Capital redemption reserves €'m	Retained earnings €'m	Total €'m
Shareholders' equity at 1 January 2012	40.6	–	59.5	121.2	221.3
Loss for the year	–	–	–	(10.5)	(10.5)
Shares issued	1.6	28.1	–	–	29.7
<b>Shareholders' equity at 31 December 2012</b>	<b>42.2</b>	<b>28.1</b>	<b>59.5</b>	<b>110.7</b>	<b>240.5</b>
Loss for the year	–	–	–	(19.1)	(19.1)
Ordinary shares issued	32.0	288.0	–	–	320.0
Share issue costs	–	–	–	(3.2)	(3.2)
<b>Shareholders' equity at 31 December 2013</b>	<b>74.2</b>	<b>316.1</b>	<b>59.5</b>	<b>88.4</b>	<b>538.2</b>

Notes 26 to 31 form an integral part of these financial statements.

**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the Company accounts**

**26. Trade and other receivables**

	2013 €'m	2012 €'m
<b>Current</b>		
Other receivables	–	0.3
Amounts owed by subsidiary companies	1.2	1.3
	<b>1.2</b>	<b>1.6</b>

Amounts owed by Group companies are interest free and payable on demand.

**27. Investments**

	Investment in subsidiaries 2013 €'m	Investment in subsidiaries 2012 €'m
Cost at 1 January	747.8	673.5
Additions	281.0	74.3
<b>Cost at 31 December</b>	<b>1,028.8</b>	<b>747.8</b>
Accumulated impairment		
At 1 January and 31 December	(332.0)	(332.0)
<b>Net book value</b>	<b>696.8</b>	<b>415.8</b>

In January and May 2013 the Company made additional investments in the share capital of LCH.Clearnet Limited of €100.0 and €160.0 million respectively and in May 2013 in LCH.Clearnet (US) LLC of €20.0 million. In August 2013 the company made an initial investment of €1.0 million in LCH.Clearnet Service Company Limited. See note 23.

**28. Interest bearing loans and borrowings**

	2013 €'m	2012 €'m
<b>Current</b>		
Other loans	8.1	68.7
<b>Non-current</b>		
Subordinated loan notes owed to LCH.Clearnet Funding LP	198.4	197.9

See note 14 for details of other loans.

The interest rate on the subordinated loan notes is fixed at 6.576% until 18 May 2017 and then moves to three month EURIBOR plus 2.1%. The balance is shown net of the capitalised transactions costs of €1.6 million (2012: €2.1 million) which are being amortised over the life of the notes. The loan is not repayable before 18 May 2017.



**LCH.Clearnet Group Limited**  
**Consolidated financial statements for the year ended 31 December 2013**  
**Notes to the Company accounts (continued)**

**29. Financial instruments**

The Company's financial assets and liabilities are as follows:

	Note	2013 €'m	2012 €'m
<b>Financial assets at fair value through profit or loss</b>			
Investment in preferred securities		20.1	16.0
<b>Loans and receivables</b>			
Short term loan due from subsidiary		31.4	60.6
Other financial assets in the statement of financial position		51.5	76.6
Trade and other receivables		1.2	1.6
Cash and short term deposits in the statement of financial position		2.5	8.0
<b>Financial liabilities at amortised cost</b>			
Trade and other payables		(15.7)	(10.8)
Other loans		(8.1)	(68.7)
Subordinated loan owed to subsidiary		(198.4)	(197.9)

The Company purchased some of the Group's preferred securities in the market with a nominal value of €20.0 million in January 2009. These preferred securities had been issued initially by Freshwater Finance plc. These were repurchased at a cost of €10.5 million and have been revalued at the 31 December 2013 price of €1.00682 (2012: €0.800) in the Company's statement of financial position.

**30. Trade and other payables**

	2013 €'m	2012 €'m
Amounts owed to Group companies	4.0	0.1
Accruals	11.7	10.7
	15.7	10.8

Amounts owed to Group companies are interest free and payable on demand.

**31. Related party transactions**

During the year the Company charged €12.9 million (2012: €19.9 million) in management charges to subsidiary companies and paid recharges of €12.9 million (2012: €20.2 million). The Company paid interest of €13.2 million (2012: €13.2 million) to subsidiaries and received interest of nil (2012: €0.3 million). The Company also recharged €0.1 million in fees to LSEG in the year.

Balances at the year end with subsidiaries are shown in notes 26, 28 and 30.