LCH.CLEARNET

Proven risk management

LCH.Clearnet Group Limited annual report and accounts 2012

The leading multi-asset class multi-national clearing house group

LCH.Clearnet 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.

As a central counterparty (CCP), LCH.Clearnet sits 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, LCH.Clearnet 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 processes all cash flows and continuously marks the trade or book to market, calling variation and initial margin in relation to prevailing risk. 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 the Group's risk process is its ability to collect quality collateral from clearing members and clients as insurance. 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 complete the trades and 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.

LCH.Clearnet can sustain itself to reinvest in world class risk management solutions, attract the best talent and enable the expansion of the product and service capability.

Business review

Highlights

- Net revenues increased by 24% to €426.2 million
- Operating profit grew by 89% to €127.5 million[1]
- Clearing fees increased by 7% to €253.9 million
- Net underlying investment income was €132.3 million, down 5%
- Average cash and collateral under management rose 13% to €83.6 billion, invested in high quality assets in extended period of market stress
- Operating costs controlled at €298.7 million[1]
- Tier 1 ratio of 40% and total capital ratio of 46%, well above the minimum requirements of 4% and 8% respectively

KEY FIGURES OF THE YEAR

NET REVENUES
€ MILLIONS

2012	426.2
2011	344.6

+24%

OPERATING COSTS[1]
€ MILLIONS

2012	298.7
2011	277.0

+8%

OPERATING PROFIT[1]
€ MILLIONS

2012	127.5
2011	67.6

+89%

INTERNATIONAL REACH

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CHAIRMAN'S STATEMENT

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GROUP CHIEF EXECUTIVE'S STATEMENT

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1 Before impairment and non-recurring items

Business review
At a glance

Interest rate swaps

SwapClear is the world's leading interest rate swap clearing service, clearing more than half of all interest rate swaps and more than 90% of cleared swap trades. $11.9 trillion of client notional was cleared on SwapClear, ahead of the upcoming introduction of mandatory central clearing.

Market drivers and positioning
Clearing of interest rate swaps was further impacted by regulatory change in 2012 as SwapClear continued to collaborate with global regulators developing the new OTC interest rate swap regulatory framework. It also recalibrated its clearing membership criteria, default fund and default management process to reflect the open access requirement of the G20 and CPSS-IOSCO reforms.

Key facts
> fee revenues of €59.8 million, up 36%
> more over the counter (OTC) products cleared than any other clearing service
> $339.9 trillion interest rate swap notional outstanding
> 69% increase in number of interest rate swap trades cleared
> clearing membership increased by 11 to 72
> client notional outstanding was $11.9 trillion before regulations made buy side clearing mandatory
> clearing inflation swaps and swaptions are under consideration

$339.9tr
IN NOTIONAL OUTSTANDING

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Foreign exchange

ForexClear was launched in March, clearing interbank foreign exchange (FX) non-deliverable forwards (NDF) in six currencies. It expanded to 11 currencies in June covering 95% of the NDF market. It is recognised as the leading FX clearing offering with strong clearing member take-up and interest from potential clients. The world's first 24 hour OTC FX clearing service has seen volumes grow continuously with cleared notional of $444.1 billion and over 33,000 tickets since launch.

Market drivers and positioning
ForexClear is recognised as the leading FX clearing offering, experiencing strong clearing member take-up and interest from potential clients. ForexClear is well positioned to build on the inter dealer offering with the launch of client clearing in 2013.

Key facts
> world's largest OTC FX clearing service
> clearing NDF in 11 currencies
> trade clearing open 24hrs five days a week
> clearing membership supported by 14 of the top FX broker dealers

$444.1bn
CLEARED IN 10 MONTHS

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Credit default swaps

CDSClear offers industry leading default management provisions and clears the broadest set of European credit indices.

Market drivers and positioning
Global regulatory momentum led OTC market participants toward CCPs with tested and proven risk and default management skills. CDSClear expanded its service from a domestic model only to include an international model, and delivered several industry leading enhancements.

Key facts
> €104.2 billion in credit default swaps (CDS) notional cleared
> €12.0 billion of CDS open interest
> 77% increase in CDS notional cleared year on year
> client clearing is being prepared for launch in 2013

€104.2bn
NOTIONAL CLEARED

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CaLM

Collateral and Liquidity Management (CaLM) offers an efficient, centralised collateral management service.

Market drivers and positioning
Clients require increasingly efficient collateral management services, and the CaLM offering serves their changing needs.

Fixed income

LCH.Clearnet is Europe's largest clearer of fixed income, playing an important role in the facilitation of interbank liquidity.

Market drivers and positioning

Fixed income improved risk management during a sovereign risk crisis not seen before, while a focus on counterparty risk and liquidity drove demand for an expansion of fixed income clearing.

Key facts

- €142.4 trillion in nominal cleared in 2012
- 9% year on year increase in trades cleared
- 70%+ market share in cleared European fixed income
- 13 new clearing members in 2012

€142.4tr
NOMINAL CLEARED

See page 11

Commodities and listed derivatives

LCH.Clearnet provides clearing services for interest rate and equity derivatives as well as a range of commodities markets, including power and associated energy markets like OTC coal, base and precious metals and agricultural products.

Market drivers and positioning

LCH.Clearnet is an independent provider of clearing services to derivatives trading venues, providing an alternative to vertically integrated operators.

Key facts

- the diversity of clearing services mitigated the general fall in volumes in mature markets
- 76% growth in year on year volumes for Nodal Exchange
- 65% market share in freight, despite competitive pressures
- launch of futures commission merchant (FCM) and legal segregation with operational commingling (LSOC) models for EnClear service
- NASDAQ bought a 3.7% share in LCH.Clearnet and took a Board seat as an observer ahead of its planned launch of clearing for NASDAQ London Exchange (NLX) in early 2013

65%
MARKET SHARE IN FREIGHT

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Cash equities

LCH.Clearnet provides clearing services for many of the primary European listed cash equity markets and multilateral trading facilities and works with users to develop risk management products in ancillary markets such as contracts for difference.

Market drivers and positioning

LCH.Clearnet 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. It continues to focus on delivering value by developing scale capabilities and reducing technology costs and an important strategy continues to be one of consolidation.

Key facts

- extended contract to provide clearing services for the NYSE Euronext continental cash equities markets until 2018
- experienced a steady growth in interoperable business on venues including Bats Chi-X Europe and Turquoise despite a general fall in market volumes
- implementation of the EU short selling directive reduced the buy in period for unsettled transactions from seven to four days

369.9m
EQUITY TRADES CLEARED

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Key facts

- €83.6 billion daily average of cash and collateral under management
- Daily average cash and collateral management daily peak was €92.0 billion

€83.6bn
TOTAL AVERAGE COLLATERAL HELD

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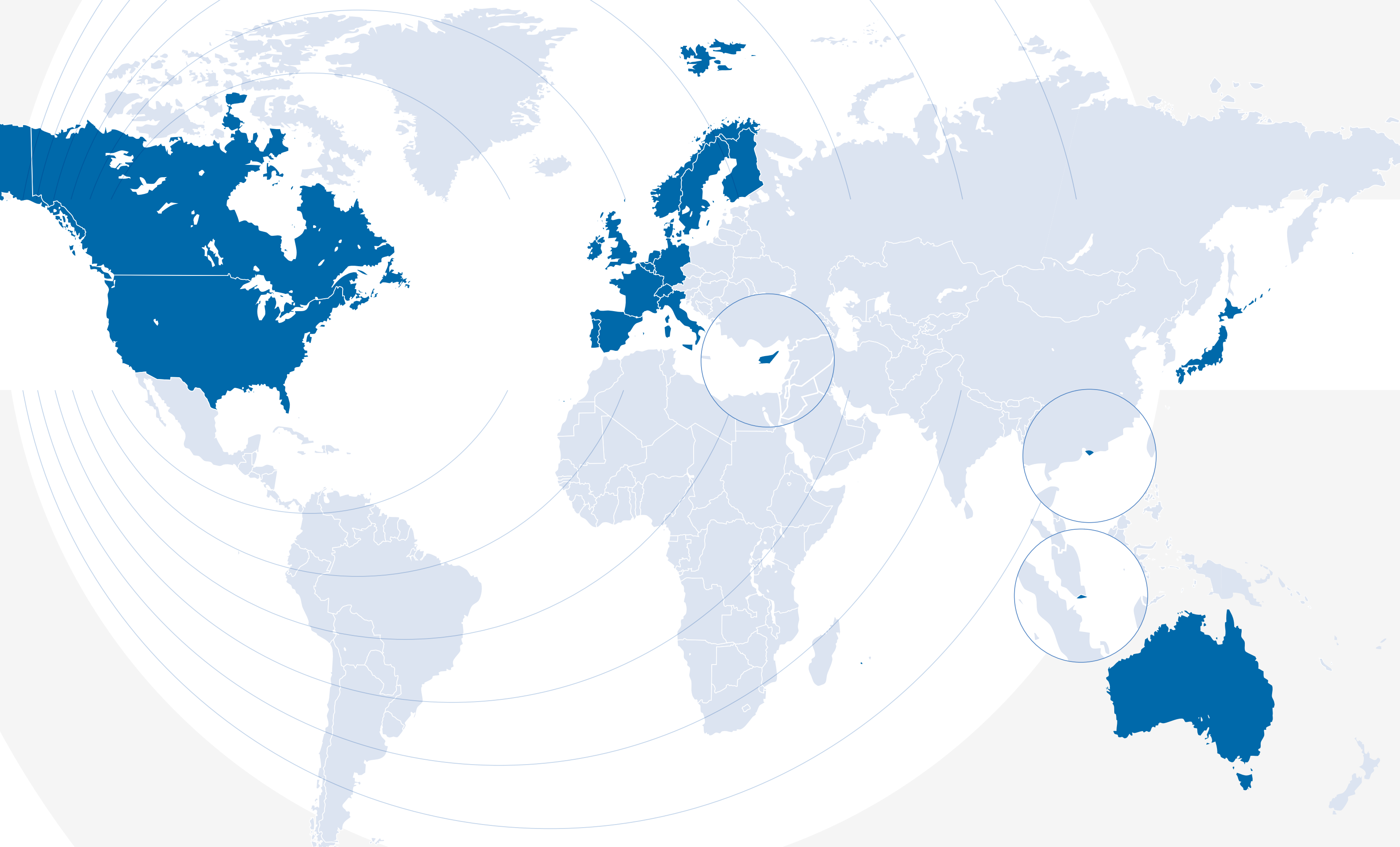
Business review

International reach

A multi-asset class offering and world class risk management capabilities have positioned the Group as a leading multi-national CCP. The Group has a global reach and works closely with its member and client base from across the world to identify and deliver strong risk management based clearing solutions for new and existing international markets.

During 2012 the Group focused on further developing its multi-asset class model, which included a local clearing hub in the US through the acquisition of IDCG, renamed LCH.Clearnet (US) LLC, and offering SwapClear in Canada, Japan and Australia through an international spoke model.



In 2013 LCH.Clearnet will look to continue to expand its OTC and exchange traded businesses across Europe and the US, as well as Asia Pacific.

Year in review

2012 was a year of transformation for LCH.Clearnet despite challenging markets, particularly in the Eurozone. Demand for risk management services through a CCP increased and in 2012 the Group built on its existing foundations for future success.

Risk management

Risk management is at the heart of what LCH.Clearnet does. The Group has ensured that its clearing infrastructure reflects the emerging regulatory environment and is prepared for the expected increase in client clearing of OTC derivatives. LCH.Clearnet reinforced resources in its default waterfall and default management approach and made changes to its cross service mutualised default fund. This initiative created a segregated default fund and enhanced default management capabilities for SwapClear, ForexClear and RepoClear. Default fund segregation minimises the risk of contagion across asset classes in the event of a default and increases the incentive for clearing members of each service to participate in the default management arrangements.

Product launches and operational enhancements

OTC markets saw unprecedented change in 2012.

SwapClear reinforced its position as the world's market leading interest rate swap clearing service with its continued expansion in Europe and the US. Daily trade volumes increased by 69%, with the service clearing an estimated 54% of all interest rate swaps traded globally across 17 currencies and 15 jurisdictions. The team grew rapidly in London and New York over the course of the year. Growth of the US business will be aided in 2013 by LCH.Clearnet's acquisition of IDCG, now renamed LCH.Clearnet (US) LLC.

SwapClear also announced its intention to apply for an Australian clearing and settlement facility licence to support its growing business in the Asia-Pacific region.

To address the evolving regulatory landscape SwapClear undertook a fundamental review of its clearing membership criteria, default fund and default management process while also collaborating with global regulators developing the new OTC interest rate swap regulatory framework. Leading the global move to buy side clearing, SwapClear broadened its range of clearable products and agreed a potential collaboration with NYSE Euronext, Depositary Trust & Clearing Corporation (DTCC) and New York Portfolio Clearing (NYPC) to offer cross product margining that will lead to margining efficiencies for market participants.

With the approach of mandatory clearing of OTC FX in the US demand for risk management services continued to grow. In 2012 the Group laid the foundations for future success in FX clearing with ForexClear. The product set includes 11 of the most liquid currencies enabling 95% of the NDF market to be cleared.

CDSClear launched an international multi-jurisdictional service, introduced an asset class-appropriate default management framework, began clearing trades on an intraday basis and started accepting pledges of security interest as collateral.

RepoClear expanded and invested in its risk management capabilities and maintained its market share through one of the worst sovereign debt crisis the markets have experienced.

The cash equities business continued to consolidate, grew its market share through interoperability and extended the contract to clear NYSE Euronext's continental cash equities until 2018.

The Group's French business extended the contract with NYSE Euronext to clear its listed derivatives until Q1 2014. Building on its horizontal open access model, LCH.Clearnet expanded its exchange traded business with an agreement to clear for NLX, the London based trading venue from NASDAQ due to launch in 2013. Ahead of the launch, NASDAQ bought a 3.7% share in LCH.Clearnet and joined the Board as an observer.

LCH.Clearnet reached its initial milestones in the transformation programme and the Group began to see the benefits and efficiencies of its One Firm objective. It invested in risk management activities and made significant progress in the harmonisation of risk management practices across its operating subsidiaries.

To reflect the increasing importance of collateral management to clients, a key focus during the year was to enhance the Group's collateral and liquidity services. These efforts included developing automated solutions with tri-party providers for the calling and management of non-cash collateral and widening the range of acceptable eligible collateral to include a broader range of high calibre assets including gold and mortgage backed securities.

Strong growth

In addition to robust risk management processes a successful CCP needs a strong market position so users can benefit from liquidity and netting opportunities. Some of LCH.Clearnet's products and services hit records during the year:

- €142.4 trillion nominal cleared in fixed income
- $339.9 trillion in interest rate swap notional outstanding
- FX: $444.1 billion cleared in the 10 months since its launch
- CDS: 77% increase in gross notional cleared

Business review

Chairman's statement

JACQUES AIGRAIN

CHAIRMAN

2012 was a year of transformation for LCH.Clearnet.

Our Board and management team continued to position LCH.Clearnet as a leading international CCP well placed for the new regulatory and competitive world. This was achieved while the Group also faced numerous external challenges: European sovereign risk issues have yet to be resolved, the macro-economic environment remains uncertain and regulations impacting clearing continue to evolve.

Despite this difficult environment LCH.Clearnet management deftly navigated its way through the tumult. Ian Axe, Group Chief Executive, hired a world class management team, executed on his strategic vision for the firm and is well on the way to completing the transformation programme, all of which supports LCH.Clearnet's objective to become the premier multi-national and multi-asset CCP. These successes are a great testament to Ian and his management team.

This was reflected in our financial performance. Clearing revenues increased and net investment income made an important contribution to profit notwithstanding the exceptionally low interest rate environment. The Group's position in our traditional exchange clearing business was complemented by the growing momentum in our OTC businesses.

This positioning is critical. To that end, the Board reached an agreement with the London Stock Exchange Group (LSEG) in which LSEG will take a majority ownership stake in LCH.Clearnet of up to 60%. The transaction fits with the Board's strategic objective to ensure LCH.Clearnet maintains its exchange neutrality in line with user and shareholder preferences while ensuring certainty and stability for the future.

In December we agreed with LSEG to extend the deal's expiry date to finalise terms of a revised offer. Both parties also confirmed a provisional agreement that LSEG will make a revised offer for a majority stake of up to 60% of LCH.Clearnet for €15 per share (€14 a share cash and up to an additional €1 per share payable in cash in 2017). The terms assume LCH.Clearnet will raise around €300 million in new capital to meet regulatory requirements immediately after LSEG acquires its majority stake, with LSEG committing to subscribe to its pro-rata share of the capital raise.

Regulators' focus on CCPs and on the critical risk management expertise the clearing model provides to the markets did not abate in 2012. Management worked diligently to ensure LCH.Clearnet is, and will remain, compliant with the various regimes that affect the Group, including CPSS-IOSCO, European Market Infrastructure Regulation (EMIR) and Dodd-Frank, amongst other requirements.

LCH.Clearnet's Board and management are supportive of regulators' efforts to protect investors through the counterparty risk management provided by CCPs, which includes elements such as the move towards LSOC accounts and segregated default funds. The critical role CCPs can play to help regulators achieve their goals was highlighted with the EMIR requirement for CCPs to increase capital.

We are in the process of talking to our shareholders about the capital increase and we are confident we will exceed any technical requirements that come from the new regulations. These discussions are ongoing and we will update the market as appropriate.

Regulations will also impact the make up of the Board and we are working to align the composition of the Group Board, those of its key operating entities and Board Committees with the new regulatory standards.

I would like to welcome four new board members: Lex Hoogduin and Neil Walker as independent non executive Directors, Patrick Combes as non executive Chairman of LCH.Clearnet SA and Yunho Song as a non executive user representative.

Lex's valuable experience as executive director at Dutch National Bank and as an advisor to Wim Duisenberg, the first president of the ECB, will bring invaluable insight to the Board and to his role as Chairman of the Risk Committees for LCH.Clearnet Ltd, SA and LLC. Neil, already a member of the SA Board, has extensive experience in credit derivatives, in designing and implementing trading systems and working with middle and back office personnel and joins the Board and the Risk Committees. The Board will also benefit from Patrick's entrepreneurial leadership at Viel & Cie, which he transformed from a domestic French business to one of the world's leading inter dealer brokers and from

Yunho's experience as managing director and head of EMEA global rates and currencies at Bank of America Merrill Lynch in London.

At the same time I would like to thank John Townend and Gerard Hartsink for their service on the Board. John was a long standing Director whose leadership as Chairman of the Risk Committees helped steer us through turbulent and uncertain markets. Gerard's input has been an invaluable resource to the Board.

I would also like to extend my best wishes to Hervé Saint-Sauveur, who stepped down as Chairman of LCH.Clearnet SA and has agreed to continue as an independent Director until spring of 2014 so that we can further benefit from his experience.

2012 was a demanding year and I would like to thank the Board for their hard work, dedication and stewardship. I also extend my gratitude to our staff, whose unrelenting diligence is critical to LCH.Clearnet's success. I would like to thank our clients, who put their trust in LCH.Clearnet and depend on us. They are why we are here.

Jacques Aigrain
Chairman
14 February 2013

Regulatory environment

External factors presented both numerous challenges and opportunities for the Group's core clearing businesses during the year and for its important collateral management operations.

Regulatory change

2012 saw a large volume of regulatory change for financial markets in general and an unprecedented volume for CCPs in particular. The rulemaking process following the passage of the Dodd-Frank Act in the US led to a radical overhaul of regulation in that market, which continued throughout the year. In February the final political agreement of the EMIR regulation for the European Union (EU) was reached and in September detailed rule proposals by European Securities and Markets Authority (ESMA) and European Banking Authority (EBA) were published. In April the final CPSS-IOSCO Principles for Financial Markets Infrastructures were made public, serving as the global reference point for CCP regulation and providing the basis for the granting of reduced capital charges for banks' exposures to CCPs.

Other jurisdictions in which LCH.Clearnet operates issued regulatory proposals to advance the G20 agenda. In late 2012 both CPSS-IOSCO and the European Commission issued consultations on recovery and resolution of financial infrastructures, including CCPs.

Throughout the year regulators analysed all aspects of CCPs' activities including governance, risk management and internal organisation. In many cases regulatory requirements for CCPs were strengthened and clarified. One area of particular focus was the structure and principles governing segregation of collateral assets held by a CCP in respect of client positions. The importance of collateral management was highlighted following the failures of Lehman Brothers and MF Global. There was a significant volume of regulation in 2012 impacting CCPs and there is more to come. These new regulations will, in turn, be the subject of continuing revision in the future.

Regulators

LCH.Clearnet has multiple regulators in the markets in which it operates. The Group's regulators are:

France:
Banque de France
Autorité des Marchés Financiers (AMF)
Autorité de Contrôle Prudentiel (ACP)

UK:
Bank of England
Financial Services Authority (FSA)

US:
Commodity Futures Trading Commission (CFTC)

Belgium:
Banque Nationale de Belgique
Financial Services and Markets Authority

Netherlands:
De Nederlandsche Bank
Autoriteit Financiële Markten

Portugal:
Banco de Portugal
Comissão do Mercado de Valores Mobiliários

Business review

Group Chief Executive's statement

IAN AXE

GROUP CHIEF EXECUTIVE OFFICER

Financial markets in 2012 continued to be stressed and served once again to highlight the importance of LCH.Clearnet's agenda to provide world class market infrastructure risk management.

Pace of regulatory change

Since 2008 the pace of regulatory change has been building and this year we found ourselves increasingly at the centre of CCP consultation for both Dodd-Frank in the US and EMIR in the EU. Our investment in improved risk management and greater compliance capacity has been key to ensuring better protection of client assets, improving margin models and segregating and bolstering default funds. We also embarked on a major investment in our banking platform to address both client and regulatory requirements to improve collateral and liquidity management for future business growth.

The year's regulatory agenda also focused on the sustainability of CCPs and the obligation for CCPs to develop a living will. In addition to operating changes required by this resolution planning, we have seen the largest regulatory impact on CCPs to date with the ESMA and EBA guidelines recommending a substantial regulatory capital increase. LCH.Clearnet estimated that it will increase its regulatory capital by around €300 million and has been fully engaged with shareholders to fulfil this obligation in the first half of 2013.

Horizontal business model continues to diversify with strong OTC expansion

Despite market exchange volumes falling significantly in 2012, we strengthened our horizontal exchange model in both the near and long term. NYSE Euronext once again extended its contracts with LCH.Clearnet for cash equities and listed derivatives clearing through 2018 and 2014 respectively. NASDAQ acquired a stake in LCH.Clearnet and joined our board as an observer ahead of a clearing agreement for NASDAQ London Exchange (NLX) going live in the first half of 2013. We also entered into agreements with SGX to link our commodity clearing services and agreed a potential collaboration with DTCC and NYPC to evaluate margin efficiency for clients in the US. I would also like to recognise the continued support we received from market participants such as Turquoise and BATS Chi-X Europe in 2012, which enabled us to maintain our consolidation strategy.

Our repo business continued to maintain its market share by clearing €142.4 trillion of nominal value while welcoming 13 new members. We remain the leading fixed income clearer in Europe with a strong market share and appreciate the support from members in a year when we segregated and bolstered the default fund of the UK based service.

Our strategic aim of balancing LCH.Clearnet's traditional exchange business with OTC clearing began to take shape. Banks, broker dealers, FCMs and the buy side community have been instrumental in allowing us to partner and learn from their challenges and business needs in 2012. As a result we expanded our SwapClear business very significantly, launched ForexClear for clearing NDFs and our CDSClear business prepared itself for a full international offering.

SwapClear expanded its product offering, saw its volumes grow, positioned itself globally and had success clearing for clients directly as we built on our traditional interbank market to deliver a service capable of working with and winning buy side clients. SwapClear's volumes grew to $339.9 trillion in notional outstanding. At year end, there were 2,362,863 trade sides in SwapClear and 72 clearing members. SwapClear has had great success clearing for clients even ahead of legislation requiring them to clear with a CCP with 27,788 client trades cleared and $11.9 trillion in client notional. SwapClear remains the clear leader in interest rate swap clearing globally.

ForexClear was launched during the year and quickly became the leading NDF clearing provider with volumes growing strongly. By year end, ForexClear cleared 11 currencies and covered 95% of the NDF market. Over 33,000 trades were cleared with $444.1 billion in notional value.

CDSClear expanded from a regional business to include an international model and we are proud of the efforts of the team and the future potential of the division. CDSClear cleared €104.2 billion in gross notional, a 77% increase and €12.0 billion of CDS open interest.

Strengthening our financial stability

2012 financial performance saw increased revenues and a flat cost base, with operating profit growth of 89% to €127.5 million. These results helped to strengthen our balance sheet, hire the best market talent, invest in improving risk management and technology and fast track our expansion plans in the US with the acquisition of IDCG.

Net revenues increased 24% to €426.2 million driven by our OTC expansion and good performance in our commodity businesses. Average cash and collateral under management rose 13% to €83.6 billion but negative interest rate movements coupled with our primary responsibility of protecting client assets saw underlying investment income fall 5% to €132.3 million.

The 2011/12 transformation programme proved its worth this year, enabling us to reinvest efficiency gains back into the business. Additional investment was made across all control functions, new business lines were launched, talent investment was accelerated and we purchased a CCP in the US.

Looking forward

In 2013 LCH.Clearnet is focused on delivering five key achievements that will change the face of the firm for many years to come.

1. regulatory compliance will see the firm recapitalised in line with ESMA and EBA requirements and we continue to work to the relevant timetables for our EMIR and Dodd-Frank compliance programmes

2. pending final regulatory and shareholder signoff LSEG will take a majority stake in the firm and the M&A uncertainty of the previous eight years will be removed. The commitment to the horizontal model will see us expanding our strategic partnerships in Europe, the US and Asia in 2013

3. our global OTC expansion will be driven through international client hubs from New York, London and Paris while international service expansion will focus on local markets in Canada, Japan and Australia. A major focus across all OTC products will be the expansion and extension of client clearing

4. OTC product expansion will see us continuing to build out IRS capabilities through inflation swaps and swaptions, as well as continuing to extend our FX NDF capabilities. The CDS business will be launching single name CDS clearing for up to 200 names and we are looking to implement new VAR risk models in all three asset classes

5. our traditional exchange strategy will be repositioned to capture the increasing likelihood of futurisation across several historically OTC products. In 2013 we will be extending our futures clearing capability to include futures on swaps as well as increasingly complex commodities futures contracts

The success achieved in 2012 has largely been down to the dedication of the firm's senior management and staff across our international offices. The market's perception of LCH.Clearnet is changing and a large proportion of this success should be attributed to our staff and their focus on risk management and the client service we strive to provide.

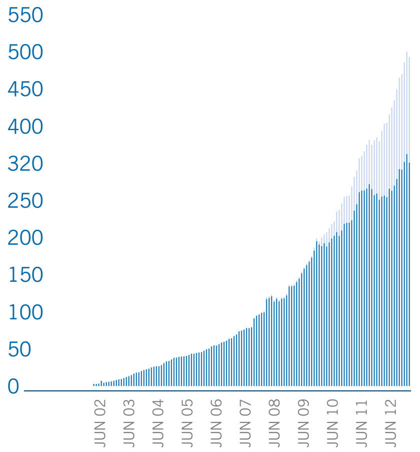
I would also like to thank the members, clients and regulators for their continued support. I look forward to working with all of you in what can only be described as the most dynamic changing CCP environment in our history.

Ian Axe
Group Chief Executive
14 February 2013

Business review

Business line review

SWAPCLEAR LIVE TRADE SIDES NOTIONALS
$ TRILLION



TOTAL SWAPCLEAR NOTIONAL OUTSTANDING
CUMULATIVE TRIREDUCE NOTIONAL REDUCTION

Michael Davie, CEO of SwapClear:
"SwapClear maintained its leadership position in 2012 with LCH.Clearnet's acquisition of IDCG in the US, plans for international expansion in Canada, Japan and Australia and the success of our client clearing offering, which cleared $11.9 trillion of notional."

Gavin Wells, CEO of ForexClear:
"Following the launch of ForexClear, we have been delighted with our growth including record notional volumes of $208.5 billion in Q4, which was supported by industry leading risk management capabilities."

The Group's revenue base continues to diversify across its products and services. As the OTC businesses grow, the proportion of the Group's revenues derived from other asset classes will reduce.

OTC derivatives

SwapClear

SwapClear generated clearing revenues of €59.8 million, up 36% from €44.0 million in 2011. The increase in revenue for the business was attributable to new clearing members, existing clearing members progressing from the introductory to the standard tariff and the growth of client clearing.

SwapClear worked closely with regulators to define new clearing rules for the OTC derivatives market. In the US SwapClear supported the LSOC segregation model, promoting the importance of client asset segregation and protection in the event of default. SwapClear also recommended to the CFTC the products that should be subject to mandatory clearing, which were largely reflected in the final regulations.

One of the key initiatives in the US was LCH.Clearnet's acquisition of IDCG in August, which paves the way for the introduction of a new US domiciled SwapClear service. In November, the service harmonised FCM and SwapClear clearing member clearing models. The new harmonised model provides clients with simplified trade submission, portfolio portability, increased connectivity to execution platforms and risk free compression. SwapClear more than tripled its US staff to 60 employees as it continued to invest in building its capabilities and, as a result, the New York team relocated into larger premises in June.

SwapClear redefined its clearing membership criteria, default fund construct and default management process as required under the global open access mandate. Consequently, the clearing membership increased in 2012 from 61 to 72, with a strong 2013 pipeline.

During the year, $11.9 trillion of client notional was cleared on SwapClear by a broad range of end user client types including asset managers, hedge funds, pension funds and banks, as market participants adopted central clearing ahead of mandatory clearing due to come into effect in 2013.

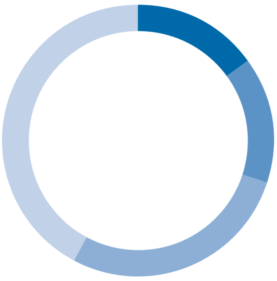
Other achievements included:

- an agreement in March to explore additional cross product margin efficiencies with NYSE Euronext, DTCC and NYPC
- the announcement of SwapClear's intention to apply for a clearing and settlement facility licence in Australia to support its growing business in Asia-Pacific
- growth in clearing of forward rate agreements (FRA), launched in December 2011, with over 70% of all reported FRAs now cleared through SwapClear. The launch reflected the product's value in managing short dated interest rate risk and its role cross margining as an alternative to listed futures contracts
- improved trade registration with continuous intraday margin runs and the enhancement of the SwapClear margin approximation tool (SMART) for on demand margin calculations to help participants understand and manage the new market structure and their risk
- the introduction of the consultancy certification programme, which provides the industry with its first certification programme for consultancy firms preparing market participants for the implementation of centralised OTC clearing
- increased connectivity, which broadened the global community of middleware providers able to process SwapClear trades

ForexClear

Following its launch in March, the ForexClear service cleared $444.1 billion of notional value in FX NDF trades in 2012. With 14 clearing members at year end, the service had a pipeline of new applicants keen to take advantage of ForexClear's leading risk management framework, while preparing for the mandatory FX clearing deadline in the US in 2013. The year was dominated by regulatory changes, including the redefinition of membership criteria to meet the mandate for open access, along with the enhanced default management process and improved trade registration with continuous margin runs throughout the day. With the service ready to report trades to Swap Data Repository, ForexClear is well positioned to complete derivatives clearing organisation (DCO) obligations under Dodd-Frank and move its focus to EMIR compliance.

2012 CLEARING REVENUES
PERCENT



- 15% CASH EQUITIES
- 15% FIXED INCOME
- 28% OTC DERIVATIVES
- 42% COMMODITIES AND LISTED DERIVATIVES

Charlie Longden, CEO of CDSClear:
"Following the launch of our successful domestic model, we introduced an international CDS clearing offering to users, leading to a 77% increase in CDS notional cleared, and broadened our reach with innovative default risk management solutions and began developing a client clearing model and further product expansion."

ForexClear's focus in 2013 will be on growth in cleared interbank volumes, launching a client clearing model for both the US and Europe, and expanding the range of cleared FX products in line with regulatory and market demand.

ForexClear is run by a strong team with deep market, product and OTC clearing expertise capable of meeting the many challenges of aggressively growing the business while maintaining the stable and robust service that existing clearing members have grown to expect.

CDSClear

CDSClear, the Group's CDS clearing service, launched its international service in May, which added ten new sell side participants to its existing domestic French service. CDSClear volumes grew materially with a 77% increase in gross notional cleared to €104.2 billion and a 159% increase in open interest to €12.0 billion.

The business offers the broadest set of cleared European credit indices, which facilitated improved portfolio margining for both clearing members and potential clients.

CDSClear's focus remained firmly on robust risk and default management. CDSClear introduced a forward looking and asset class appropriate default management framework. CDSClear also led the way in the introduction of recovery and resolution provisions. Its loss distribution mechanism was well received by market participants and regulators.

CDSClear further enhanced its service with the introduction of cleared trades on an intraday basis, automated risk free compression and the acceptance of non-cash collateral via a pledge agreement. This pledge mechanism offers clearing members the benefit of enhanced control over their non-cash assets, while providing the CCP with immediate access in the event of a clearing member default.

In 2013 CDSClear expects to deliver its multi-faceted client clearing and single name services, which include direct trade flow through the ClearLink application programming interface, multiple trade sources and a choice of client account structures. CDSClear continues to engage closely with a wide range of participants from across the buy side and sell side to ensure appropriate focus on delivering meaningful market enhancements including product augmentation, geographic expansion and improved user protections.

RepoClear

RepoClear cleared over €142.4 trillion of nominal value (2011: €152.3 trillion). RepoClear welcomed 13 new clearing members to the fixed income clearing service, consolidating its position as the leading fixed income provider in Europe.

The reduction in clearing volumes was broadly consistent with the market as a whole, which witnessed a general reduction in repo activity. Despite the volume reduction, market participants continued to favour clearing to mitigate risk in a volatile market environment. Clearing revenues fell by 9% to €38.9 million.

RepoClear continued to improve the management of systemic and contagion risk in the fixed income markets by working with clearing members to design a revised default management process and to strengthen the fixed income default management waterfall arrangements. In August the first step of the revised process was implemented by creating a separate default fund for fixed income in London. In December service closure arrangements were put in place, which would be triggered during a clearing member default if all other resources had been exhausted. The implementation of an equivalent service closure provision is scheduled for the Group's Paris based CCP in 2013. These changes are consistent with the regulatory sentiment that CCPs should adhere to the highest standards possible for risk and default management.

Business review

Business line review continued

Alberto Pravettoni, CEO of Repo & Exchanges:

"The sovereign debt crisis had a significant impact on the repo market, but our RepoClear business maintained its market share and maintained high risk management standards throughout. The equities business continued to consolidate its market position with a steady growth in the interoperable business, and continental equities and derivatives benefitted from extending the terms of existing contracts."

A major IT integration programme was launched for fixed income. The fixed income clearing platform, developed in house and deployed in London in 2010, is scheduled to replace the clearing system currently used in Paris in the first half of 2013. The risk management systems supporting the Paris and London businesses are also being upgraded in 2013 with the switch to a value at risk (VAR) based margining methodology. The new risk systems include tools to help clearing members understand and control their exposures and margin costs and will generate significant efficiencies.

In parallel with the infrastructure renewal planned, the fixed income business is developing a collateral basket with pledge product in Paris and a TermDBV product in London, both of which are expected to launch in 2013.

Commodities and listed derivatives

Clearing revenues for the Group's commodities and listed derivatives businesses were affected by challenging market conditions, though the division's asset class diversification limited the fall in income. Clearing revenue was flat at €105.2 million.

Volumes for London Metal Exchange (LME) listed base metal contracts bucked the general market trend with a growth rate of 17.6%. Volumes traded on the Nodal exchange also grew sharply during the course of the year. This was partly driven by the introduction of new contracts which act as financial transmission right equivalents. The recently introduced clearing of OTC coal option contracts by the EnClear service also achieved strong traction and demonstrated encouraging growth, while the OTC freight service had a 65% market share.

Recognising the growth potential for Asia based commodity businesses, LCH.Clearnet invested in developing services for newly developing listed businesses. Hong Kong Mercantile Exchange (HKMEx) experienced steady growth in its first full year of trading and intends to capitalise on its geographic location by launching a range of renminbi denominated contracts in 2013.

The Group expanded its exchange traded business to provide clearing for a cross quotation arrangement between the London Stock Exchange and the Singapore Exchange (SGX). In addition, LCH.Clearnet will continue to build on its horizontal and open access model by providing clearing for NLX, the London based trading venue from NASDAQ due to launch in 2013.

The implementation of EMIR in 2013 is expected to require significant changes to existing business models for the users of commodities and listed derivatives clearing services. The rules cover reporting to trade repositories, segregation, and portability, among other issues.

Cash equities

Group wide cash equities clearing volumes were impacted by a general reduction in activity in European markets. The drop in market volumes was partially offset by an increase in business generated from CCP interoperability.

LCH.Clearnet reached an agreement to extend the contract to clear cash equities for NYSE Euronext's continental cash equities markets until 2018. Under this contract, technology investment decisions taken in 2010 will allow LCH.Clearnet SA to introduce fee reductions for clearing members of 20% in 2013 without compromising service levels.

The Paris and London businesses implemented the EU short selling directive, which require CCPs to impose fines for trades that go beyond the intended settlement date (ISD) and trigger an automatic buy in process four days after ISD. This is expected to improve efficiency and reduce costs for the cash equities markets.

During the year a cross quotation agreement between LSEG and the SGX was launched, allowing LSEG members to trade the top 36 SGX stocks on LSEG's new international board. Separately, SGX members will be able to trade FTSE100 securities on SGX's GlobalQuote board and LCH.Clearnet will clear trades executed on both exchanges when the arrangement goes live in 2013, subject to regulatory approvals.

Risk management

Responding to challenging markets and enhancing protections

DENNIS MCLAUGHLIN
CHIEF RISK OFFICER

2012 was a challenging year for markets with the continuation of the Eurozone crisis and the increasing risk of contagion into the core economies. There was political uncertainty with elections in major countries and global economic recovery was slow.

Credit quality continued to decline and liquidity also remained challenging. In addition the regulatory landscape evolved and the G20 central clearing mandate for OTC derivatives significantly increased regulatory focus on clearing. This was embodied in the new CPSS-IOSCO Principles for Financial Market Infrastructures enshrined in regulation in the US by the Dodd-Frank reforms and in Europe by EMIR.

In many respects the new regulations and risk principles have been embodied in LCH.Clearnet's risk management for many years though the Group has been quick to respond to make any changes necessary. In this challenging environment, LCH.Clearnet continued to support key markets. Its clearing services and risk management expertise have become increasingly important especially in a declining credit environment given the Group's proven ability to provide protection to clearing members in case of a default. LCH.Clearnet continued to focus on enhancing its risk management framework and has refined its margin models, improved default protections and enhanced credit assessment.

Sovereign risk

LCH.Clearnet has introduced enhancements to its risk frameworks covering sovereign risk including concentration and wrong way risk for both margins and margin collateral. The Group continued to protect clearing members against the financial impacts of a major default in unstable market conditions while continuing to offer participants the benefits of central clearing. The Group developed these new risk frameworks in consultation with its clearing members to ensure that their interests are taken into account while still providing the additional protection that LCH.Clearnet requires to continue clearing these markets.

Default protection

During the year the Group made substantial changes to its cross service mutualised default funds to ensure LCH.Clearnet's clearing infrastructure reflects the emerging regulatory environment. The changes, largely in place and to be completed in the first half of 2013, would enable the Group to manage the default of two of its largest clearing members in extreme market conditions.

The Group created separate segregated default funds and enhanced default management capabilities for each of the SwapClear, ForexClear and RepoClear services in line with those already in place for CDSClear. The segregation minimises the risk of contagion across these asset classes in the event of a default and increases the incentives for clearing members to participate actively in the default management process.

Credit assessment

LCH.Clearnet developed its in house credit assessment and monitoring to reduce its reliance upon external credit ratings, which have tended to be lagging indicators of credit standing. The Group monitors an additional suite of financial and capital related indicators to ensure that it can react more quickly to changes in credit circumstances. The new model is applied to all credit counterparties, including clearing members, investment counterparties and agents used for liquidity payment, settlement and custodial services.

Organisation: governance, staff and transformation

To enhance the risk team LCH.Clearnet added a number of highly experienced senior executives from banks and other financial institutions to the risk and collateral management teams, while also investing in system and data management enhancements. Together these changes led to significant improvements in risk monitoring.

The Group enhanced its risk governance process with the creation of an Executive Risk Committee, comprising senior risk and business personnel, responsible for the management of all material risks within the Board's stated risk appetite. Sub-committees of the Executive Risk Committee covering market, credit, investment and liquidity risk ensure that there is regular formal oversight.

Business review

Risk management continued

The Board risk sub-committees are tasked with regular review and approval of all risk policies and any material changes in risk profile. They are chaired by an independent non executive Director and participants include risk experts representing a wide spectrum of clearing membership and trading venues.

Looking ahead many of the issues in the wider market remain unresolved. As a result 2013 will potentially be equally challenging. In light of improvements the Group has implemented in its risk management framework and governance process, LCH.Clearnet is well placed to manage the potential risks.

Collateral and liquidity management

The primary role of the Group's CaLM function is the protection of client assets, pledged as margin or default fund contributions. It formulates and communicates LCH.Clearnet's collateral strategy for the Group's asset classes and is responsible for the effective risk management of LCH.Clearnet's portfolios of cash and non-cash collateral.

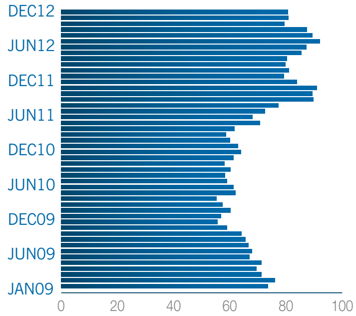
To ensure that LCH.Clearnet is able to meet settlement and payment obligations in extreme market conditions it boosted its liquidity risk management processes so that adequate liquidity would be available under stressed market conditions. Extensive modelling of such scenarios and for different lengths of default management processes is undertaken daily and reviewed against available resources.

Prudent investment and liquidity risk management remain at the core of the CaLM strategy in accordance with the conservative risk parameters set by the independent risk committees and approved by respective Boards. These are designed to ensure LCH.Clearnet is well placed to manage a default, with robust risk and operating procedures and high liquidity targets.

During the year, the Group extended the range of eligible collateral to include a broader range of assets including Government National Mortgage Association mortgage backed securities. It also hired a number of senior executives in Europe and the US with investment banking, investment management and collateral experience to bolster and diversify the team's experience.

The average cash and non-cash collateral portfolio during the year, including default funds, was €83.6 billion (2011: €73.8 billion), a 13% increase. Collateral balances peaked at €92.0 billion in July and at year end were €80.6 billion.

CASH AND COLLATERAL HELD BY GROUP
€ BILLION



Corporate social responsibility

Children sailing with the Ellen MacArthur Cancer Trust

LCH.Clearnet is committed to and actively participates in corporate social responsibility (CSR) predominantly focusing on charitable activities. Engaging and working with charities in 2012 enabled LCH.Clearnet to deploy its people and investment to make a difference in the local communities where employees work and live.

The programme is run by the CSR Committee, which was relaunched in 2012 to ensure greater involvement by employees across disciplines, business lines, geographies and levels of seniority.

The Committee is chaired by Ian Axe, Group Chief Executive, who remains committed to working closely with employees who agreed to devote their time to CSR.

The LCH.Clearnet CSR programme includes three facets: charities, business skills education and community initiatives.

2012's charities were the Ellen MacArthur Cancer Trust and the sponsorship of Justin Packshaw for his expedition to the South Pole as part of the In the Footsteps of Legends team.

The Ellen MacArthur Cancer Trust takes young people aged eight to 24 sailing to help them regain their confidence as they recover from cancer, leukaemia and other serious illnesses. In the Footsteps of Legends followed the expedition 100 years ago led by Captain Robert Falcon Scott to the South Pole, this time with British soldiers who were wounded in Afghanistan and Iraq raising money for Walking with the Wounded and Alzheimer's Research UK.

Part of what makes LCH.Clearnet a leader in its field is the great wealth of experience and expertise of employees. Working with business skills education charities gives employees the opportunity to share their knowledge and expertise with school children.

Through Inspire!, members of staff in London visited a local school weekly to help children with reading and maths skills.

The Group's corporate identity can be enhanced by interaction with local communities and community initiatives. The community initiatives it supported in 2012 included Magic Breakfast, the Robert Levy Foundation, Pas sans Toit, Etoile de Martin, Make a Wish, and Orchestre de Paris.

In London LCH.Clearnet supports Magic Breakfast clubs at three London schools near the Group's City of London office through the Magic Breakfast initiative: Marner Primary School in Bow, St. Paul's Whitechapel C of E Primary School and Cyril Jackson Primary School in Tower Hamlets. Magic Breakfast serves around 3,000 breakfasts a day during the school term.

The Robert Levy Foundation was set up in 2005 following the murder of 16 year old Robert who was stabbed to death by another schoolboy when he attempted to defuse an altercation. In honour of Robert and to provide alternatives for young people, Robert's parents started the Foundation to create a safe environment for young people. The Foundation offers development opportunities which provide an alternative to becoming involved in violence.

LCH.Clearnet financed the reconstruction of houses destroyed after Cyclone Thane in the Pondicherry area, India by working with charity Pas sans Toit. Paris based Etoile de Martin supports research into paediatric cancer and contributes to the well being of children affected by the disease. LCH.Clearnet employees participate in the annual ODYSSEA foot race through Paris to raise funds for the association. The Make-a-Wish foundation grants the wishes of children aged three to 17 who suffer from life-threatening medical conditions. LCH.Clearnet's support enabled Julie, a terminally ill eight year old girl, to ride a pony and spend a weekend in Center Parcs with her family and best friend. The Orchestre de Paris organises visits by musicians to hospitals to provide a musical diversion to patients and their families in hospitals and other residential medical facilities. LCH.Clearnet's support provided six music sessions in paediatric and geriatric wards.

In addition LCH.Clearnet staff in the UK supported nationally sponsored charity days including Wear it Pink for breast cancer. Matched fundraising is another important element of the CSR programme. LCH.Clearnet will match the first £250 employees raise for any charity that is part of the corporate CSR programme.

Justin Packshaw at the South Pole with an LCH.Clearnet flag

Reports

Business report

Financial commentary
Underlying net revenue in 2012 rose by €7.6 million (2%) to €391.5 million (2011: €383.9 million). Net investment income decreased during the year by €7.1 million (5%) to €132.3 million (2011: €139.4 million). Increasing levels of collateral managed during the first half of the year acted to mitigate continuing low interest rates.

Operating expenses increased by €21.7 million (8%) to €298.7 million (2011: €277.0 million). The increase in operating expenses reflects investment in infrastructure improvements, growth in the OTC businesses and regulatory driven demands, offset by savings from the transformation programme.

The Group's underlying operating profit for the year decreased by 13% to €92.8 million (2011: €106.9 million).

	2012 €'m	2011[1] €'m	Change €'m	Change %
Clearing fees	**253.9**	236.7	17.2	7%
Total cash and collateral investment income	268.9	494.1	(225.2)	(46%)
Interest on collateral paid to members	(136.6)	(354.7)	218.1	61%
Net investment income	**132.3**	139.4	(7.1)	(5%)
Net other income including rebates	**5.3**	7.8	(2.5)	(32%)
Underlying net revenue	**391.5**	383.9	7.6	2%
Operating expenses	(274.2)	(253.5)	(20.7)	(8%)
Depreciation and amortisation	(24.5)	(23.5)	(1.0)	(4%)
Operating costs[2]	**(298.7)**	(277.0)	(21.7)	(8%)
Underlying operating profit	**92.8**	106.9	(14.1)	(13%)
Unrealised net investment gain/(loss)	**34.7**	(39.3)		
Impairment and non-recurring items	**(27.6)**	(22.5)		
Statutory operating profit	**99.9**	45.1		

1 Prior year figures restated to reflect changes in accounting treatment
2 Before impairment and non-recurring items

Underlying net revenue of €391.5 million differs from statutory net revenue of €426.2 million since it excludes unrealised gains of €34.7 million.

Operating costs of €298.7 million differs from statutory costs and expenses of €326.3 million since it excludes impairment and non-recurring expenditure of €27.6 million.

Underlying operating profit of €92.8 million differs from statutory operating profit of €99.9 million since it excludes unrealised fair value investment gains (shown within interest income on the face of the income statement) of €34.7 million relating to bonds and associated interest rate swaps and impairment and non-recurring costs of €27.6 million.

Clearing fees

	2012 €'m	2011 €'m	2012 Volumes m	2011 Volumes m	Change in fees %	Change in volumes %
Fixed income	**38.9**	42.9	**3.0**	2.7	(9%)	11%
OTC derivatives	**71.6**	44.2	**1.9**	0.5	62%	280%
Commodities & listed derivatives	**105.2**	105.6	**1,119.0**	1,515.1	(0%)	(26%)
Cash equities	**38.2**	44.0	**369.9**	427.7	(13%)	(14%)
	253.9	236.7	**1,493.8**	1,946.0	7%	(23%)

Clearing fees improved €17.2 million (7%) to €253.9 million (2011: €236.7 million).

Fixed income clearing fees decreased by €4.0 million (9%) to €38.9 million. Volumes increased by 11% and the nominal value cleared fell by 7% to €142.4 trillion.

OTC derivatives clearing fees increased substantially to €71.6 million (62%). Three factors contributed to this fee growth: growth in SwapClear client clearing to $11.9 trillion of notional buy side cleared; an increase in the membership of the SwapClear service to 72 clearing members (2011: 61 clearing members); and the launch of the ForexClear and CDS businesses.

Clearing fees continued

During 2012 the amount of notional principal outstanding cleared by SwapClear grew to $339.9 trillion (net of $160.5 trillion torn up to date) (2011: $283.4 trillion).

Commodities and listed derivatives clearing fees decreased slightly to €105.2 million. Total volumes decreased by 26%, principally due to reduced activity in the NYSE markets. This was offset by strong growth in LME markets, Nodal exchange and OTC coal options. In the freight market the Group was responsive to market price pressures while retaining its position as the leading CCP.

Cash equities clearing fees decreased by 13% to €38.2 million in line with reduced volumes.

Net investment income

	2012 €'m	2011 €'m	Change €'m	Change %
Realised income from cash and collateral margin	**253.0**	477.8	(224.8)	(47%)
Interest earned on default funds	**15.9**	16.3	(0.4)	(2%)
Total cash and collateral income	**268.9**	494.1	(225.2)	(46%)
Interest paid on cash and collateral margin	(116.5)	(332.6)	216.1	65%
Interest paid on default funds	(20.1)	(22.1)	2.0	9%
Interest expense and similar charges	**(136.6)**	(354.7)	218.1	61%
Net income earned on cash and collateral margin	136.5	145.2	(8.7)	(6%)
Net interest earned on default funds	(4.2)	(5.8)	1.6	28%
Realised investment income	**132.3**	139.4	(7.1)	(5%)

The average level of collateral held by the Group in 2012, including default fund deposits, was 13% higher than 2011 at €83.6 billion (2011: €73.8 billion). However total investment income received in relation to both margin collateral and default fund deposits decreased by €225.2 million (46%) to €268.9 million (2011: €494.1 million) reflecting lower interest rates.

The Group pays interest to clearing members on cash collateral and default fund deposits. The amount of interest paid to clearing members decreased by €218.1 million (61%) to €136.6 million (2011: €354.7 million) reflecting lower interest rates. A small deficit of €4.2 million was incurred on default funds where interest paid to clearing members exceeded interest received (2011: €5.8 million deficit).

Net other income including rebates

Net other income including rebates fell by €2.5 million to €5.3 million (2011: €7.8 million). These include annual fees charged to clearing members less profit share amounts due on OTC business lines. Net other income including rebates for 2011 has been restated to reflect a change in accounting treatment whereby the recovery of certain development costs is now netted within operating expenses.

Operating costs

Operating costs before impairment and non-recurring items rose by €21.7 million (8%) to €298.7 million (2011: €277.0 million), driven by the growth in OTC businesses and partially offset by savings from the delivery of the transformation programme.

The Group continued to make investments in its OTC derivatives business. In particular the Group supported the growth of SwapClear in the US with the acquisition in August of IDCG, now renamed LCH.Clearnet (US) LLC.

In March 2012 the Group launched its ForexClear clearing service and started clearing FX NDFs.

The development of the CDS offering continued with the launch in May of the international CDSClear service, an extension to the established domestic French offering.

The Group has also invested in strengthening its senior management throughout the organisation. Governance and organisational structure has been enhanced and IT contractual arrangements improved.

Depreciation and amortisation increased by €1.0 million (4%) to €24.5 million (2011: €23.5 million), reflecting the Group's continuing investment in its technology infrastructure.

Unrealised net investment income

The Group only invests in high quality assets, typically high grade government issued bonds. During the year the Group ceased making investments in longer term fixed rate assets. The Group entered into interest rate swaps to hedge the interest rate risk that arose from receiving a fixed rate of return from those longer term fixed rate assets whilst paying clearing members a floating rate of return.

The Group is required to mark to market both the underlying investment and interest rate swaps and, under its accounting policy, the full impact of any mark to market movement is reflected through the income statement.

Reports

Business report continued

At times of stress in the financial markets, as experienced during the sovereign debt crisis, the yield curves of the underlying investment and the interest rate swaps may become dislocated reflecting the credit risk perceived by the market. These result in an unrealised credit or charge being reflected through the income statement. These are non-cash adjustments made for accounting purposes.

Mark to market adjustments on bonds and related interest rate hedging instruments resulted in a credit to the income statement of €34.7 million (2011: a charge of €39.3 million), representing a 0.3% movement on the portion of the portfolio that is subject to fair value adjustments (2011: fall of 0.3%). As at 31 December 2012 the total unrealised gains contained in the balance sheet were €4.3 million (2011: €31.1 million loss). These related to an investment portfolio of €11.7 billion (2011: €11.2 billion) consisting of assets which are individually due to mature during 2013 and 2014. By the time of maturity, and assuming full recovery of the principal, the mark to market positions will have fully reversed through the income statement.

Impairment and non-recurring expenditure
Non-recurring costs increased by €5.1 million (23%) to €27.6 million (2011: €22.5 million) and substantially relate to the transformation programme.

There were no impairments in 2012. In 2011 there was a write-off of €3.4 million related to software assets.

Capital resources
The total equity of the Group increased during the year by €91.0 million to €424.1 million (2011: €333.1 million).

The total regulatory capital of the Group, at €403.7 million (2011: €340.2 million restated), continues to exceed the minimum Pillar 1 requirements of €70.3 million (2011: €92.6 million) and the combined Pillar 1 and Pillar 2 requirement of €251.1 million (2011: €210.3 million).

The Group's tier 1 asset ratio of 39.6% (2011: 21.7% restated) exceeds the minimum requirement of 4% and the total capital ratio of 46.1% (2011: 29.5% restated) is also above the 8% minimum required.

The Group's Standard & Poor's long term credit rating of A+ was reaffirmed during the year. The rating is on negative watch following the announcement of the potential acquisition of a majority stake in LCH.Clearnet Group by LSEG, which currently has a lower rating.

Remuneration report

This report describes the composition of the Remuneration Committee, its terms of reference, the components of the Group's remuneration policy and details the remuneration of each of the Directors during the period.

Members of the Remuneration Committee
The Remuneration Committee is comprised of four non executive Directors. Membership of the Remuneration Committee as at 14 February 2013 consisted of:

Ian Abrams (Chairman)
Jacques Aigrain
Laurent Curtat
Lex Hoogduin

The Remuneration Committee took advice during the year from Chris Doukaki, Group Chief Administration Officer. The Group appointed New Bridge Street (an Aon Hewitt subsidiary) as independent adviser in 2011. Members of the Group's senior management may be invited to attend meetings on an ad hoc basis.

External search consultants were not used for the purpose of the appointment of Directors.

Remuneration policy
It is the policy of the Group to operate competitive remuneration policies so as to attract, retain and motivate an appropriate workforce for the ongoing success of the Group.

Rewards for staff are aligned to both performance and risk profile and in all cases will be in line with corporate strategy, objectives, corporate competencies and long term interests of the Group. As set out below, the Group's remuneration policy includes measures to avoid conflicts of interest.

The Group is committed to ensuring that its reward practices promote sound and effective risk management and do not create incentives to relax risk standards.

The remuneration of managing directors and other senior management consists of:

> base salary
> annual bonus
> long term incentive plan (LTIP)
> pension and other benefits

Bonuses are determined solely at the discretion of senior management and may be used to reward individual performance in line with Group tolerance for risk and corporate strategy.

Bonuses paid to Executive Committee members are typically subject to an element of deferral. Furthermore the Group may in certain circumstances exercise clawback.

The bonus arrangements for employees in internal audit, risk and compliance are independent of the business performance of any of LCH.Clearnet Limited, LCH.Clearnet SA and LCH.Clearnet LLC.

The Group implemented an LTIP under which employees can benefit from an increase in value of a notional share, thereby aligning the interests of employees with those of other stakeholders. Awards under the LTIP typically vest a minimum of three years following the grant date, and may also be subject to clawback for a further three years following vesting.

The managing directors, management and employees of the Group who commenced employment within the UK prior to 30 September 2009 are able to participate in the defined benefit section of the LCH pension scheme, whose assets are held in a separate trustee administered fund. A pension from this section of the scheme is normally payable on retirement at contractual retirement date and is calculated by reference to length of service and pensionable salary. Employees who joined after that date have been able to join the defined contribution section of this scheme or participate in the contract based defined contribution arrangement sitting outside the trustee arrangements. The Group also provides a flexible reward system (BENE.FIT) which allows employees to select benefits according to their own preferences.

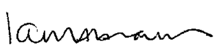
Non executive Directors' remuneration
Independent non executive Directors received fees for their services. The Board determines fees that reflect the level of individual responsibilities, attendance of meetings and membership of Board Committees. Non executive Directors representing shareholders did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

Directors' emoluments[1]

	2012 €'000	2011 €'000
Ian Axe	**2,063**	1,532
compensation for loss of benefits from previous employment	**–**	863
Independent non executives		
Ian Abrams	**165**	148
Jacques Aigrain	**742**	700
Lex Hoogduin	**80**	–
Hervé Saint-Sauveur	**184**	166
John Townend	**207**	187
Neil Walker[2]	**13**	–

1 In a number of cases payments are made to Directors in sterling, the euro equivalent of which fluctuates in line with exchange rates. As a result, amounts payable in one year when translated into euros may not be directly comparable to amounts payable in a subsequent year
2 Neil Walker was appointed as a Director on 25 January 2013. Fees received in 2012 relate to his directorship of a subsidiary company, LCH.Clearnet SA

On behalf of the Board



Ian Abrams
Chairman of the Remuneration Committee
14 February 2012

Reports

Directors' report

The Directors of LCH.Clearnet Group Limited (the Company) present their report to the shareholders, together with the audited consolidated financial statements for the year ended 31 December 2012.

Principal activities
The principal activity of the Company is the holding of investments in the operating subsidiaries.

The principal activity of each of the major operating subsidiaries during the year was the provision of CCP clearing services and other related services to their clearing members.

LCH.Clearnet Limited continues to satisfy the requirements of the FSA 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 OTC markets.

Banque Centrale de Compensation SA (trading as LCH.Clearnet SA) acts as the clearing house for regulated markets in France, the Netherlands, Belgium and Portugal and for fixed income products and 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 repos and CDS.

LCH.Clearnet LLC is a New York based, Delaware registered company which was acquired in August 2012 as part of the acquisition of IDCG. LCH.Clearnet LLC is regulated as a DCO by the CFTC to facilitate cross product margining with NYPC, DTCC and NYSE Euronext.

Business review
A review of the activities within the Group during the year and likely future developments along with a description of the principal risks and uncertainties facing the Group is set out within the business review including the Chairman's and Chief Executive's statement.

Group results
The Group results for the year are shown in the consolidated income statement on page 24.

Group profit of €59.7 million (2011: €21.2 million) has been transferred to reserves.

The Directors do not propose the payment of a dividend (2011: nil).

Capital
There have been no changes to the authorised share capital during the period covered by this report. As part of the acquisition of IDCG (since renamed LCH.Clearnet (US) LLC), the Company issued 1,561,171 fully paid shares to The NASDAQ OMX Group, Inc. (NASDAQ OMX) equivalent to 3.7% of the Company's issued share capital.

Details of movements in equity are set out in the consolidated statement of changes in equity on pages 28 and 68 and in note 23 on capital management. As at 31 December 2012 the Group's capital resources amounted to €424.1 million (2011: €333.1 million); its Pillar 1 regulatory capital amounted to €403.7 million (2011: €340.2 million restated).

Based on the recommendations from the ESMA and EBA, as recently adopted by the European Commission, the Group is in discussion with regulators with regard to its future capital requirements. As a result further capital will be raised in 2013.

Charitable donations
The Group made donations for charitable purposes of €0.1 million (2011: €0.1 million), the majority of which was paid under the Group's CSR programme.

Directors and Directors' interests
The current Directors of the Company are listed on page 71 and information relating to Directors' remuneration is given in the remuneration report on page 19.

No Director holding office at 14 February 2013 had any beneficial interest in the shares of the Company. The following each hold one share in LCH.Clearnet SA, a subsidiary undertaking: Ian Abrams, Ian Axe, Jacques Aigrain, Lex Hoogduin and Hervé Saint-Sauveur.

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 with the Directors during the year.

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.

Supplier payment policy and practice
It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2012 the Group had an average of 31 days (2011: 15 days) purchases owed to trade creditors.

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. A resolution on the reappointment of the auditors will be put to shareholders at the Company's next AGM.

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. The Group is working towards being compliant with EMIR and will apply for registration during 2013. 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.

The Group's financial risk management assessment is described in note 21, details of financial instruments and exposure to credit risk and liquidity risk in note 22 and its capital management processes in note 23.

By order of the Board

Jacques Aigrain
Chairman
14 February 2013

Reports

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the Group and Company financial statements in accordance with applicable UK law and those International Financial Reporting Standards (IFRSs) as adopted by the EU.

Under company law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance
- state the Group 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the International Accounting Standards (IAS) regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are satisfied that, when taken as a whole, the annual report and Group and Company financial statements are fair, balanced and understandable and provide the information necessary for the Group's performance, its business model and strategy to be assessed.

Independent auditor’s report

to the shareholders of LCH.Clearnet Group Limited

We have audited the financial statements of LCH.Clearnet Group Limited for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements of financial position, 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 IFRSs as adopted by the EU 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 22, 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 annual report to identify material inconsistencies with the audited financial statements. 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 2012 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 EU
> the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006
> 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 Directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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
London
14 February 2013

Financial statements

Consolidated income statement

For the year ended 31 December 2012

	Note	2012 Before impairment & non-recurring items €'m	2012 Impairment & non-recurring items €'m	2012 Total €'m	2011[1] Before impairment & non-recurring items €'m	2011[1] Impairment & non-recurring items €'m	2011[1] Total €'m
Revenue							
Interest income		303.6	–	303.6	454.8	–	454.8
Interest expense		(136.6)	–	(136.6)	(354.7)	–	(354.7)
Net interest income		**167.0**	–	**167.0**	100.1	–	100.1
Clearing fees		**253.9**	–	**253.9**	236.7	–	236.7
Settlement and other income		25.4	–	25.4	29.5	–	29.5
Settlement fees payable		(13.9)	–	(13.9)	(15.3)	–	(15.3)
Net settlement and other income		**11.5**	–	**11.5**	14.2	–	14.2
Rebates		**(6.2)**	–	**(6.2)**	(6.4)	–	(6.4)
Net revenue	4	**426.2**	–	**426.2**	344.6	–	344.6
Costs and expenses							
Employee benefits expense	17	**(141.7)**	**(7.4)**	**(149.1)**	(118.0)	(4.7)	(122.7)
Depreciation and amortisation charge	5	**(24.5)**	–	**(24.5)**	(23.5)	(0.7)	(24.2)
Write-off/impairment of intangible assets	5	–	–	–	–	(3.4)	(3.4)
Other operating expenditure	5	**(132.5)**	**(20.2)**	**(152.7)**	(135.5)	(13.7)	(149.2)
Total costs and expenses		**(298.7)**	**(27.6)**	**(326.3)**	(277.0)	(22.5)	(299.5)
Operating profit/(loss)		**127.5**	**(27.6)**	**99.9**	67.6	(22.5)	45.1
Finance income	5	**4.0**	–	**4.0**	2.7	–	2.7
Finance costs	5	**(12.6)**	–	**(12.6)**	(12.7)	–	(12.7)
Profit before taxation	5	**118.9**	**(27.6)**	**91.3**	57.6	(22.5)	35.1
Taxation expense	6	**(38.0)**	**6.4**	**(31.6)**	(19.9)	6.0	(13.9)
Profit for the year	4	**80.9**	**(21.2)**	**59.7**	37.7	(16.5)	21.2

1 Prior year figures restated to reflect change in accounting treatment

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

The notes on pages 29 to 65 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 €'m	2011 €'m
Profit for the year		**59.7**	21.2
Exchange differences on retranslation of foreign operations		(1.3)	–
Actuarial gain/(loss) recognised in the UK pension scheme	17	7.5	(11.6)
Deferred tax relating to the UK actuarial (gain)/loss	6	(1.8)	2.9
Actuarial (losses)/gains recognised in overseas employee benefit plans	17	(4.0)	0.2
Deferred tax relating to the overseas actuarial losses	6	1.2	0.4
Other comprehensive income/(expense) for the year, net of tax		**1.6**	(8.1)
Total comprehensive income for the year, net of tax		**61.3**	13.1

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

The notes on pages 29 to 65 form an integral part of these consolidated financial statements.

Financial statements

Consolidated statement of financial position

As at 31 December 2012

	Note	2012 €'m	2011[1] €'m
Assets			
Non-current assets			
Intangible assets	8	198.3	170.3
Property, plant and equipment	10	18.5	12.2
Trade and other receivables	12	84.2	–
Deferred taxation asset	6	14.8	29.0
Total non-current assets		**315.8**	211.5
Current assets			
Cash and short term deposits	11	26,345.4	20,414.0
Other financial assets	22	13,997.3	18,749.4
Derivative financial assets	22	–	1.0
Income tax receivable		12.1	2.1
Trade and other receivables	12	33.7	91.5
Balances with clearing members	13	455,364.1	501,565.3
Total current assets		**495,752.6**	540,823.3
Total assets	4	**496,068.4**	541,034.8
Equity and liabilities			
Capital and reserves			
Called up share capital		**42.2**	40.6
Share premium		**28.1**	–
Capital reserves		**15.3**	15.3
Capital redemption reserve		**59.5**	59.5
Translation reserve		**(1.3)**	–
Retained earnings		**280.3**	217.7
Total equity	page 28 and note 14	**424.1**	333.1
Non-current liabilities			
Interest bearing loans and borrowings	15	**179.0**	178.0
Default funds	16	**5,595.1**	2,043.7
Trade and other payables	18	**51.8**	–
Employment benefits	17	**8.1**	15.6
Total non-current liabilities		**5,834.0**	2,237.3
Current liabilities			
Interest bearing loans and borrowings	15	69.0	68.1
Derivative financial liabilities	22	35.4	60.8
Income tax payable		–	1.8
Trade and other payables	18	187.8	324.0
Balances with clearing members	13	489,518.1	538,009.7
Total current liabilities		**489,810.3**	538,464.4
Total liabilities	4	**495,644.3**	540,701.7
Total equity and liabilities		**496,068.4**	541,034.8

1 Prior year figures restated to reflect change in accounting treatment

Jacques Aigrain
Chairman, LCH.Clearnet Group Limited

Ian Axe
Director, LCH.Clearnet Group Limited

The notes on pages 29 to 65 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board on 14 February 2013.

Consolidated statement of cash flows

For the year ended 31 December 2012

	Note	2012 €'m	2011[1] €'m
Cash flows arising from operating activities			
Profit for the year		59.7	21.2
Taxation expense		31.6	13.9
Finance income		(4.0)	(2.7)
Finance costs		12.6	12.7
Depreciation and amortisation	5	24.5	22.9
Loss on disposal and write-off of assets	5	–	1.3
Impairment of intangible assets	5	–	3.4
Increase in trade and other receivables		(23.9)	(33.1)
Decrease in employee benefits		(4.0)	(6.3)
(Decrease)/increase in trade and other payables		(83.8)	184.8
Unrealised fair value (gains)/losses on financial instruments		(34.7)	39.3
Margin monies cash (outflow)/inflow		(2,290.4)	8,695.7
Increase/(decrease) in default funds		3,535.5	(5.7)
Net cash inflow from operations		**1,223.1**	8,947.4
Taxation paid		**(29.9)**	(20.4)
Net cash inflows from operating activities		**1,193.2**	8,927.0
Investing activities			
Investment in intangible assets		(17.7)	(15.3)
Purchase of property, plant and equipment		(10.6)	(8.3)
Redemption of/(investment in) other financial assets		4,761.2	(4,336.0)
Interest received		1.6	2.7
Net cash inflow/(outflow) from investing activities		**4,734.5**	(4,356.9)
Financing activities			
Interest paid		(11.9)	(12.2)
Finance lease principal payments		(0.3)	(0.2)
Net cash used in financing activities		**(12.2)**	(12.4)
Increase in cash and cash equivalents		**5,915.5**	4,557.7
Cash and cash equivalents at 1 January		**20,414.0**	15,769.2
Effects of foreign exchange movements		**15.9**	19.3
Cash and cash equivalents at 31 December		**26,345.4**	20,346.2
Cash and cash equivalents at 31 December comprise			
Investments in secured short term deposits		20,655.6	16,809.4
Cash at bank and in hand		5,689.8	3,604.6
	11	**26,345.4**	20,414.0
Bank overdrafts	15	–	(67.8)
		26,345.4	20,346.2

1 Prior year figures restated to reflect changes in accounting treatment

The notes on pages 29 to 65 form an integral part of these consolidated financial statements.

Financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Called up share capital €'m	Share premium €'m	Capital reserves €'m	Capital redemption reserves €'m	Translation reserve €'m	Retained earnings €'m	Total €'m
Shareholders' equity at 1 January 2011	40.6	–	15.3	59.5	–	204.6	320.0
Profit for the year to 31 December 2011	–	–	–	–	–	21.2	21.2
Other comprehensive expense	–	–	–	–	–	(8.1)	(8.1)
Total comprehensive income	–	–	–	–	–	13.1	13.1
Shareholders' equity at 31 December 2011	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**

The notes on pages 29 to 65 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Authorisation of financial statements and statement of compliance with IFRS

Authorisation for publication

The financial statements for the Company and the consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 14 February 2013 and the statements of financial position were signed on the Board's behalf by the Group Chairman, Jacques Aigrain and Ian Axe, Group Chief Executive.

LCH.Clearnet Group Limited is a private limited company incorporated and domiciled in England and Wales.

The principal activities of the Group are described in the Directors' report (page 20).

Statement of compliance

Both the financial statements of the Company and the consolidated financial statements of the Group and all its subsidiaries have been prepared in accordance with IFRSs as adopted by the EU. The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out in note 2. Unless otherwise stated these policies have been applied to the years ended 31 December 2012 and 31 December 2011.

2 Summary of significant accounting policies

Basis of preparation

These 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 2012 reporting and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. 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 consolidated financial statements are presented in millions of euros except where otherwise indicated.

Changes in accounting treatment

The Group has made a number of accounting treatment changes which have required the restatement of prior year results in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. None of these have resulted in a change to either reported profits or net assets from prior years. The changes are:

> reclassification of settlement fees payable
> reclassification of income share rebates
> reclassification of recoverable development costs
> de-recognition of assets where development costs have been funded by third parties

Settlement fees payable

The Group recovers settlement costs incurred from clearing members. Previously these fees payable have been included within other operating expenses although the recovery from clearing members has been included in other income within net revenue. The Directors believe it is more appropriate for these costs to be netted within revenue and have included the costs in a separate line on the face of the income statement as settlement fees payable. For the 2011 comparative information this has resulted in a reduction of both operating costs and net revenue of €15.3 million from the levels originally reported in respect of 2011 with no change to net profit.

Income share rebates

Under agreements with certain clearing members the Group shares profits from specific clearing services with them. This share can either be an income or an expense for the Group depending on the profitability of the individual services. In 2011 this expense was disclosed within operating expenses. However, the Directors believe it is more appropriate to classify this item in rebates which reduces net revenue. For the 2011 comparative information this has resulted in a reduction of both operating costs and net revenue of €6.4 million from the levels originally reported in respect of 2011 with no change to net profit.

Recoverable development costs

The Group has made two changes in 2012 in respect of the accounting for those costs incurred to create or upgrade existing clearing systems which are funded under agreements with certain clearing members. Clearing members underwrite the system development costs that are incurred and closely direct the development and investment in the clearing service. Clearing members also direct the operational use of the relevant clearing service which includes control over the governance committees that determine fee levels, set development priorities, appoint staff and set remuneration levels. The Group retains control over the admission of clearing members to the service, setting of margins, all risk management policies and the day to day operation of the systems. Clearing members have the option to take full control of these assets in the future.

Individual agreements differ. Some developments are pre-funded by clearing members and some are funded by the Group, with expenditure then recovered from future profits of the clearing service concerned under individually negotiated arrangements. A liability is recognised in the statement of financial position for the pre-funding which is then reduced as the costs are incurred by the Group. Under other agreements the Group initially funds the development and will recognise a debtor in the statement of financial position to reflect the costs that have been incurred to date. This debtor will be recovered either directly from the clearing members or through the future profits of the clearing service, again under individually negotiated arrangements.

Change in accounting presentation of recoverable development costs in the income statement

Previously, for costs expensed to the income statement the corresponding credit was made to other income in the income statement. This credit is now made to other operating expenditure in the income statement to net with the incurred cost which the Directors believe more faithfully reflects the substance of the arrangements as they represent direct cost recoveries for the Group and is in accordance with IAS 1, Presentation of Financial Statements.

Financial statements

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

For 2011 this change has resulted in a reduction in both other income and other operating expenses of €22.9 million and no change in reported profit.

Change in accounting policy for derecognition of assets where development costs have been funded by third parties

The Group has previously capitalised costs incurred under these arrangements. For costs that were incurred and capitalised on the statement of financial position the Group recognised an intangible asset or property, plant and equipment in the statement of financial position and recognised a corresponding credit to a deferred income account in the statement of financial position. The deferred income account was then released over time to offset the amortisation of the assets to the income statement.

During 2012 the Group has reviewed these arrangements in light of changes to the profit sharing and cost reimbursement terms of the agreements with members against the requirements of IFRIC 18, Transfers of Assets from Customers, and IFRIC 12, Service Concession Arrangements and revisited the level of control that the participating members have over the direction of the relevant assets. Continued development of the assets has confirmed that they will have a useful life beyond the date at which members can opt to take control of them.

The effect of these restatements is shown below on the effected items.

Extracts from accounts

Income statement for the year ended 31 December 2011

	As previously reported €'m	Recoverable development costs €'m	Income share rebates €'m	Settlement fees payable €'m	Restated €'m
Other income	54.7	(25.2)		–	29.5
Settlement fees payable	–	–	–	(15.3)	(15.3)
Rebates	–	–	(6.4)	–	(6.4)
Depreciation and amortisation	(26.5)	2.3	–	–	(24.2)
Other operating expenses	(193.8)	22.9	6.4	15.3	(149.2)
Operating profit	**45.1**	–	–	–	**45.1**
Profit for the year	**21.2**	–	–	–	**21.2**

Statement of financial position as at 31 December 2011

	As previously reported €'m	Restatement €'m	Restated €'m
Intangible assets	203.1	(32.8)	170.3
Property, plant and equipment	13.0	(0.8)	12.2
Total assets	541,068.4	(33.6)	541,034.8
Total equity	333.1	–	333.1
Trade and other payables	357.6	(33.6)	324.0
Total liabilities	540,735.3	(33.6)	540,701.7
Total equity and liabilities	541,068.4	(33.6)	541,034.8

Statement of financial position as at 31 December 2010

	As previously reported €'m	Restatement €'m	Restated €'m
Intangible assets	193.1	(15.9)	177.2
Property, plant and equipment	10.1	(0.8)	9.3
Total assets	513,324.6	(16.7)	513,307.9
Total equity	320.0	–	320.0
Trade and other payables	158.2	(16.7)	141.5
Total liabilities	513,004.6	(16.7)	512,987.9
Total equity and liabilities	513,324.6	(16.7)	513,307.9

There is no restatement required for the statement of financial position as at 31 December 2009.

2 Summary of significant accounting policies continued

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.

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 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 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 9). 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 17).

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. The Group is working towards being compliant with EMIR and will apply for registration during 2013. 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 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.

LCH.Clearnet SA has been consolidated under the acquisition method of accounting.

LCH.Clearnet Limited has been consolidated using merger accounting principles as if LCH.Clearnet Group Limited had always been the parent Company following a scheme of arrangement under section 425 of the Companies Act 1985.

LCH.Clearnet LLC, acquired by the Group in August 2012, has been consolidated using the acquisition method of accounting.

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.

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 FX 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. Self developed software is amortised over periods between three and five years.

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.

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:

Financial statements

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

> 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 fixed 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.

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).

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.

2 Summary of significant accounting policies continued

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 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 where not material.

Share capital

Called up share capital comprises ordinary shares. Other capital reserves are described in notes 14 and 29. 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 settlement fees payable, 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.

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.

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 2012 by a qualified independent actuary.

Financial statements

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

A full actuarial valuation of the LCH pension scheme was carried out at 30 June 2010 and partially updated to 31 December 2012 by a qualified independent actuary. Major assumptions used by the actuary are included within note 17.

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 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. Losses are measured at the date that the employer becomes demonstrably committed to the transaction, and gains are measured when all parties whose consent is required are irrevocably committed to the transaction.

The interest element of the defined benefit cost represents the change in the present value of scheme obligations relating from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the income statement within employee benefits.

Actuarial gains and losses are recognised in full in the statement of changes in equity 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 any past service cost not yet recognised and 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 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.

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.

Borrowing costs

Borrowing costs are recognised as an expense when incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 issued but not effective for the financial year beginning 1 January 2012 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, that does not impact on the Group's financial information. The directors do not expect adoption of these standards to have a material effect on the results of the Group.

2 Summary of significant accounting policies continued

	Effective date for periods beginning on or after
Amendment to IAS 1, Presentation of Financial Statements regarding other comprehensive income	1 July 2012
Amendments to IAS 19, Employee Benefits	1 January 2013
Amendments to IFRS 7, Financial Instruments: Disclosures regarding offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32, Financial Instruments: Presentation regarding offsetting financial assets and financial liabilities	1 January 2014
IFRS 10, Consolidated Financial Statements and amended IAS 27, Separate Financial Statements	1 January 2013[1]
IFRS 11 Joint Arrangements and amended IAS 28, Investments in Associates and Joint Ventures	1 January 2013[1]
IFRS 12, Disclosures of Interests in Other Entities	1 January 2013[1]
IFRS 13, Fair Value Measurement	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014[2]
IFRS 9, Financial Instruments	1 January 2015[2]

1 Endorsed by the EU on 11 December 2012 and to be implemented, at the latest, for periods beginning on or after 1 January 2014.
2 Subject to endorsement by the EU.

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

	2012 Closing rate	**2012 Average rate**	2011 Closing rate	2011 Average rate
Euro (€) to US dollar ($)	**1.32**	**1.29**	1.30	1.39
Euro (€) to pound sterling (£)	**0.81**	**0.81**	0.83	0.87

4 Operating 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
> LCH.Clearnet SA based in 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 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 to segments only where the related revenues and expenses are also allocated to those 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 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). LCH.Clearnet LLC will derive revenues as a clearing house from 2013, pending regulatory approvals from the CFTC.

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.

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.

Financial statements

Notes to the consolidated financial statements continued

4 Operating segment information continued

Segmental income statement

	2012			
	Ltd €'m	SA €'m	Other €'m	Total €'m
Revenue				
Clearing fees	**167.9**	**86.0**	**–**	**253.9**
Interest income				
Treasury	96.4	191.2	0.1	287.7
Default fund	11.1	4.7	0.1	15.9
	107.5	**195.9**	**0.2**	**303.6**
Interest expense				
Treasury	(12.6)	(103.7)	(0.2)	(116.5)
Default fund	(15.4)	(4.7)	–	(20.1)
	(28.0)	**(108.4)**	**(0.2)**	**(136.6)**
Net interest income	**79.5**	**87.5**	**–**	**167.0**
Settlement and other income	7.5	26.5	40.9	74.9
Inter-segment	(0.5)	(8.1)	(40.9)	(49.5)
	7.0	**18.4**	**–**	**25.4**
Settlement fees payable	**(6.9)**	**(7.0)**	**–**	**(13.9)**
Net settlement and other income	**0.1**	**11.4**	**–**	**11.5**
Rebates	**(9.6)**	**3.4**	**–**	**(6.2)**
Segment revenue	**237.9**	**188.3**	**–**	**426.2**
Result				
Segment result before non-recurring items	28.5	97.0	2.0	127.5
Non-recurring items	(12.7)	(7.5)	(7.4)	(27.6)
Segment result after non-recurring items	**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 before tax	**18.3**	**90.7**	**(17.7)**	**91.3**
Tax expense	**(5.4)**	**(29.9)**	**3.7**	**(31.6)**
Profit for the year	**12.9**	**60.8**	**(14.0)**	**59.7**

Included within interest expense is an estimated €24.8 million negative amount, due to negative rates being applied to members' cash balances.

4 Operating segment information continued

	2011[1]			
	Ltd €'m	SA €'m	Other €'m	Total €'m
Revenue				
Clearing fees	146.1	90.6	–	236.7
Interest income				
Treasury	166.3	272.2	–	438.5
Default fund	3.5	12.8	–	16.3
	169.8	285.0	–	454.8
Interest expense				
Treasury	(72.9)	(259.7)	–	(332.6)
Default fund	(9.4)	(12.7)	–	(22.1)
	(82.3)	(272.4)	–	(354.7)
Net interest income	87.5	12.6	–	100.1
Settlement and other income	5.6	26.5	29.3	61.4
Inter-segment	(0.1)	(2.5)	(29.3)	(31.9)
	5.5	24.0	–	29.5
Settlement fees payable	(7.7)	(7.6)	–	(15.3)
Net settlement and other income	(2.2)	16.4	–	14.2
Rebates	(6.4)	–	–	(6.4)
Segment revenue	225.0	119.6	–	344.6
Result				
Segment result before non-recurring items	43.1	28.2	(3.7)	67.6
Non-recurring items	(14.4)	(2.5)	(5.6)	(22.5)
Segment result after non-recurring items	28.7	25.7	(9.3)	45.1
Finance income	1.0	1.2	0.5	2.7
Finance costs	(0.1)	–	(12.6)	(12.7)
Profit before tax	29.6	26.9	(21.4)	35.1
Tax expense	(8.6)	(8.1)	2.8	(13.9)
Profit for the year	21.0	18.8	(18.6)	21.2

1 Prior year figures restated to reflect changes in accounting treatment

Financial statements

Notes to the consolidated financial statements continued

4 Operating segment information continued

Assets and liabilities

	2012			
	Ltd €'m	SA €'m	Other €'m	Total €'m
Assets and liabilities				
Total assets	263,489.8	232,419.2	159.4	496,068.4
Total liabilities	(265,792.3)	(229,606.6)	(245.4)	(495,644.3)
Other segment information				
Capital expenditure on fixed assets	11.3	3.3	14.5	29.1
Non-cash items				
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

	2011[1]			
	Ltd €'m	SA €'m	Other €'m	Total €'m
Assets and liabilities				
Total assets	310,043.2	230,952.3	39.3	541,034.8
Total liabilities	(309,900.6)	(230,626.5)	(174.6)	(540,701.7)
Other segment information				
Capital expenditure on fixed assets[1]	7.8	12.9	2.9	23.6
Non-cash items				
Fair value (gain)/loss on financial instruments	(0.1)	39.4	–	39.3
Write off of intangible assets	3.4	–	–	3.4
Loss on disposal of property, plant and equipment within non-recurring items	0.7	–	–	0.7
Depreciation of property, plant and equipment	4.0	0.4	0.1	4.5
Amortisation[1]	3.0	5.0	10.4	18.4

1 Prior year figures restated to reflect changes in accounting treatment

Geographic information

	2012 €'m	2011[1] €'m
Revenues from external customers		
UK	237.9	225.0
Europe	188.3	119.6
Net revenue per consolidated income statement	426.2	344.6
Non-current assets		
UK	103.5	30.6
Europe	182.6	180.9
Other	29.7	–
Total	315.8	211.5

1 Prior year figures restated to reflect changes in accounting treatment

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.

5 Profit before taxation

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

	2012 €'m	2011[1] €'m
Depreciation and amortisation		
Depreciation of property, plant and equipment	**5.1**	4.5
Amortisation of intangible assets	**19.4**	18.4
Loss on write-off of property, plant and equipment	–	0.2
Loss on disposal of intangible assets	–	0.4
	24.5	23.5
Other operating expenditure includes		
Hire of plant and machinery under operating leases	**0.3**	0.3
Property lease rentals	**10.4**	9.9
Outsourced IT infrastructure	**30.1**	28.8
Self-developed software expensed directly to the income statement	**14.9**	12.7
Foreign exchange (gains)/losses	**(1.4)**	0.9
Auditors remuneration:		
Audit related – Company	**0.1**	0.1
Audit related – subsidiaries	**0.6**	0.4
Non-audit related – Company	**1.1**	0.2
Non-audit related – subsidiaries	**0.8**	0.1
Non-recurring items		
Transformation plan costs including redundancy costs and loss on property refurbishments	**24.1**	14.3
Write-off/impairment of intangible assets	–	3.4
Other costs	**3.5**	4.8
	27.6	22.5
Net finance expense		
Interest paid in respect of:		
Preferred securities	(12.3)	(12.3)
Interest on bank loans and overdrafts and finance leases repayable within five years	(0.3)	(0.4)
	(12.6)	(12.7)
Interest receivable in respect of recoverable development costs	**2.4**	–
Interest received on own funds	**1.6**	2.7
	(8.6)	(10.0)

1 Prior year figures restated to reflect changes in accounting treatment

Financial statements

Notes to the consolidated financial statements continued

6 Taxation

The major components of taxation expense are:

Consolidated income statement

	2012 €'m	2011 €'m
Current income tax		
United Kingdom		
Current tax credit/(charge)	(0.8)	0.3
Adjustments in respect of current taxation in previous years	(0.3)	(0.8)
	(1.1)	(0.5)
Overseas		
Current tax charge	(17.7)	(24.2)
Adjustments in respect of current taxation in previous years	0.8	0.6
	(16.9)	(23.6)
Total current taxation	(18.0)	(24.1)
Deferred tax		
Relating to the origination and reversal of temporary differences	(13.6)	10.2
Taxation expense reported in the consolidated income statement	(31.6)	(13.9)
Consolidated statement of comprehensive income		
Tax relating to actuarial loss on overseas schemes	1.2	0.4
Tax relating to actuarial (gain)/loss on UK pension scheme	(1.8)	2.9
	(0.6)	3.3

Reconciliation of tax expense

	2012 €'m	2011 €'m
Accounting profit before taxation	91.3	35.1
Tax at UK statutory corporation tax rate of 24.5% (2011: 26.5%)	(22.4)	(9.3)
Effect of:		
Adjustments in respect of prior periods	1.0	(0.5)
Disallowed expenses and non–taxable income	(1.6)	(0.6)
Re-measurement of deferred tax – change in corporation tax rate	(0.8)	(0.8)
Net effect of higher rates of overseas taxation	(8.3)	(1.6)
Exempt foreign income	0.2	(0.3)
Tax losses arising in the period that cannot be group relieved	–	(1.0)
Foreign exchange adjustment	0.3	0.2
Total tax charge	(31.6)	(13.9)
Effective corporate tax rate	34.6%	39.6%

6 Taxation continued

The Finance Bill 2012 was substantively enacted on 3 July 2012. The reduction to the standard rate of corporation tax from 24% to 23% will be effective from 1 April 2013. Accordingly the deferred tax balances at 31 December 2012 have been stated at 23%. A further rate reduction of 2% has been announced on 5 December 2012 which will reduce the tax rate to 21% in 2014. This additional change will be enacted separately.

The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 21% is expected to be €0.2 million (equivalent to 2% of the closing gross deferred tax balance).

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	
	2012 €'m	2011 €'m	**2012 €'m**	2011 €'m
Post-employment benefits	**–**	4.2	**(3.0)**	(3.4)
Reduced depreciation for tax purposes	**8.5**	6.7	**1.4**	(1.9)
Other temporary differences	**6.3**	18.1	**(12.0)**	15.5
Deferred tax charge			**(13.6)**	10.2
Deferred tax asset	**14.8**	29.0		

	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)**
Net deferred tax asset at 31 December 2012	**9.7**	**1.0**	**4.1**	**14.8**

	UK €'m	Luxembourg €'m	Other overseas €'m	Total €'m
Net deferred tax asset at 1 January 2011	14.5	0.9	0.1	15.5
Deferred tax in income statement	(5.4)	0.1	15.5	10.2
Deferred tax relating to actuarial loss	2.9	–	0.4	3.3
Net deferred tax asset at 31 December 2011	12.0	1.0	16.0	29.0

7 Result of the holding company

The retained profit for the year includes a loss of €10.5 million (2011: profit of €5.3 million) which is shown in the Company accounts of LCH.Clearnet Group Limited.

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8 Intangible assets

	Self-developed software €'m	Goodwill €'m	Total €'m
Cost			
At 1 January 2012 – as previously reported	197.5	503.8	701.3
Prior year adjustment – opening balance[1]	(35.1)	–	(35.1)
At 1 January 2012 – restated	162.4	503.8	666.2
Additions	17.7	29.7	47.4
Disposals	(1.9)	–	(1.9)
At 31 December 2012	**178.2**	**533.5**	**711.7**
Accumulated amortisation			
At 1 January 2012 – as previously reported	104.8	393.4	498.2
Prior year adjustment – opening balance[1]	(2.3)	–	(2.3)
At 1 January 2012	102.5	393.4	495.9
Amortisation charge for the year	19.4	–	19.4
Disposals	(1.9)	–	(1.9)
At 31 December 2012	**120.0**	**393.4**	**513.4**
Net book value			
At 31 December 2012	**58.2**	**140.1**	**198.3**
At 1 January 2012 – restated	59.9	110.4	170.3
At 1 January 2012 – as previously reported	92.7	110.4	203.1
Cost			
At 1 January 2011 – as previously reported	171.4	503.8	675.2
Prior year adjustment – opening balance[1]	(15.9)	–	(15.9)
At 1 January 2011 – restated	155.5	503.8	659.3
Additions	34.5	–	34.5
Prior year adjustment to additions[1]	(19.2)	–	(19.2)
Disposals	(1.6)	–	(1.6)
Write-off	(6.8)	–	(6.8)
At 31 December 2011	162.4	503.8	666.2
Accumulated amortisation			
At 1 January 2011	88.7	393.4	482.1
Amortisation charge for the year	20.7	–	20.7
Prior year adjustment	(2.3)	–	(2.3)
Disposals	(1.2)	–	(1.2)
Write-off	(3.4)	–	(3.4)
At 31 December 2011	102.5	393.4	495.9
Net book value			
At 31 December 2011 – restated	59.9	110.4	170.3
At 31 December 2011 – as previously reported	92.7	110.4	203.1
At 1 January 2011 – restated	66.8	110.4	177.2
At 1 January 2011 – as previously reported	82.7	110.4	193.1

1 2011 has been restated for changes in accounting treatment

8 Intangible assets continued

On 15 August 2012 the Group acquired 100% ownership of IDCG (since renamed LCH.Clearnet (US) LLC), a US company, for consideration of €29.7 million. The consideration was met by the issue of 1,561,171 ordinary shares of LCH.Clearnet Group Ltd with an agreed fair value of €19 each.

The acquisition will enable the Group to operate a US domiciled CCP, subject to regulatory approval. The transaction reinforces the Group's commitment to the US marketplace, where it already operates interest rate swap clearing through its SwapClear service.

There were no assets acquired as part of the transaction and no separately identifiable intangible assets have been recognised. The Group believes that the €29.7 million goodwill recognised on acquisition is reasonable and represents the future potential growth of the Group's business in the US, and is not deductible for tax purposes. Transaction costs of €2.9 million were incurred in relation to the acquisition of IDCG and have been charged to the clearing service development cost in the US and are recoverable under agreements with certain clearing members.

The US business has not traded and as such has not earned any revenue or profits in the year of acquisition. The business will begin trading during 2013.

The portion of capitalised self developed software costs disclosed above that relates to software not currently brought into use amounted to €25.9 million (2011: €14.5 million, restated). No amortisation has been charged during the year against these assets (2011: €nil).

Self developed software costs expensed directly to the income statement are set out in note 5.

9 Impairment testing of intangible assets

Goodwill

Goodwill is carried in relation to the acquisition of LCH.Clearnet SA and LCH.Clearnet (US) LLC, wholly owned subsidiaries. The recoverable amount associated with these subsidiaries is determined based on value in use calculations. These calculations use cash flow projections derived from financial forecasts prepared by management covering a five year period. Cash flows beyond the five year period are extrapolated using an estimated long term growth rate of 2.0% (2011: 2.0%).

In preparing the forecasts, management have made certain assumptions. Among these, growth in SwapClear, cash equity and fixed income clearing volumes and tariff levels are the most important.

Cash flows are discounted using a pre-tax discount rate of 12.2% (2011: 12.7%), which reflects the specific risks relating to the relevant segments.

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10 Property, plant and equipment

	Leasehold refurbishment €'m	Computer equipment and software €'m	Office equipment and other fixed assets €'m	Total €'m
Cost				
At 1 January 2012 – as previously reported	7.8	27.5	5.9	41.2
Prior year adjustment – opening balance[1]	–	(0.8)	–	(0.8)
At 1 January 2012 – restated	7.8	26.7	5.9	40.4
Additions	4.4	6.9	0.1	11.4
At 31 December 2012	**12.2**	**33.6**	**6.0**	**51.8**
Accumulated depreciation				
At 1 January 2012	2.6	20.5	5.1	28.2
Depreciation charge for the year	1.0	3.8	0.3	5.1
At 31 December 2012	**3.6**	**24.3**	**5.4**	**33.3**
Net book value				
At 31 December 2012	**8.6**	**9.3**	**0.6**	**18.5**
Cost				
At 1 January 2011 – as previously reported	6.4	25.7	6.0	38.1
Prior year adjustment – opening balance[1]	–	(0.8)	–	(0.8)
At 1 January 2011	6.4	24.9	6.0	37.3
Additions	3.4	4.6	0.3	8.3
Write-off	(0.7)	–	–	(0.7)
Disposals	(1.3)	(2.8)	(0.4)	(4.5)
At 31 December 2011	7.8	26.7	5.9	40.4
Accumulated depreciation				
At 1 January 2011	3.2	20.0	4.8	28.0
Depreciation charge for the year	0.7	3.3	0.5	4.5
Disposals	(1.3)	(2.8)	(0.2)	(4.3)
At 31 December 2011	2.6	20.5	5.1	28.2
Net book value				
At 31 December 2011 – restated	5.2	6.2	0.8	12.2
At 31 December 2011 – as previously reported	5.2	7.0	0.8	13.0

1 Prior year figures restated to reflect changes in accounting treatment

Assets with a net book value of €0.8 million (2011: €0.5 million) are held under finance leases and included within computer equipment.

11 Cash and short term deposits

	2012 €'m	2011 €'m
Cash at bank and in hand	**5,689.8**	3,604.6
Short term deposits	**20,655.6**	16,809.4
	26,345.4	20,414.0

€20,357.6 million (2011: €16,226.3 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.

12 Trade and other receivables

	2012 €'m	2011 €'m
Non-current		
Other receivables	**84.2**	–
Current		
Other receivables	**15.9**	78.1
Prepayments	**16.3**	11.5
Accrued income	**1.5**	1.9
	33.7	91.5

Other receivables are due principally to amounts recoverable from clearing members relating to the development of clearing systems. There are no trade and other receivables that are past due or impaired.

13 Balances with clearing members

	2012 €'m	2011 €'m
Assets		
Fair value of transactions with clearing members, less variation margin	**450,553.3**	497,279.7
Initial margin and other clearing member balances	**4,810.8**	4,285.6
	455,364.1	501,565.3
Liabilities		
Fair value of transactions with clearing members, less variation margin	**(450,460.1)**	(497,262.0)
Initial margin and other clearing member balances	**(39,058.0)**	(40,747.7)
	(489,518.1)	(538,009.7)

The balances due from clearing members recorded in the statement of financial position of €455,364.1 million (2011: €501,565.3 million) are fully secured by collateral held by the Group. To date this collateral has not been utilised.

At 31 December 2012 the total of fully collateralised loans in respect of fixed income transactions was €446,783.3 million (2011: €491,410.0 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 €33,506.0 million (2011: €37,758.0 million) and the total amount of guarantees held was €2,387.4 million (2011: €2,456.4 million). To date this collateral has not been utilised.

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14 Issued capital and reserves

	2012 €'m	2011 €'m
Authorised		
100,916,003 (2011: 100,916,003) ordinary shares of €1 each	**100.9**	100.9
200,000 (2011: 200,000) non-cumulative callable preference shares of €1 each	**0.2**	0.2
Issued and fully paid		
42,193,814 (2010: 40,632,643) ordinary shares of €1 each (Including three non-voting shares)	**42.2**	40.6

Share capital

The balance classified as share capital includes the total nominal value on issue of the Company's equity share capital, comprising €1 ordinary shares.

In August 2012 LCH.Clearnet Group Limited issued 1,561,171 shares at €19 per share to NASDAQ OMX Inc. in consideration for the acquisition of IDCG (now renamed LCH.Clearnet (US) LLC). This resulted in an increase of €1.6 million in issued share capital and a credit of €28.1 million to the share premium account.

Non-cumulative callable preference shares (NCPS)

The NCPS can only be issued 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.

Capital reserves

The balance on this reserve 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 in 2007 as part of a court-approved capital restructuring.

Capital redemption reserve

The balance on this reserve represents the nominal value of the ordinary shares that have been repurchased and cancelled.

Distributable reserves

Retained earnings are reduced by €19.9 million to determine legally distributable reserves reflecting the nominal value of the redeemable convertible preference shares redeemed in 2007.

15 Interest bearing loans and borrowings

	Note	2012 €'m	2011 €'m
Current			
Finance leases	19	**0.3**	0.3
Other loans		**68.7**	–
Bank overdrafts		**–**	67.8
		69.0	68.1
Non-current			
Preferred securities		**177.9**	177.4
Finance leases	19	**1.1**	0.6
		179.0	178.0

15 Interest bearing loans and borrowings continued

Details on the effective interest rate and maturity of these interest bearing loans and borrowings are as follows:

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 but on average are at EONIA plus 100 basis points.

Preferred securities

The Group issued €200 million non step up 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 2018 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 million.

Other loans

The Group has an $80.0 million (€60.6 million) term facility from JP Morgan Chase International Financing Ltd. This is being used to fund the LCH.Clearnet LLC default fund ahead of the launch of the clearing service in that subsidiary when it will be replaced by clearing members' default fund contributions. Interest is charged monthly at USD LIBOR + 1.1%, although it is currently being charged to the clearing service development cost and is recoverable under agreements with certain clearing members.

The Group has an €8.0 million loan from OTC Derivnet Limited which is repayable by 13 February 2014 or with one month's notice, whichever is the sooner. Interest is charged monthly at a rate of EURIBOR + 1.1% and is added to the outstanding loan balance. The current outstanding balance is €8.1 million.

16 Default funds

	2012 €'m	2011 €'m
LCH.Clearnet SA		
RepoClear	**654.4**	603.7
CDSClear	**280.4**	252.1
Other	**1,030.2**	475.5
	1,965.0	1,331.3
LCH.Clearnet Limited		
SwapClear	**2,324.4**	–
ForexClear	**252.8**	–
RepoClear	**619.9**	–
Other	**433.0**	712.4
	3,630.1	712.4
	5,595.1	2,043.7

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.

Notes to the consolidated financial statements continued

17 Employee benefits

Employees and Directors

	2012 €'m	2011 €'m
Wages and salaries	**109.0**	89.7
Social security costs	**21.4**	17.5
Pension costs	**11.3**	10.8
Employee benefits	**141.7**	118.0
Staff costs included in non-recurring items (note 5)	**7.4**	4.7
Average monthly number of staff employed	**767**	719

The Executive Committee has expanded from nine members to 12 during 2012, with one member leaving the employment of the Group.

Ian Axe (Group Chief Executive and Chief Executive of LCH.Clearnet Limited)
Oliver Corbett[1] (Group Chief Financial Officer)
Michael Davie (SwapClear Chief Executive Officer)
Christopher Doukaki (Group Chief Administration Officer)
Christophe Hémon (Chief Executive of LCH.Clearnet SA and Chief Operating Officer)
Andrew Howat (Head of CaLM)
Jeffrey Hughes[2] (former interim Group Chief Financial Officer)
Charlie Longden (CDS Chief Executive Officer)
Dennis McLaughlin[1] (Group Chief Risk Officer)
Alberto Pravettoni (Repo and Exchanges Chief Executive Officer)
David Riley[1] (Chief of Staff)
Magnus Spencer[1] (Group General Counsel)
Gavin Wells (ForexClear Chief Executive Officer)

1 Appointed to the Group Executive Committee during 2012
2 Left the employment of the Group during 2012

	2012 €'m	2011 €'m
Ongoing remuneration	**10.0**	7.5
Termination payment to former Committee member	**0.4**	0.9
	10.4	8.4
Compensation for loss of benefits from previous employment	**0.7**	0.9
Aggregate emoluments of Group Executive Committee	**11.1**	9.3

Aggregate emoluments include €285,000 (2011: €242,000) contribution to pension schemes. Only Ian Axe is a Director of the Company.

Directors	2012 €'m	2011 €'m
Total remuneration paid to Directors of the Company		
Ongoing remuneration	**3.5**	2.7
Compensation for loss of benefits from previous employment	**–**	0.9
Total	**3.5**	3.6

Further details of Directors' remuneration are disclosed on page 19.

Ongoing remuneration of the highest paid Director was €2,062,708. This includes €540,094 deferred under the rules of the executive committee bonus scheme (2011: €431,000) of which €180,031 is recognised in the income statement under the Group's accounting policies (2011: €144,000). No Directors are accruing retirement benefits under a defined benefit scheme. The Group Chief Executive and other key individuals were granted awards under the LTIP in 2012. Under this plan participants will be eligible to receive a cash award after three years, subject to corporate performance. The value of the award on vesting will be linked to the growth in operating profit over the performance period.

17 Employee benefits continued

Pension commitments

The Group operates 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. In addition, the Group has obligations in respect of certain staff in a Euronext defined benefit pension scheme in Amsterdam and an independent defined benefit scheme in Porto. The UK scheme has 259 active members, 525 inactive members and 119 pensioners. The Amsterdam scheme has 12 active and seven inactive members, whilst the Porto scheme has four active members. The following disclosure represents the consolidated position of these arrangements.

The valuations of the UK scheme conducted for financial reporting purposes are based on the triennial actuarial valuation. The other schemes were subject to a full valuation at 31 December 2010. A summary of the triennial valuation for the UK scheme, as at 30 June 2010, is as follows:

Actuarial method used	Projected unit
Rate of investment returns per annum – pre-retirement	6.00%
Rate of investment returns per annum – post-retirement	4.625%
Increase in earnings per annum	5.20%
Scheme assets taken at market value	€133.0 million
Wind up funding level	67%

The most recent triennial valuation is then updated by an independent professionally qualified actuary for financial reporting purposes in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are shown in the table below:

	2012		2011		2010		2009		2008	
Assumptions used	**UK scheme**	**Amsterdam/ Porto**	UK scheme	Amsterdam/ Porto	UK scheme	Amsterdam/ Porto	UK scheme	Amsterdam/ Porto	UK scheme	Amsterdam/ Porto
Weighted-average assumptions to determine benefit obligations										
Discount rate	**4.50%**	**3.00%**	4.75%	5.00%	5.30%	4.75%	5.75%	5.00%	5.75%	5.50%
Rate of increase in salaries	**4.50%**	**3.50%/3.00%**	4.60%	3.50%/3.00%	5.00%	3.50%	5.00%	3.75%/3.50%	5.00%	3.75%/3.50%
Rate of increase in pensions	**2.80%**	**0.50%/1.50%**	2.80%	0.50%/1.50%	3.25%	1.50%	3.25%	1.50%	2.75%	2.00%/1.50%
Inflation assumption	**3.00%**	**2.00%**	3.10%	2.00%	3.50%	2.00%	3.50%	2.25%	3.00%	2.25%
Expected rates of return on scheme assets										
Equities/diversified growth portfolio	**6.25%**	**6.90%/0.83%**	6.15%	7.20%	6.70%	6.70%/8.90%	6.50%	7.90%/10.50%	6.40%	8.70%/9.10%
Bonds	**3.25%**	**2.92%/1.79%**	3.15%	3.90%	5.00%	3.50%/3.52%	5.30%	4.20%/3.26%	5.00%	4.10%/4.56%
Property	**6.25%**	**4.50%/0.95%**	6.15%	4.10%	6.70%	n.a./6.40%	6.50%	n.a./7.40%	6.40%	n.a./6.70%
Cash	**–**	**1.76%/0.02%**	–	2.60%	–	n.a./1.50%	–	n.a./2.00%	2.00%	n.a./3.80%
Weighted average	**5.35%**	**4.50%/3.59%**	5.25%	5.25%	6.19%	5.00%/4.00%	6.14%	5.31%/4.54%	5.68%	5.48%/5.30%
Post retirement mortality in years										
Currently aged 60 male	**29.1**		29.1		28.8		28.7		28.6	
Currently aged 60 female	**31.1**		31.1		31.7		31.6		31.5	
Currently aged 45 male	**30.2**		30.2		29.7		29.6		29.6	
Currently aged 45 female	**32.3**		32.3		32.5		32.5		32.4	

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.

The assumptions for the Amsterdam and Porto schemes as detailed above are identical other than where indicated. Scheme assets are stated at their market value at the respective statement of financial position dates. The expected rate of return on assets is determined based on the market prices prevailing at that date.

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17 Employee benefits continued

Change in benefit obligation – 2012	UK scheme €'m	Amsterdam/ Porto €'m	Total €'m
Benefit obligation at 1 January 2012	**171.2**	**3.5**	**174.7**
Current service cost	**9.3**	**0.2**	**9.5**
Interest cost	**8.3**	**0.2**	**8.5**
Actuarial loss/(gain)	**(0.4)**	**2.7**	**2.3**
Benefits paid	**(3.3)**	**–**	**(3.3)**
Exchange rate changes	**4.7**	**–**	**4.7**
Benefit obligation at 31 December 2012	**189.8**	**6.6**	**196.4**

Change in benefit obligation – 2011	UK scheme €'m	Amsterdam/ Porto €'m	Total €'m
Benefit obligation at 1 January 2011	149.3	3.2	152.5
Current service cost	9.6	0.2	9.8
Interest cost	7.7	0.2	7.9
Actuarial loss/(gain)	2.1	(0.1)	2.0
Benefits paid	(3.3)	–	(3.3)
Amendments	0.7	–	0.7
Exchange rate changes	5.1	–	5.1
Benefit obligation at 31 December 2011	171.2	3.5	174.7

Change in scheme assets – 2012	UK scheme €'m	Amsterdam/ Porto €'m	Total €'m
Fair value of scheme assets at 1 January 2012	**159.5**	**3.4**	**162.9**
Expected return on scheme assets	**8.8**	**0.2**	**9.0**
Actuarial gains	**7.1**	**0.1**	**7.2**
Employer contribution (includes benefits paid and reimbursed)	**13.0**	**0.6**	**13.6**
Benefits paid	**(3.3)**	**–**	**(3.3)**
Exchange rate changes	**4.3**	**–**	**4.3**
Fair value of scheme assets at 31 December 2012	**189.4**	**4.3**	**193.7**

Change in scheme assets – 2011	UK scheme €'m	Amsterdam/ Porto €'m	Total €'m
Fair value of scheme assets at 1 January 2011	143.2	3.0	146.2
Expected return on scheme assets	8.9	0.1	9.0
Actuarial losses	(9.5)	(0.2)	(9.7)
Employer contribution (includes benefits paid and reimbursed)	15.1	0.5	15.6
Benefits paid	(3.3)	–	(3.3)
Exchange rate changes	5.1	–	5.1
Fair value of scheme assets at 31 December 2011	159.5	3.4	162.9

17 Employee benefits continued

Analysis of pension benefit obligation – 2012	UK scheme €'m	Amsterdam/ Porto €'m	Total €'m
Present value of funded obligations	(189.8)	(6.6)	(196.4)
Fair value of plan assets	189.4	4.3	193.7
Deficit for funded plans	(0.4)	(2.3)	(2.7)

Analysis of pension benefit obligation – 2011	UK scheme €'m	Amsterdam/ Porto €'m	Total €'m
Present value of funded obligations	(171.2)	(3.5)	(174.7)
Fair value of plan assets	159.5	3.4	162.9
Deficit for funded plans	(11.7)	(0.1)	(11.8)

Net liability shown in statement of financial position	2012 €'m	2011 €'m
Deficit for funded plans	2.7	11.8
Other European retirement provisions	5.4	3.8
Employee benefits	8.1	15.6

Analysis of pension benefit obligation	2012 €'m	2011 €'m	2010 €'m	2009 €'m	2008 €'m
Present value of funded obligations	(196.4)	(174.7)	(152.6)	(125.2)	(95.1)
Fair value of plan assets	193.7	162.9	146.2	123.9	73.2
Deficit for funded plans	(2.7)	(11.8)	(6.4)	(1.3)	(21.9)

Components of pension cost	2012 €'m	2011 €'m
Current service cost	9.5	9.8
Interest cost	8.5	7.9
Amendments	–	0.7
Expected return on plan assets	(9.0)	(9.0)
	9.0	9.4
Other employee benefit costs:		
UK defined contribution scheme	1.5	1.0
Other European retirement schemes	0.8	0.4
Total expense recognised in the income statement	11.3	10.8
Net actuarial losses/(gains) immediately recognised:		
On pension schemes	(4.9)	11.8
On other European retirement schemes	1.4	(0.4)
Total (income)/expense recognised in other comprehensive income	(3.5)	11.4

The cumulative amount of actuarial losses recognised in the statement of comprehensive income since the Group adopted IFRSs on 1 January 2004 is €19.0 million (2011: €22.5 million).

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17 Employee benefits continued

Pension scheme asset allocation

An analysis of the pension assets is set out below:

At 31 December 2012	UK scheme €'m	UK scheme %	Amsterdam/Porto €'m	Amsterdam/Porto %	Total €'m	Total %
Equities	**77.0**	**41**	**1.7**	**40**	**78.7**	**41**
Diversified growth portfolio	**29.0**	**15**	**–**	**–**	**29.0**	**15**
Bonds	**66.3**	**35**	**2.4**	**56**	**68.7**	**35**
Property	**7.6**	**4**	**0.1**	**2**	**7.7**	**4**
Cash	**9.5**	**5**	**0.1**	**2**	**9.6**	**5**
Total	**189.4**	**100**	**4.3**	**100**	**193.7**	**100**

At 31 December 2011	UK scheme €'m	UK scheme %	Amsterdam/Porto €'m	Amsterdam/Porto %	Total €'m	Total %
Equities	68.3	42	1.5	44	69.8	43
Diversified growth portfolio	23.4	15	–	–	23.4	14
Bonds	45.4	28	1.5	44	46.9	29
Property	7.7	5	0.4	12	8.1	5
Cash	14.7	9	–	–	14.7	9
Total	159.5	100	3.4	100	162.9	100

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

	Year ended 31 December 2012 €'m	Year ended 31 December 2011 €'m
Actual return on plan assets	**16.2**	(0.6)

History of experience gains and losses

	Financial years ending 31 December				
	2012 €'m	2011 €'m	2010 €'m	2009 €'m	2008 €'m
Difference between expected and actual return on scheme assets:					
Amount	**7.2**	(9.7)	7.0	10.7	(27.7)
Percentage of scheme assets	**4%**	(6%)	5%	9%	(38%)
Experience gains on scheme liabilities:					
Amount	**(8.6)**	(2.0)	(2.7)	–	(11.3)
Percentage of scheme liabilities	**(4%)**	(1%)	(2%)	–	(9%)

Contributions

The Group expects to contribute €7.1 million (2011: €8.2 million) to its defined benefit pension plans in 2013. The defined benefits section of the LCH pension scheme was closed to new members from 1 September 2009. New employees in LCH.Clearnet Limited have had the option to join the defined contribution section of the scheme from 1 January 2010.

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 to the income statement of €1.5 million (2011: €1.0 million) represents contributions payable to the plan by the Group at rates specified in the rules of the plan.

In addition to the trustee based scheme with defined benefit and defined contribution sections (in the UK), a separate contract based defined contribution arrangement exists outside the main plan.

17 Employee benefits continued

Other comments

Included in employee benefits is a long service award scheme of €5.3 million (2011: €3.6 million) and €0.1 million (2011: €0.2 million) in respect of early retirement in compliance with an agreement with Euronext Paris personnel dated 19 December 2001. These provisions have been calculated by a qualified independent actuary based on changes in the workforce (turnover, seniority and participation in the early retirement scheme). The charge to the income statement for the year in respect of the long service award commitment was €0.8 million (2011: €0.4 million) and the charge in the early retirement scheme was €nil (2011: €nil). The amount recognised directly in other comprehensive income relating to actuarial losses is €1.4 million (2011: gain of €0.4 million).

18 Trade and other payables

	2012 €'m	2011[1] €'m
Non-current		
Other payables including taxation and social security	**51.8**	–
Current		
Trade payables	**12.9**	8.0
Other payables including taxation and social security	**95.9**	225.6
Accruals and deferred income	**79.0**	90.4
	187.8	324.0

1 Prior year figures restated to reflect changes in accounting treatment

€51.8 million (2011: €28.9 million) included in other payables relates to amounts due under funding arrangements for the development of new clearing systems.

Other payables include a balance of €60.1 million (2011: €161.9 million) owed to the administrator of MF Global UK Limited.

The accruals and deferred income as at 31 December 2011 has been restated to reflect the changes in accounting treatment of recoverable development costs (note 2).

19 Commitments and contingencies

At 31 December 2012 the Group had annual commitments under non-cancellable operating leases as set out below.

Operating leases

	2012 Property €'m	2011 Property €'m
Within one year	**11.6**	8.4
More than one year, but less than five	**21.2**	13.7
More than five years	**28.6**	24.0
	61.4	46.1

The London office lease expires in 2026. The Paris office lease has a break clause in 2015. The New York office lease expires in 2022.

The Group has finance leases for various items of computer equipment as shown below:

	2012		2011	
	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	**1.2**	**1.1**	0.6	0.6
Total minimum lease payments	**1.6**	**1.4**	1.0	0.9
Less: future financing charges	**(0.2)**	**–**	(0.1)	–
Total finance leases	**1.4**	**1.4**	0.9	0.9

Notes to the consolidated financial statements continued

19 Commitments and contingencies continued

Supplier agreements

In June 2005 the Group entered into a new ten year agreement with Atos Origin in relation to the operation and development of certain technology applications. This agreement was amended from July 2009 to reduce the ongoing costs. The estimated maximum value of the remaining commitment is up to €32.0 million, assuming no early termination (2011: €56.0 million). The Group has the right to terminate this agreement with one year's notice under certain conditions.

Treasury assets supporting operational facilities

At 31 December 2012 the Group had assets and collateral in support of the following operational facilities.

	2012 €'m	2011 €'m
Central bank activity[1]	**6,149.2**	11,694.0
Concentration bank services	**615.4**	910.8
Fixed income settlement[2]	**19,900.0**	15,800.0
	26,664.6	28,404.8

1 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.
2 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.

20 Related party disclosures

Key management personnel

Details of key management personnel are disclosed in the corporate governance section on page 71 and their total remuneration is disclosed in note 17.

Group companies

Details of the principal Group companies are set out in note 24 to these consolidated financial statements. In accordance with IAS 27, Consolidated and Separate Financial Statements, transactions or balances with Group entities that have been eliminated on consolidation are not reported.

21 Financial risk management

Introduction

The Group's activities expose it to a number of financial risks, principally market risk (FX risk, interest rate risk, volatility in financial markets), settlement 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.

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/or Boards as appropriate. 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 is reviewed by the Risk Committees and Boards, and audits of processes within risk management are undertaken regularly.

Foreign exchange risk

This risk arises primarily due to the presentational and functional currency of the Group being euros, while LCH.Clearnet Limited incurs a significant portion of its costs and revenues in sterling and other currencies, and LCH.Clearnet LLC has a functional currency of US dollars. The Group is exposed to FX risk primarily with respect to sterling and US dollars in the translation of net assets and liabilities denominated in foreign currency. The Group also has transactional exposure to US dollars and sterling. The Group converts FX 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.

Interest rate risk

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.

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 spreads between overnight and term rates. Interest rate exposures are managed within defined risk appetite parameters against which sensitivities are monitored daily.

21 Financial risk management continued

Financial market volatility (latent market risk)

Volatility within the financial markets in which the Group operates can adversely affect its earnings and its ability to meet its business objectives. Indeed, in the event of a default by a counterparty the Group faces market risk which is correlated to clearing member positions and market conditions. The market and credit risk management policies of the Group are approved by its Risk Committees and Boards. A variety of measurement methodologies, including 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 under both normal and extreme but plausible market conditions.

As a CCP the Group has a balanced position in all cleared contracts and runs no significant market risk unless a clearing member defaults. 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. Both variation and initial margin are collected daily and, if necessary, replenished intraday. The operating subsidiaries also maintain default funds to be used should the initial margin of a defaulted clearing member not fully cover close out costs, and also have access to supplementary financial resources including their own capital and further clearing member contributions to ensure the continuity of ongoing operations.

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, country and liquidity risks. All non-cash collateral is revalued daily.

Additionally, new applicants for clearing must meet strict financial and operational criteria before access to membership is granted, and this is regularly reviewed as part of the Group's risk policies.

Sovereign risk

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.

The Risk Committees and Boards continually monitor the situation and have approved enhancements to the risk framework in order to protect the Group against potentially severe market volatility in the sovereign debt markets. Such enhancements have included the development of specific risk frameworks to manage sovereign risk for both fixed income clearing and margin collateral, and a suite of sovereign stress scenarios which model escalations in sovereign risk against which all clearing members are monitored regularly. 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.

Credit risk

Credit risk is the risk that a counterparty of the Group will be unable or unwilling to meet a financial commitment that it has entered into with the Group.

The Group has credit risk exposure as a direct result of the reinvestment of the cash it holds primarily as part of its CCP activities. This cash portfolio is invested in accordance with clear risk policies which aim to secure a significant portion of the cash portfolio via tri-party repo receiving high quality government and government related securities as collateral or by investing directly in such securities.

Securities received as collateral are subject to a haircut on their market value. Residual cash is placed with central banks where possible. Small amounts of cash may be deposited in the money markets on an unsecured, short term basis only with high quality banking institutions, or in government backed assets. Such unsecured investments are strictly limited by policy.

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. All interoperable links are subject to daily margining with the CCP involved to mitigate the market risks to which the Group would be exposed in the event of a default of that CCP.

Concentration risk

Concentration risk may arise through having large connected individual exposures and significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors. 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 treasury assets and uses a diversified range of 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.

Notes to the consolidated financial statements continued

21 Financial risk management continued

Liquidity risk

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 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.

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 has identified two scenarios to evaluate the need for liquidity: firstly, a daily operational liquidity need, based on the maximum relevant liquidity outflow observed from an extensive data history; and secondly, the default liquidity need which evaluates the liquidity requirement arising on the first and subsequent days of a default of one or more clearing members 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 CaLM teams. 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.

Settlement risk

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

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

Settlement bank risk

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

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. 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

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.

Although the risk of insolvency of central securities depositories or custodian banks used by the Group is low the Group mitigates this risk through appropriate legal arrangements and dedicated processes, in addition to minimum eligibility requirements, credit ratings and regular reviews required by policy.

21 Financial risk management continued

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 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 17.

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.

The Group is working towards being compliant with EMIR and will apply for registration during 2013.

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.

Financial statements

Notes to the consolidated financial statements continued

22 Financial instruments

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

	Note	2012 €'m	2011[1] €'m
Financial assets at fair value through profit or loss			
Fair value of transactions with clearing members	13	**450,553.3**	497,279.7
Government backed, bank issued certificates of deposits		**4,300.2**	8,431.2
Treasury bills		**7,448.6**	2,631.6
Bank issued certificates of deposit		**–**	134.5
Held-to-maturity assets (in other financial assets)			
Government backed, bank issued certificates of deposits		**2,248.5**	7,552.1
Other financial assets in the statement of financial position		**13,997.3**	18,749.4
Loans and receivables			
Trade and other receivables	12	**94.1**	78.1
Initial margin and other member balances	13	**4,810.8**	4,285.6
Cash and short term deposits in the statement of financial position	11	**26,345.4**	20,414.0
Financial liabilities at fair value through profit or loss			
Fair value of transactions with clearing members	13	**(450,460.1)**	(497,262.0)
Financial liabilities at amortised cost			
Trade and other payables	18	**(231.1)**	(316.9)
Initial margin and other member balances	13	**(39,058.0)**	(40,747.7)
Default funds	16	**(5,595.1)**	(2,043.7)
Other loans	15	**(68.7)**	–
Bank overdrafts	15	**–**	(67.8)
Preferred securities	15	**(177.9)**	(177.4)
Derivative financial instruments at fair value through profit or loss			
Derivative financial assets		**–**	1.0
Derivative financial liabilities		**(35.4)**	(60.8)
		(35.4)	(59.8)

1 Prior year figures restated to reflect changes in accounting treatment

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

22 Financial instruments continued

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.

As at 31 December 2012 the Group held the following financial instruments measured at fair value:

	2012 €'m	Level 1 €'m	Level 2 €'m
Assets measured at fair value			
Fair value of transactions with clearing members	**450,553.3**	**3,770.0**	**446,783.3**
Treasury bills	**7,448.6**	**7,448.6**	**–**
Government backed, bank issued certificates of deposit	**4,300.2**	**4,300.2**	**–**
Liabilities measured at fair value			
Fair value of transactions with clearing members	**(450,460.1)**	**(3,676.8)**	**(446,783.3)**
Derivative financial liabilities	**(35.4)**	**–**	**(35.4)**

	2011 €'m	Level 1 €'m	Level 2 €'m
Assets measured at fair value			
Fair value of transactions with clearing members	497,279.7	5,869.7	491,410.0
Treasury bills	2,631.6	2,631.6	–
Government backed, bank issued certificates of deposit	8,431.2	–	8,431.2
Bank issued certificates of deposit	134.5	–	134.5
Derivative financial assets	1.0	1.0	–
Liabilities measured at fair value			
Fair value of transactions with clearing members	(497,262.0)	(5,852.0)	(491,410.0)
Derivative financial liabilities	(60.8)	–	(60.8)

Credit risk

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.

Credit risk in the Group principally arises from cash and cash equivalents, and exposures to member balances. 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. The Group's exposure 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.

Financial statements

Notes to the consolidated financial statements continued

22 Financial instruments continued

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	2012 €'m	2011 €'m
Fair value of transactions with clearing members (Ratings as measured by Fitch)			
Members rated AAA		**16,529.3**	16,292.2
AA+		**–**	34,259.0
AA		**2,711.9**	71,728.4
AA-		**73,616.9**	91,562.4
A+		**62,243.8**	102,574.8
A		**174,279.0**	118,326.9
A-		**74,577.0**	13,790.1
BBB+		**678.9**	26,736.7
BBB		**14,642.4**	1,330.2
BBB-		**0.3**	–
BB+		**1,534.1**	–
Unrated		**29,739.7**	20,679.0
	13	**450,553.3**	497,279.7
Group treasury portfolio (Ratings assigned with reference to major agencies)			
AAA/AA+/AA- Government backed		**21,476.8**	22,163.2
AA/AA+/AAA Secured		**1,382.4**	–
AA/AA+/AAA Unsecured		**–**	439.3
A+/AA- Secured		**16,880.9**	16,195.4
A+/AA- Unsecured		**602.6**	365.5
		40,342.7	39,163.4

22 Financial instruments continued

Concentration risk

The largest concentration of treasury exposures as at 31 December 2012 was 12.7% of the total investment portfolio to the European Central Bank (2011: 8.8% to UK government backed securities).

Liquidity and interest rate risk

The following table sets out the maturity profile of the Group's financial assets and liabilities based on contractual, undiscounted receipts and payments.

2012	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
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**
Treasury portfolio	**17,107.6**	**15,649.1**	**5,431.9**	**2,149.8**	–	**40,338.4**
Fair value of transactions with clearing members – asset	–	**450,553.3**	–	–	–	**450,553.3**
Initial margin and 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)**
Net balance with clearing members	–	**(34,155.1)**	**(3.3)**	**(5,612.7)**	–	**(39,771.1)**
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)**

2011[1]	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
Cash and short term deposits	3,110.7	17,303.3	–	–	–	20,414.0
Other financial assets	–	9,345.6	5,578.0	3,795.3	–	18,718.9
Treasury portfolio	3,110.7	26,648.9	5,578.0	3,795.3	–	39,132.9
Fair value of transactions with clearing members – asset	–	497,279.7	–	–	–	497,279.7
Initial margin and other clearing member balances – asset	–	4,285.6	–	–	–	4,285.6
Fair value of transactions with clearing members – liability	–	(497,262.0)	–	–	–	(497,262.0)
Initial margin and other clearing member balances – liability	–	(40,747.7)	–	–	–	(40,747.7)
Default fund	–	–	–	(2,043.7)	–	(2,043.7)
Net balance with clearing members	–	(36,444.4)	–	(2,043.7)	–	(38,488.1)
Trade and other receivables	78.1	–	–	–	–	78.1
Foreign exchange forward contract	–	1.0	–	–	–	1.0
Trade and other payables[1]	(316.9)	–	–	–	–	(316.9)
Preferred securities	–	–	(11.8)	(47.4)	(191.8)	(251.0)
Interest rate swaps – net outflows	–	(1.8)	(10.6)	(48.4)	–	(60.8)

1 Prior year figures restated to reflect changes in accounting treatment

Financial statements

Notes to the consolidated financial statements continued

22 Financial instruments continued

The weighted average maturity of the total treasury portfolio is 58 days, with strict risk criteria related to interest rate exposure being applied.

The financial liabilities are based upon rates set on a daily basis.

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 2012 the fair value of the Group's preferred securities are approximately €144.0 million (2011: €120.6 million) at the year end compared to the amortised cost carrying value of €177.9 million as shown in note 15.

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:

	2012 €'m +25bp of interest rate	2012 €'m +50bp of interest rate	2012 €'m +100bp of interest rate	2011 €'m +25bp of interest rate	2011 €'m +50bp of interest rate	2011 €'m +100bp of interest rate
Net exposure of cash and member margin balances	(13.2)	(26.4)	(52.7)	(20.3)	(43.0)	(88.4)
Interest rate swaps	7.7	15.3	30.7	16.4	32.7	65.4
	(5.5)	(11.1)	(22.0)	(3.9)	(10.3)	(23.0)
Tax effect of above	1.3	2.7	5.4	1.0	2.7	6.1
Decrease in profit after tax	(4.2)	(8.4)	(16.6)	(2.9)	(7.6)	(16.9)

	2012 €'m -25bp of interest rate	2012 €'m -50bp of interest rate	2012 €'m -100bp of interest rate	2011 €'m -25bp of interest rate	2011 €'m -50bp of interest rate	2011 €'m -100bp of interest rate
Net exposure of cash and member margin balances	13.2	26.4	52.7	2.3	36.5	72.5
Interest rate swaps	(7.7)	(15.3)	(30.7)	(0.1)	(32.7)	(65.4)
	5.5	11.1	22.0	2.2	3.8	7.1
Tax effect of above	(1.3)	(2.7)	(5.4)	(0.6)	(1.0)	(1.9)
Increase in profit after tax	4.2	8.4	16.6	1.6	2.8	5.2

Foreign exchange sensitivity

The Group converts or hedges surplus FX balances or cash flows to euros on a regular basis which minimises the effect exchange rate fluctuations will have on overall Group net assets and liabilities. FX exposure in the parent Company, LCH.Clearnet SA and LCH.Clearnet (Luxembourg) S.à.r.l is not significant.

The table below summarises the FX exposure on the net monetary position of LCH.Clearnet Limited, expressed in euros, the Group's functional and presentational currency, and the effect of a reasonable shift of the relevant exchange rates on the Group's net profit, shareholders' equity and net assets. The reasonable shift in exchange rates is calculated as the average movement over the past two years.

	2012 £ €'m	2012 $ €'m	2011 £ €'m	2011 $ €'m
Net exposure	(18.5)	1.5	(37.2)	9.2
Reasonable shift	2.8%	0.6%	3.1%	4.4%
Total increase/(decrease) on profit/net assets of positive movements	0.5	–	1.2	(0.4)
Total increase/(decrease) on profit/net assets of negative movements	(0.5)	–	(1.2)	0.4

22 Financial instruments continued

Amounts included in the income statement in relation to financial instruments

	2012 €'m	2011 €'m
Interest income on assets held at fair value	**139.2**	282.5
Interest income on assets held at amortised cost	**129.7**	211.6
Net fair value gain/(loss) on revaluation of other financial assets held at fair value included in net interest income	**9.3**	(3.9)
Net fair value gain/(loss) on interest rate swaps	**25.4**	(35.4)
Total revaluation gains/(losses)	**34.7**	(39.3)
Interest income	**303.6**	454.8
Interest expense on liabilities held at amortised cost	**(136.6)**	(354.7)
Net interest income	**167.0**	100.1
Finance income on assets held at amortised cost	**4.0**	2.7
Finance expense on overdrafts and finance leases held at amortised cost	**(0.3)**	(0.4)
Finance expense on loans and borrowings held at amortised cost	**(12.3)**	(12.3)
Finance expense	**(12.6)**	(12.7)
Net finance expense	**(8.6)**	(10.0)

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

23 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 ACP 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 ACP and as a CCP and an investment service provider by the AMF and is subject to standard capital adequacy rules under Basel II.

LCH.Clearnet Limited is regulated by the FSA 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 regulations throughout 2012.

In 2013 both LCH.Clearnet SA and LCH.Clearnet Limited will be required to be compliant with new capital requirements coming into effect under the EMIR. This will require the Group to raise extra capital in 2013 to ensure the individual CCPs are compliant with the new regulations.

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 2012 the ratio of total capital to risk weighted assets increased to 46.1% (2011: 29.5% restated) and the ratio of Tier 1 capital to risk weighted assets increased to 39.6% (2011: 21.7% restated).

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.

Notes to the consolidated financial statements continued

23 Capital management continued

At 31 December 2012 the Group had excess capital over the Pillar 1 requirement of €333.4 million, an increase of €85.8 million from 2011 (€247.6 million restated). The excess capital over the total Pillar 1 and Pillar 2 requirement was €152.6 million, an increase of €22.7 million from 2011 (€129.9 million restated).

	2012 €'m	2011[1] €'m
Regulatory capital		
Total equity	424.1	333.1
Perpetual preferred securities (limited to 35% of Tier 1)	121.6	87.7
Intangible assets	(198.3)	(170.3)
Tier 1 capital	347.4	250.5
Perpetual preferred securities (remainder)	56.3	89.7
Tier 2 capital	56.3	89.7
Total regulatory capital	403.7	340.2
Pillar 1 requirement		
Credit risk requirement	9.8	15.5
Market risk requirement	4.1	4.0
Operational risk requirement	56.3	72.9
Counterparty risk requirement	0.1	0.2
Pillar 1 capital requirement	70.3	92.6
Excess capital over Pillar 1 requirement	333.4	247.6
Pillar 2 requirement		
Latent market risk	44.6	24.0
Concentration risk	123.9	81.4
Pension risk	12.3	12.3
Pillar 2 capital requirement	180.8	117.7
Total Pillar 1 and Pillar 2 requirement	251.1	210.3
Excess capital over Pillar 1 and Pillar 2 requirement	152.6	129.9
Total regulatory capital	403.7	340.2
Risk weighted assets	876.2	1,154.2
Risk asset ratios		
Tier 1 ratio	39.6%	21.7%
Total capital ratio	46.1%	29.5%

1 Prior year figures restated to reflect changes in accounting treatment

24 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	Percentage held
England and Wales	LCH.Clearnet Limited	100%
France	LCH.Clearnet SA	100%
USA	LCH.Clearnet (US) LLC	100%
Luxembourg	LCH.Clearnet (Luxembourg) S.à.r.l	100%[1]
England and Wales	LCH.Clearnet Funding LP	100%
England and Wales	LCH.Clearnet GP Limited	100%[1]
England and Wales	LCH.Clearnet PLP Limited	100%[1]
Ireland	Freshwater Finance PLC	–[2]

1 Indirect holding through the Company's other subsidiaries or limited partnership interest
2 Holding relates to the Group's issued preferred securities and is through limited partnership interest

The principal activity of LCH.Clearnet Limited and LCH.Clearnet SA is the provision of clearing, CCP and other services to clearing members, trade matching organisations and exchanges.

The principal activity of LCH.Clearnet LLC will be the provision of clearing, CCP and other services to clearing members, trade matching organisations and exchanges, subject to US regulatory approval. The Company became part of the Group in August 2012.

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

LCH.Clearnet (Luxembourg) S.à.r.l has been set up to hold the Group's intellectual property. LCH.Clearnet Funding LP, LCH.Clearnet GP Limited, LCH.Clearnet PLP Limited and Freshwater Finance PLC have been set up as intermediate holding and financing companies to hold the Group's preferred securities issued in May 2007.

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.

25 Material events after the balance sheet date

LCH.Clearnet Group Limited entered into a loan agreement with a syndicate of banks on 28 January 2013 for €100 million. LCH.Clearnet Group Limited subscribed for shares of LCH.Clearnet Limited with the proceeds of this loan.

Financial statements

Company statement of financial position

As at 31 December 2012

	Note	2012 €'m	2011 €'m
Non-current assets			
Investments	27	**415.8**	341.5
Deferred taxation asset		**1.1**	1.7
Total non-current assets		**416.9**	343.2
Current assets			
Cash at bank and in hand		**8.0**	2.4
Other financial assets	29	**76.6**	71.4
Income tax receivable		**14.8**	10.8
Trade and other receivables	26	**1.6**	2.7
Total current assets		**101.0**	87.3
Total assets		**517.9**	430.5
Equity and liabilities			
Capital and reserves			
Called up share capital	14	**42.2**	40.6
Share premium		**28.1**	–
Capital redemption reserve		**59.5**	59.5
Retained earnings		**110.7**	121.2
Total equity	page 68 and note 14	**240.5**	221.3
Non-current liabilities			
Interest bearing loans and borrowings	28	**197.9**	197.4
Total non-current liabilities		**197.9**	197.4
Current liabilities			
Interest bearing loans and borrowings	28	**68.7**	–
Trade and other payables	30	**10.8**	11.8
Total current liabilities		**79.5**	11.8
Total liabilities		**277.4**	209.2
Total equity and liabilities		**517.9**	430.5

Jacques Aigrain
Chairman, LCH.Clearnet Group Limited

Ian Axe
Director, 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 February 2013.

Company statement of cash flows
For the year ended 31 December 2012

	2012 €'m	2011 €'m
Cash flows arising from operating activities		
(Loss)/profit for the year	(10.5)	5.3
Taxation	(3.5)	(2.7)
Finance income	(1.3)	(1.2)
Finance cost	13.6	13.6
Dividends received from subsidiary undertakings	(2.2)	(22.8)
Decrease/(increase) in trade and other receivables	1.1	(1.9)
(Decrease)/increase in trade and other payables	(0.4)	0.9
Unrealised fair value (gains)/losses on financial instruments	(2.6)	0.6
Net cash outflow from operating activities	(5.8)	(8.2)
Investing activities		
Investment in subsidiaries	(44.6)	–
Investment in other financial assets	(2.6)	(8.0)
Interest received	1.3	1.2
Net cash outflow from investing activities	(45.9)	(6.8)
Financing activities		
Proceeds from loans issued	68.7	–
Interest paid	(13.6)	(13.2)
Dividends received from subsidiary undertakings	2.2	22.8
Net cash generated from financing activities	57.3	9.6
Increase/(decrease) in cash and cash equivalents	5.6	(5.4)
Cash and cash equivalents at 1 January	2.4	7.8
Cash and cash equivalents at 31 December	8.0	2.4
Cash and cash equivalents at 31 December comprise:		
Cash at bank and in hand	8.0	2.4
	8.0	2.4

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

Financial statements

Company statement of changes in equity

For the year ended 31 December 2012

	Called up share capital €'m	Share premium €'m	Capital redemption reserves €'m	Retained earnings €'m	Total €'m
Shareholders' equity at 1 January 2011	40.6	–	59.5	115.9	216.0
Profit for the year	–	–	–	5.3	5.3
Shareholders' equity at 31 December 2011	40.6	–	59.5	121.2	221.3
Loss for the year	–	–	–	(10.5)	(10.5)
Shares issued	1.6	28.1	–	–	29.7
Shareholders' equity at 31 December 2012	**42.2**	**28.1**	**59.5**	**110.7**	**240.5**

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

Notes to Company accounts

26 Trade and other receivables

	2012 €'m	2011 €'m
Current		
Other receivables	**0.3**	0.4
Amounts owed by subsidiary companies	**1.3**	2.3
	1.6	2.7

27 Investments

	Investment in subsidiaries 2012 €'m	Investment in subsidiaries 2011 €'m
Cost at 1 January	**673.5**	673.5
Additions	**74.3**	–
Cost at 31 December	**747.8**	673.5
Accumulated impairment		
At 1 January and 31 December	**332.0**	332.0
Net book value	**415.8**	341.5

In August 2012 the Company acquired IDCG (renamed LCH.Clearnet (US) LLC) for consideration of €29.7 million (see note 8) and settled by the issue of 1,561,171 shares at €19 per share. Since acquisition, the Company has made further capital contributions of €20.6 million.

In April 2012 the Company made an additional investment in the share capital of LCH.Clearnet Limited of €24.0 million.

28 Interest bearing loans and borrowings

	2012 €'m	2011 €'m
Current		
Other loans	**68.7**	–
Non-current		
Subordinated loan owed to subsidiary	**197.9**	197.4

See note 15 for details of other loans.

The interest rate on the subordinated loan is fixed at 6.576% until 18 May 2017 and then moves to three month EURIBOR plus 2.1%

Financial statements

Notes to Company accounts continued

29 Financial instruments

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

	Note	2012 €'m	2011 €'m
Financial assets at fair value through profit or loss			
Investment in preferred securities		**16.0**	13.4
Loans and receivables			
Short term loan due from subsidiary		**60.6**	58.0
Other financial assets in the statement of financial position		**76.6**	71.4
Trade and other receivables		**1.6**	2.7
Cash and short term deposits in the statement of financial position		**8.0**	2.4
Financial liabilities at amortised cost			
Trade and other payables		**(10.8)**	(11.8)
Other loans		**(68.7)**	–
Subordinated loan owed to subsidiary		**(197.9)**	(197.4)

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 2012 price in the Company's statement of financial position.

30 Trade and other payables

	2012 €'m	2011 €'m
Amounts owed to Group companies	**0.1**	0.8
Accruals and deferred income	**10.7**	11.0
	10.8	11.8

31 Related party transactions

During the year the Company charged €19.9 million (2011: €11.2 million) in management charges to subsidiary companies and paid recharges of €20.2 million (2011: €13.5 million). The Company paid interest of €13.2 million (2011: €13.2 million) to subsidiaries and received interest of €0.3 million (2011: €0.4 million).

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

Governance

Corporate governance

The Group is committed to business integrity, high ethical values and professionalism in all its activities. Although the Financial Reporting Council's UK Corporate Governance Code (the Code) does not apply to the Group, the Board supports the highest standards in corporate governance and the Company has complied with the provisions of the Code to the extent such compliance is possible and appropriate given the nature and size of the entities comprised within the Group. The Board has identified the following areas of non-compliance with the Code:

> appointment of a senior independent Director: the Board considers this is not required as a majority of Board members are representatives of the Company's shareholders. This will be kept under review
> a balance of executive and non executive Directors: other than the Group Chief Executive Officer, the Board consists wholly of non executive Directors, the majority of whom represent shareholders
> independent Directors: five of the non executive Directors are deemed to be independent
> annual re-election of Board members: given the composition of the Board, members of which are largely representatives of the Company's shareholders, the Board considers that it is not necessary for annual re-election to be introduced at this time

The Board monitors the effectiveness of the Company's governance in light of published governance guidance and significant changes to the Group's business and ownership.

Group structure
LCH.Clearnet Group Limited is a private company limited by shares and registered in the UK. Its two principal subsidiaries are LCH.Clearnet Limited and Banque Centrale de Compensation SA (which trades under the name of LCH.Clearnet SA). In August 2012 the Group acquired IDCG (since renamed LCH.Clearnet (US) LLC).

LCH.Clearnet Group Limited is lead regulated by the ACP in Paris as a Compagnie Financière under French law. A memorandum of understanding was signed in February 2005 between the French, Dutch, Belgian and Portuguese authorities and their UK counterparts that describes the basis on which the reporting authorities aim to cooperate with regard to LCH.Clearnet Group.

The Directors of LCH.Clearnet Group Limited who have held office since 1 January 2012 are:

Type of Director	Name	Note
Executive	Ian Axe (Group Chief Executive Officer)	
Independent	Jacques Aigrain (Chairman)	
Independent	Ian Abrams	
Independent	Lex Hoogduin	Appointed 1 September 2012
Independent	Hervé Saint-Sauveur	
Independent	John Townend	Resigned 31 December 2012
Independent	Neil Walker	Appointed 25 January 2013
Shareholder representative	Martin Abbott	
Shareholder representative	Nazir Badat	
Shareholder representative	Michael Bagguley	
Shareholder representative	Laurent Curtat	
Shareholder representative	Gerard Hartsink	Resigned 1 September 2012
Shareholder representative	Finbarr Hutcheson	Appointed 27 June 2012
Shareholder representative	Garry Jones	Resigned 27 June 2012
Shareholder representative	Vivien Levy-Garboua	
Shareholder representative	Edward McAleer	
Shareholder representative	Olivier Motte	
Shareholder representative	Edward Pla	
Shareholder representative	Bruno Prigent	
Shareholder representative	Martin Ryan	Resigned 13 July 2012
Shareholder representative	Lawrence Shaw	
Shareholder representative	Yunho Song	Appointed 12 December 2012
Shareholder representative	Naveed Sultan	
Shareholder representative	Christopher Willcox	
Shareholder representative	Denise Wyllie	

Governance

Corporate governance continued

The Chairman and Directors are non executive Directors other than the Group Chief Executive Officer.

Bob Greifeld was appointed as an observer on 5 October 2012.

Principal operating subsidiaries

LCH.Clearnet Limited

LCH.Clearnet Limited is a private company, limited by shares and registered in the UK. It has a foreign company registration in New York City.

The Board of Directors consists of:

Jacques Aigrain (Chairman)
Ian Axe (Group Chief Executive Officer)
Martin Abbott
Ian Abrams
Nazir Badat
Lex Hoogduin
Vivien Levy-Garboua
Hervé Saint-Sauveur
Lawrence Shaw

Since 1 January 2012 the following Directors resigned their positions on the Board:

Christophe Hémon (Group Chief Operating Officer and CEO (SA)) (resigned 17 September 2012)
Alberto Pravettoni (Head of Repo and Exchanges) (resigned 17 September 2012)
John Townend (resigned 31 December 2012)

LCH.Clearnet Limited provides CCP clearing services covering 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 OTC. It continues to satisfy the requirements of the FSA as a Recognised Clearing House in the UK and the requirements of all other regulatory bodies to whose rules it is subject.

Responsibility for the supervision of LCH.Clearnet Limited will transfer from the FSA to the Bank of England following the enactment of the Financial Services Bill. This is currently expected to take effect in April 2013.

LCH.Clearnet SA

LCH.Clearnet SA (Banque Centrale de Compensation SA) is a company limited by shares incorporated in France and governed by French law. It has branches in Amsterdam and Brussels and a representative office in Portugal. LCH.Clearnet SA has developed cross border activities in Italy, Luxembourg, Germany, the UK and Spain.

The Board of Directors consists of:

Hervé Saint-Sauveur (Chairman)
Ian Axe (Group Chief Executive Officer)
Christophe Hémon (Chief Executive Officer of LCH.Clearnet SA)
Ian Abrams
Jacques Aigrain
Patrick Combes
Lex Hoogduin
Alain Pochet
Neil Walker
John Townend (resigned 31 December 2012)

As it is incorporated in France, LCH.Clearnet SA is subject to authorisations granted by the ACP. It is also supervised as a credit institution by the ACP. As a CCP, LCH.Clearnet SA is regulated by the AMF which approves its operating rules. As a securities clearing system and a CCP, LCH.Clearnet SA is overseen by Banque de France.

Since LCH.Clearnet SA provides CCP services to markets outside France its clearing activities are also subject to the regulation and oversight of the competent authorities in Belgium (National Bank of Belgium and Financial Services Market Authority), the Netherlands (De Nederlandsche Bank and the securities supervisor, Nederlandsche Autoriteit Financiële Markten, the Netherlands Authority of Financial Markets) and Portugal (Banco de Portugal and the Comissão do Mercado de Valores Mobiliários).

LCH.Clearnet SA is a Recognised Overseas Clearing House for the purposes of the Financial Services and Market Act 2000.

LCH.Clearnet LLC
LCH.Clearnet LLC is a private company, limited by shares and registered in Delaware in the US and is regulated as a DCO by the CFTC.

The Board of Directors consists of:

Jacques Aigrain (Chairman)
Ian Axe (Group Chief Executive Officer)
Ian Abrams
Lex Hoogduin
Ted MacDonald
Stephen O'Connor
Ed Pla
Hervé Saint-Sauveur
Christopher Willcox

LCH.Clearnet (Luxembourg) S.à.r.l.
LCH.Clearnet (Luxembourg) S.à.r.l. is a holding company for the Group's intellectual property. The company is incorporated in Luxembourg and governed by Luxembourg law. It is a private company limited by shares and is owned by LCH.Clearnet Limited (51%) and LCH.Clearnet SA (49%).

The Board of Managers consists of:

Renaud Kerspern (Chairman)
Christophe Hémon
Alberto Pravettoni
Thierry Plard
Tom Zschach

Board of LCH.Clearnet Group Limited

The articles of association require that at each AGM one third of the non executive Directors (being the longest in office since the last election) retire from office. Each retiree may stand for re-election. The articles require that Directors appointed between AGMs must offer themselves for re-election at the next AGM. Every non executive Director stands for re-election approximately once every three years. The Board will be recomposed at the earlier of the completion of the corporate transaction with LSEG or application for recertification under EMIR.

The updated schedule of matters reserved for the Board (the Schedule) confirms that the Board is responsible for the overall management and strategy of the Group including approving the Group's strategy as set out in the annual medium term financial plan. All major changes to the Group's structure and share capital must be approved by the Board. Material contracts (as defined in the Schedule) must also be approved by the Board and changes to the structure, size and composition to the Board must be done with the approval of the Board in conjunction with appropriate recommendations from the Nomination Committee.

Each Director receives reports of performance, future plans and significant issues facing the business in the context of both the Company and the Group. From time to time the Board receives presentations from senior management about key areas of the Group's activities and operations within the subsidiaries.

The Board meets regularly and Board Committee chairmen provide reports of their committee activities to the Board on a regular basis. The Board may invite members of the Group's Executive Committee to attend Board meetings as appropriate. The Group Executive Committee assists the Chief Executive Officer in implementing and executing the Board's strategy across the Group. External auditors and legal advisers are invited to attend Board meetings where appropriate.

All Directors have access to the advice of the Company Secretary and the services of the staff in the Group Company Secretariat. Independent professional advice is also available to Directors in appropriate circumstances and at the Company's expense.

In accordance with the UK Corporate Governance Code, an independent evaluation of the Board, conducted by the Institute of Chartered Secretaries and Administrators, commenced in December 2012.

Professional development

The Company has developed an induction programme that is designed to enhance new Directors' understanding of the business of the Group and of the sector in which it operates. Additional training is also available to Directors on request and continuing development on matters specific to the Group is effected by means of presentations to the Board and Board Committees.

Governance

Corporate governance continued

Board Committees

The Board requires that each Director devote sufficient time to the role as is deemed reasonably necessary to perform his or her duties to its satisfaction. The Board met on 15 occasions during 2012 of which eight were scheduled meetings. There are regular update calls between scheduled meetings to keep the Board informed of significant developments. Details of attendance at Board and Committee meetings by each Director are set out below.

	Board – scheduled meetings	Board – unscheduled meetings	Audit Committee	Remuneration Committee	Nomination Committee
Jacques Aigrain	8/8	7/7	–	4/4	3/3
Ian Axe	7/8	5/7	–	–	–
Martin Abbott	4/8	5/7	–	2/3	–
Ian Abrams	8/8	6/7	7/7	–	–
Nazir Badat	6/8	4/7	6/7	1/2	–
Michael Bagguley	4/8	5/7	–	–	–
Laurent Curtat	8/8	7/7	–	4/4	–
Gerard Hartsink	4/5	6/7	–	–	–
Lex Hoogduin	3/3	n.a.	3/3	–	–
Finbarr Hutcheson	4/4	0/1	–	–	–
Garry Jones	4/5	5/6	–	–	–
Vivien Levy-Garboua	6/8	6/7	–	–	2/3
Edward McAleer	7/8	6/7	–	–	–
Olivier Motte	8/8	7/7	–	–	–
Edward Pla	8/8	6/7	–	–	2/3
Bruno Prigent	3/8	3/7	–	–	–
Martin Ryan	5/5	6/6	–	2/2	–
Hervé Saint-Sauveur	7/8	7/7	7/7	4/4	–
Lawrence Shaw	5/8	5/7	–	–	2/3
Yunho Song	1/1	n.a.	–	–	–
Naveed Sultan	7/8	4/7	–	–	–
John Townend	7/8	6/7	6/7	–	2/3
Christopher Willcox	6/8	4/7	–	–	–
Denise Wyllie	5/8	5/7	–	–	2/3

Audit Committee

There is a Group Audit Committee and Audit Committees for each of the principal operating subsidiaries.

The Group Audit Committee consists of:

Ian Abrams (Chairman)
Nazir Badat
Lex Hoogduin
Hervé Saint-Sauveur

The LCH.Clearnet Limited Audit Committee consists of:

Ian Abrams (Chairman)
Nazir Badat
Lex Hoogduin
Hervé Saint-Sauveur

The LCH.Clearnet SA Audit Committee consists of:

Ian Abrams (Chairman)
Lex Hoogduin
Alain Pochet

The LCH.Clearnet LLC Audit Committee consists of:

Ian Abrams (Chairman)
Lex Hoogduin
Hervé Saint-Sauveur

The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience. Each Audit Committee met on seven occasions except the Audit Committee of LCH.Clearnet LLC, yet to hold its inaugural meeting. Members of the executive management, the heads of internal audit of each subsidiary company and representatives of the external auditor attend meetings by invitation, in accordance with items on the agenda. There is a standing invitation to the Company's Chief Executive and Chairman. A meeting without executive management was held during the course of the year for each committee.

The Chairmen of the Committees report to the subsequent meeting of the relevant Board.

The Committee's principal responsibilities are:

> review of the Company's financial statements
> oversight of the external auditor
> oversight of the internal audit function
> oversight of the Company's regulatory compliance
> oversight of the Company's internal control environment

In accordance with the principle of subsidiarity, the separate Audit Committees for LCH.Clearnet Limited, LCH.Clearnet SA and LCH.Clearnet LLC consider reports on control matters at subsidiary level. The role of the Group Audit Committee is complementary to the subsidiary committees in ensuring that issues at a Group level are reviewed.

The separate Audit Committees use a forward agenda to set their annual work programme. Further items may be added at the request of the Committees during the course of the year.

The Audit Committees' activities since the beginning of 2012 can be summarised as follows:

Financial statements

The Committees reviewed the 2011 annual reports and accounts before recommending approval to the Board. There were no significant issues in relation to the accounts. The Committees also considered management accounts, the medium term financial plan and the 2013 budget.

Governance

Corporate governance continued

External auditors
The 2012 audit plan and fee schedule were reviewed and approved. The Committee reviewed the performance of the external auditors against the four key areas of qualification, expertise and resources, effectiveness and independence and leadership. During 2011 the audit was put out to tender and, after careful consideration of the above factors and given audit partner rotation for the 2012 audit, Ernst & Young LLP were reappointed.

The Committees noted that the external auditors provided non-audit services in connection with the proposed transaction with LSEG. The external auditors were considered best placed to carry out this work because of their detailed knowledge of the Group.

One private meeting was held with the Committees in the absence of executive management.

Internal audit
Two private meetings were held with the Committees in the absence of executive management.

Internal audit includes the head of internal audit and heads of internal audit for the operating subsidiary companies: LCH.Clearnet Limited and LCH.Clearnet SA and will include the Head for LCH.Clearnet LLC. Reporting lines are to the Chairmen of the Audit Committees and to the CEO of each company. The annual audit plans were reviewed and considered to ensure sufficient coverage of Group issues and progress against the agreed plan was also reviewed.

Internal control
In accordance with the principle of subsidiarity, the Group Audit Committee relies on the Audit Committees of LCH.Clearnet Limited, LCH.Clearnet SA and LCH.Clearnet LLC to review internal control matters within the respective subsidiary. The Committees reviewed the organisational and governance framework for risk and operations in the Group and also the financial control processes.

Governance
The Committees' effectiveness is reviewed annually. The Committees reviewed their current practice against the Financial Reporting Council's Guidance on Audit Committees and, in November 2012, members of all Committees undertook a self assessment questionnaire with a view to the findings being presented to the relevant Committee at a meeting in 2013. An annual review of the Committees' terms of reference was also conducted and these were subsequently updated to reflect the expected requirements of EMIR and of the CFTC.

Remuneration Committee
The Remuneration Committee met on four occasions during the course of the year.

The Committee's principal responsibilities are:
- to consider and review the remuneration policy of the Group and make recommendations to the Board
- to review specific salary and bonus recommendations on an annual basis, in particular those relating to Executive Committee members and align rewards to both performance and risk profile
- to review any major changes proposed in the employee benefit structures of the Group and to monitor the level and structure of remuneration across the Group
- to approve targets for performance related pay schemes

The Chairman of the Committee reports to the subsequent meeting of the Group Board on the Committee's work.

The Committee's activities since the beginning of 2012 can be summarised as follows:

- reviewing the remuneration and bonus arrangements for the Group to ensure that they are aligned with the Group's business strategy and remain competitive in the external market
- reviewing individual Executive Committee performance and remuneration packages and making recommendations to the Board, including undertaking a comprehensive benchmarking exercise for Executive Committee members
- reviewing and adopting a new remuneration policy, having regard to the best practice envisaged, inter alia, by the FSA Remuneration Code, the CRBF Regulation 97-02 and other relevant remuneration guidance and best practice in the market
- reviewing the defined benefit pension provision in the UK
- considering the impacts of EMIR

Nomination Committee
The Nomination Committee currently consists of five non executive Directors. The Committee will be reconstituted during the first half of 2013 in order to reflect the requirements of EMIR and the CFTC.

The Nomination Committee consists of:

Lawrence Shaw (Chairman)
Jacques Aigrain
Vivien Levy-Garboua
Edward Pla
Denise Wyllie

Other Board members may be invited to attend meetings at the discretion of the Chairman.

The Committee is responsible for nominating candidates to stand as Directors and independent Directors, the nomination of members to the Committees, succession planning and for nominating the Board Chairman. In view of the desire for the Board to have a rich variety of complementary skills, product knowledge, industry experience and be representative of users of the services of the operating subsidiaries the Company does not recruit non executive Directors by way of open advertising but may use the services of an external search consultancy when deemed appropriate. Under its terms of reference the Committee is also mindful of diversity when considering Board appointments.

The Nomination Committee met on three occasions during the course of the year at which they considered the recommendations to appoint new Board members.

Strategy Committee

The Strategy Committee was abolished in 2012.

Subsidiary Risk Committees

Matters concerning significant risks faced by the Group's operating subsidiaries are addressed by a Risk Committee of the relevant subsidiary board or, in the case of operational risk matters, by the Audit Committee of the relevant subsidiary.

The Chairman of the Risk Committee of each subsidiary reports to the Board on the discussions, decisions (for LCH.Clearnet Limited and LCH.Clearnet LLC) and recommendations (for LCH.Clearnet SA) of the committee in order for the Board to understand the business implications and where necessary to formally ratify these decisions and recommendations. Under powers formally delegated by the Board, the Chief Executive of each subsidiary has responsibility for all risk decisions taken within the framework of agreed risk policies. All changes to risk policy require thorough review by the Risk Committees and either their approval or recommendation for Board approval.

The LCH.Clearnet Limited, LCH.Clearnet SA and LCH.Clearnet LLC Risk Committees have the same Chairman and meet together in order to ensure consistent application of the Board's risk tolerance statement. An annual review of the Committees' terms of reference was also conducted and these were subsequently updated to reflect the expected requirements of EMIR and of the CFTC.

The subsidiary Risk Committees will be reconstituted during the first half of 2013 in order to reflect the requirements of EMIR and the CFTC.

The LCH.Clearnet Limited Risk Committee as at 31 December 2012 consisted of:

Lex Hoogduin (Chairman)
Gordon Alexander
Ian Axe
Antony Baldwin
Adrian Burbanks
Julian Cathrew
Matteo Farina
Ian Green
Nick Hallett
Chris Jones
Grigorios Markouizous
Dennis McLaughlin
Diarmuid O'Hegarty
Neill Pattinson
Neil Tranter
Neil Walker

The LCH.Clearnet SA Risk Committee as at 31 December 2012 consisted of:

Lex Hoogduin (Chairman)
Ian Axe
Jean-Marie Boudet
Francois-Xavier Bouillet
Oliver Corbett
Gary Dunn
Christine Cremel
Anne Genest
Christophe Hémon
Dennis McLaughlin
Marco Pouw
Vincent Sado
Christophe Tadié
Frederik ten Veen
Neil Walker
Kris Wulteputte

Governance

Corporate governance continued

The LCH.Clearnet LLC Risk Committee (constituted on 8 November 2012) as at 31 December 2012 consisted of:

Lex Hoogduin (Chairman)
Hervé Saint-Sauveur
David Lamb
Robert Thrash
Courtney Walker
Neil Walker

The Risk Committees of LCH.Clearnet Limited and LCH.Clearnet SA met on 11 occasions during the course of the year and the Risk Committee of LCH.Clearnet LLC met on two occasions.

The responsibilities of the three Risk Committees as set out in their terms of reference specifically include the following:

- clearing membership eligibility criteria
- new markets and products
- margining
- collateral eligibility
- default management policy and framework
- default resource adequacy
- payment and money settlement arrangements
- investment and liquidity risk management
- regulatory issues
- review of comprehensive risk reporting

All policies relating to the above are reviewed and approved by the Risk Committees annually.

The principal activities of the Committees during 2012 can be summarised as follows:

Regulatory matters
The Risk Committees considered the implications of proposed regulations governing CCP activity and risk management as embodied in the EMIR and Dodd-Frank, as well as the proposed CPSS-IOSCO Principles for FMIs and the BIS proposals for the capitalisation of banks' exposures to CCPs.

Sovereign risk
The Risk Committees were fully consulted by the executive management on the ongoing distress seen among certain European sovereigns and their implications for cleared products, margin collateral, the clearing membership and the financial industry as a whole. As part of this consultation the Risk Committees reviewed and approved enhancements to sovereign, concentration and wrong way risk frameworks to provide greater protection to the subsidiary CCPs and a new suite of sovereign stress scenarios which model the further escalation against which all clearing members are being monitored regularly.

Default management
The Risk Committees reviewed and recommended to the Board changes to the previously mutualised default waterfall for LCH.Clearnet Limited, which lead to the establishment of enlarged and segregated default funds for the key OTC services of SwapClear, ForexClear and RepoClear. Each of these now has a strengthened default management process with clearing member commitments to provide further resources in the event of a material default. In addition to their regular review of default management arrangements, the Risk Committees were consulted and kept fully informed of developments following the default of MF Global.

New services and enhancements to existing services
The Risk Committees reviewed and recommended to the Board for approval the ForexClear NDF service, enhancements to SwapClear, ForexClear and CDSClear client clearing services and the launch of several new products following a thorough review of risk controls.

Relations with shareholders
The Company's Articles of Association require that in all but exceptional circumstances the shares in the Company are held by those within a closed community of key stakeholders including, most notably, the Company's users and its exchange partners. The Articles also require that some of these key stakeholders be directly represented on the Company's Board. These two aspects of the Company's constitution mean that shareholders have a direct involvement in the business of the Company and the Group.

In addition, the Company's subsidiaries ensure that the views of user shareholders are duly considered and incorporated into the Group's business practices, where appropriate, by means of formal representative groups.

The Board keeps shareholders informed of progress in the Group through statutory reports, AGMs, ad hoc communications and the Group's website (www.lchclearnet.com).

Accountability, audit and control
The statement of Directors' responsibilities in relation to the financial statements is set out on page 23. When reporting to shareholders, the Board aims to produce a balanced and comprehensible assessment of the Group's position and prospects. The Board has overall responsibility for Group wide systems of internal control and for reviewing their effectiveness. These systems are designed to:

> safeguard assets
> ensure that proper accounting records are maintained
> ensure that the financial information used within the business for publication is reliable
> ensure that the Company, and the wider Group, continue to meet their legal and regulatory requirements

The systems of internal financial control operating throughout the Group are designed to provide reasonable assurance against material misstatement or loss, and are designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

The Audit Committee reviews the operation and effectiveness of the systems in place covering internal financial, operational, compliance and risk management control processes for the financial year and the period up to the date of approval of the current financial statements.

Key features of the system of internal financial control are as follows:

Organisation and culture
The Board seeks to foster a culture of integrity, competence, fairness and responsibility.

Financial reporting
There is a comprehensive planning system with an annual business plan and annual budget approved by the Board. Results are reported monthly to the Board and compared to the budget.

Identification of business risks
The Board is responsible for identifying the major business risks faced by the Company and the wider Group and for determining the appropriate course of action to manage those risks.

Internal audit function
The internal audit function in each subsidiary is responsible for monitoring the system of internal controls for that subsidiary. A joint team made up of members of both internal audit departments and the Group head of audit operates to monitor internal controls at a Group level. The Audit Committee approves the plans for internal audit review and receives the reports of the audit committees of the subsidiaries on a regular basis. Actions are agreed with management in response to any issues raised in the internal audit reports produced.

External auditors
The Audit Committee reviews the performance of the external auditors on a regular basis. The policy in respect of services provided by external auditors is as follows:

Audit related services
The external auditors are invited to provide services that, in their position as auditors, they must or are best placed to undertake. This includes services related to borrowings, shareholders, regulatory reporting, acquisitions and disposals and other assurance services.

Non-audit services
It is proposed that the Group's auditors are specifically prohibited from providing certain non-audit services whilst remaining services can be undertaken if preapproved since it is recognised that the auditors' detailed knowledge of the Group's business puts them in a position to offer cost efficiencies and to maintain confidentiality.

The prohibited list of services includes those where the auditor would be making judgements or decisions that are the responsibility of the Group's management and might therefore impair their objectivity when performing the external audit.

Definitions

the Act
the Companies Act 2006 UK

ACP
Autorité de Contrôle Prudentiel

AGM
annual general meeting

AMF
Autorité des Marchés Financiers (Financial Markets Authority)

BIS
Bank for International Settlements

CaLM
collateral and liquidity management

CCP
central counterparty

CDS
credit default swap

CFTC
US Commodity Futures Trading Commission

the Code
Financial Reporting Council's UK Corporate Governance Code

CPSS-IOSCO
Committee on Payment and Settlement Systems and International Organization of Securities Commissions of the BIS

CSR
corporate social responsibility

DCO
derivatives clearing organisation

Dodd-Frank
Dodd-Frank Wall Street Reform and Consumer Protection Act 2010

DTCC
Depositary Trust & Clearing Corporation

EBA
European Banking Authority

EMIR
European Market Infrastructure Regulation

EONIA
euro over night index average

ESMA
European Securities and Markets Authority

EU
European Union

FCM
futures commission merchant

FRA
forward rate agreement

FSA
the Financial Services Authority, UK

FX
foreign exchange

G20
the group of twenty finance ministers and central bank governors

IAS
International Accounting Standards

IASB
International Accounting Standards Board

IDCH
International Derivatives Clearing House, LLC renamed LCH.Clearnet LLC, a New York based Delaware registered company

IDCG
International Derivatives Clearing Group, LLC and renamed LCH.Clearnet (US) LLC parent Company to IDCH

IFRS
International Financial Reporting Standards

IFRIC
International Financial Reporting Interpretations Committee

ISD
intended settlement date

LME
London Metal Exchange

LSEG
London Stock Exchange Group

LSOC
legal segregation with operational commingling under CFCT regulations

LTIP
long term incentive plan

NASDAQ OMX
The NASDAQ OMX Group, Inc.

NDF
non deliverable forward

NLX
NASDAQ London derivatives market

NYPC
New York Portfolio Clearing

OTC
over the counter

SGX
Singapore Exchange

SMART
SwapClear margin approximation tool

VAR
value at risk

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