LONDON CLEARING HOUSE

Report and Financial Statements 2000

Chairman’s Statement	3
Chief Executive’s Report	4
Board of Directors	8
Report of the Directors	9
Corporate Governance	11
Auditors’ Report	13
Consolidated Profit and Loss Account	14
Consolidated Balance Sheet	15
Consolidated Cash Flow Statement	16
Notes to the Financial Statements	17

Chairman's Statement

Ever since LCH ownership was re-structured in 1996, the company has pursued two broad aims - to develop and improve the services that it has traditionally provided to the IPE, LIFFE and LME markets, and to extend the benefits of a central counterparty for its members. This latter aim has resulted in LCH diversifying into a range of new markets and seeking to initiate consolidation between Europe's leading central counterparties.

The new services cover fixed income through LCH RepoClear, interbank interest rate swaps through LCH SwapClear, and most recently the launch of LCH EquityClear which, in collaboration with CRESTCo, provides a central counterparty and settlement service to the London Stock Exchange, augmenting the clearing service provided to Tradepoint Stock Exchange since 1995. Their take-up by users gives the Board every confidence that they will prove to be a valued service and a sound investment.

LCH has worked hard during the year to promote a degree of consolidation amongst European central counterparties - a policy that has been espoused by the major market practitioners through the European Securities Forum. We reached agreement in principle to achieve this with Clearnet in April 2000, but further work was deferred pending the formation of Euronext and now by its flotation. Latterly we made favourable progress with Eurex Clearing but again work was deferred following Deutsche Börse's decision to make a public offering of its shares. This has been frustrating for all those who believe that consolidation would promote greater market efficiency.

As I mentioned last year, the development of new services has been financed by surpluses derived from LCH's current services. This has meant all members contributing to their introduction whether or not they were likely to benefit directly from them. This has been unsatisfactory and the Board has been considering ways of re-organising the financial structure of the company to provide a sound base to face the future, as well as to take account of past investment. We aim to complete this re-organisation before the end of the current financial year.

As always, I am indebted to members of the Board and to those serving on LCH committees for their advice and support to the company. It is inevitable in this industry that there are frequent changes in the composition of the Board. During the year Jean-Michel Boehm, Arnaud Chupin, Vivian Davies, Wendall Kapustiak, John Mackeonis and David Pearce retired from the Board and I am grateful for their contribution. In their place we have welcomed Jonathan Chenevix-Trench, Mark Fox-Andrews, Steven Patriarco, Larry Scott, Richard Ward and Michael Zamkow to the Board.

A period of accelerating change has placed great demands on the management and staff of LCH, to which they have responded extremely well. I think it is noteworthy that the company has introduced major new services over the past two to three years which have been delivered on time and within budget, and which have been well received by market users. This is to the credit of David Hardy and his team, and clearly belies the assertion that profit is the only motivation for successful innovation.

Sir Michael Jenkins
Chairman

Chief Executive's Report

I opened my report in the 1999 Report and Financial Statements by saying that LCH was a business in transition. A year later, I start my report with the same statement. Rationalisation of the financial services industry structure continues apace, and, whilst LCH develops and delivers additional services for its members, it does so within that shifting landscape. Over the last year LCH has developed its product delivery into four areas: futures and options, fixed income, interest rate swaps, and equities - we now regard these as the four corner-stones of our business, and I would like to comment upon each of them.

Futures and Options

Futures and options clearing, built of course around our services to the London International Financial Futures and Options Exchange (LIFFE), London Metal Exchange (LME) and the International Petroleum Exchange (IPE), continues to be dominant in our business. Interestingly, all of these exchanges have seen a sea-change in the basis upon which they operate - having de-mutualised, they are now all shareholder owned institutions. LIFFE has taken this concept further by introducing third party investors and technical partners into its shareholding structure.

These fundamental changes are a reflection of both the increasing challenges now facing the industry and the need to be nimble-footed in being able to deliver the quality and type of services that their customers require. Having all embraced electronic trading as well as the removal of mutual status, our Exchange colleagues face competitive pressure from new trading platforms. We look forward to providing support for their strategic developments.

LCH is delighted to have commenced the provision of central counterparty services to the Universal Stock Futures products recently launched on LIFFE. This has clearly been a highly successful introduction on the part of LIFFE, and will enhance London's position as the key European trading centre for both cash and derivatives equities trading. The year also saw the introduction of a major update to the Grading and Tender System (GATS) to enable it to include the LIFFE Bulk Cocoa contract whilst the introduction of enhancements to the Automated Brokerage Service (ABS) has been very well received by both LIFFE and IPE.

The IPE has had a busy and successful year, but it too is looking to the provision of fresh contracts to deepen the liquidity on the exchange. Like LIFFE, the IPE is an exchange of enormous significance, being the second largest energy exchange in the world, and its decision to develop an electricity futures contract, which will be cleared by LCH, clearly demonstrates the need to provide new instruments capturing fresh liquidity to maintain that market dominance.

Our work with the LME, the world's premier base metals exchange, has continued apace as well. Having de-mutualised during the course of 2000, the LME has successfully introduced its new electronic trading platform - LME SELECT - which already is proving a welcome addition to the trading armoury of its members. LCH has worked with the LME during the introduction of this new service, and we look forward to the introduction of an automated link to LCH in the second phase of implementation.

Fixed Income

LCH RepoClear has grown remarkably. It was originally launched in August 1999 with eight members, providing clearing services for bilaterally traded German Government repo contracts. RepoClear now has twenty three members, takes feeds from BrokerTec, e-Speed and EuroMTS, provides repo and cash bond clearing services to German, Belgian, Dutch and Austrian Government bonds, and has just launched a service for Jumbo Pfandbriefe, its first commercial security. Daily volumes now exceed €50bn and continue to grow strongly. This is a considerable success story, and the service is rapidly gaining the critical mass that it requires to establish it as a permanent feature of the European fixed income landscape.

Interest Rate Swaps

LCH launched its SwapClear service in September 1999 with five members. These members provided a 'test drive' of the service, and its market acceptability was underlined later in 2000 with the decision by eight of the leading swaps participants not only to join the LCH SwapClear service but also to finance its future development. These eight have formed a company - OTCDerivNet - to help them do so. We believe that with this influx of key market participants, LCH SwapClear will become an integral part of the global inter-bank interest rate derivative infrastructure, and that it will be able to achieve substantial critical mass.

Cash Equities

The major event during the course of the last year has been the development towards the launch of a central counterparty for equities, the first iteration of the LCH EquityClear service. Central counter-party for equities will provide a clearing service for trades on the London Stock Exchange's SETS platform and SEAQ auctions; its introduction comes as a result of a collaboration between ourselves, the Exchange and CRESTCo, whose transaction processing capabilities, it was decided early on, were the ideal base on which to house the service. The launch at the end of February 2001 marks a watershed in the development of our services in that LCH will move to an ability to net margins across derivatives and cash markets. In early 2002, the service will be enhanced to provide the ability for optional settlement netting, unlocking still further benefits for our members.

LCH continues to provide clearing and settlement services to Tradepoint Stock Exchange, itself changing its name to virt-x during the early part of 2001. The change of name is the first stage in the merger process between Tradepoint and SWX Swiss Exchange to deliver a pan-European stock exchange. We expect that virt-x and the Irish Stock Exchange will become new users of the LCH EquityClear service during the course of the coming year.

Chief Executive's Report *continued...*

Default Fund

In exactly the same way that the introduction of LCH RepoClear and LCH SwapClear required changes to the construction of the Default Fund, increasing its maximum size from £150mn to £300mn, so the launch of LCH EquityClear will require further change. Members have been balloted on an increase in the Default Fund of a further £100mn, taking its maximum size to £400mn. At the same time, we have negotiated with our insurers to continue the £100mn insurance policy underpinning the Default Fund. This they have agreed to do, but by agreement with them, and in the light of the technical change to the basis of risk, we have agreed with them that their coverage should commence when losses of £200mn have been sustained, rather than the current level of £150mn. Member contributions to the overall default arrangements, and hence their exposure, continue to be divided on either side of the insurance tranche.

International Developments

This has been a year of intense activity in our desire to maximise services and benefits to members across the European time zone. In April, we announced our intention to collaborate with Clearnet SA, the French counterparty for ParisBourse, with a view to merging our business with them over a period of time. Though discussions continued for, essentially, the whole of the year, they were interrupted by conflicting pressures brought into play by the overriding need for ParisBourse to see the launch and completion of the Euronext project. At this time, it is apparent that there can be no substantive progress until the end of the EuroNext IPO process, expected to be completed during the first half of 2001. Similarly, our discussions with the clearing subsidiary of Eurex were suspended at the end of 2000 by the announcement of Deutsche Börse's IPO .

The strategic aspirations of these parent exchange groupings, whilst understandable in their own right, have interrupted the process of consolidation at the central counterparty level so clearly desired by users in all three centres. It is interesting to note that the European Securities Forum, which published its principles for establishment of a European central counterparty in June, indicated a model reflecting its preferred structure which closely accords with that offered by LCH. It is a matter of considerable frustration, that despite the clear wishes of industry users, vertically integrated structures continue, at least for the time being, in our view to the detriment and disadvantage of their users.

Our belief continues to be that the central counter-party structure that is in the best interests of members is a multi-trading platform, settlement independent utility, with ownership in the hands of its users rather than third parties, which facilitates a 'not-for-profit' philosophy.

Structure

The year has seen a major reorganisation of our internal structure to match the services that we provide. These changes have been implemented under the auspices of our new Chief Operating Officer, Brian Cook, and are designed further to improve the quality of service received by our members. Part of that process has been a decision that LCH should seek to develop and retain key service skills in-house and, as a result, we are continuing our drive to attract the highest quality of people at all levels. This also means that LCH is growing in size, and indeed we anticipate an increase in staff to approximately 400 people by the end of 2001. Clearly such increases place some considerable pressure on the financial and physical infrastructure of the company, and these are challenges currently being addressed.

Financial Performance

As stated above, the past year has continued to be a period of major development for the company, and this has required further substantial expenditure on new service development and on the systems for LCH itself. This puts great pressure on a not-for-profit organisation which has sought to avoid building reserves and has paid rebates to the extent possible. Although there has been considerable support for this development programme amongst the membership, we anticipate, in the coming year, proposing an alternative financing strategy for the Company. The results for the year show a good performance, especially in the light of continued project expenditure, and we were able to pay rebates, amounting to £4.6mn, to members clearing LME and IPE business.

LCH has completed a very busy and challenging year. New services have not only bedded down, but have also achieved an impressive growth momentum. The year now underway is delivering "more of the same". We now have the opportunity, with the launch of the fourth cornerstone in our suite of services, to deliver maximum benefit to our members by optimising the business efficiencies deliverable by a central counterparty clearing across the widest possible range of markets. We believe that this structure places the company in the best possible place to meet the needs of its members' businesses, both in the UK and elsewhere.

Nevertheless, little if any of this could have been achieved without the commitment and dedication of all those involved in the company - our members, management and staff colleagues, and the entire governance structure. This company could not survive without them, and I offer them all my deepest thanks.

David Hardy
Chief Executive

Board of Directors

Chairman	Sir Michael Jenkins*
Directors	R N Barton (appointed 27 March 2000 - resigned 26 June 2000)* R D A Berliand* J-M Boehm (resigned 24 January 2000)* J Chenevix-Trench (appointed 26 June 2000)* A J Chupin (resigned 31 December 1999)* V J Davies (resigned 31 July 2000)* R M Eynon* C F Fitzmaurice* M Fox-Andrews (appointed 26 June 2000)* J L Foyle* D M Hardy W A Kapustiak (resigned 26 June 2000)* D E King* J Mackeonis (resigned 21 March 2000)* S Patriarco (appointed 26 June 2000)* D V Pearse (resigned 29 August 2000)* R Ward (appointed 21 March 2000)* M Zamkow (appointed 26 June 2000)*
Secretary	S M Ward

* Non Executive

Registered Office:

Aldgate House
33 Aldgate High Street
London
EC3N 1EA

Telephone: +44 (0)20 7426 7000
Facsimile: +44 (0)20 7426 7001

Registered in England

Number: 25932

Established in 1888 as The London Produce Clearing House, Limited.

Report of the Directors

The directors present their report and the audited financial statements for the financial year ended 31 October 2000.

Review of the business

During the financial year the company provided clearing, central counterparty and other services to clearing members and exchanges in London. The company was in a sound financial position at the year end.

Profit and dividend

There was a profit for the year after taxation amounting to £nil (1999 loss: £802,000). The directors do not recommend the payment of a dividend (1999: £nil).

Interest rate risk

The group is exposed to interest rate risk where there are mismatches of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The next contractual interest rate repricing date and maturity date for all financial assets and liabilities of the company, except balances with members, falls within the next three months.

Currency risk

There are no currency risk mismatches except for immaterial amounts in respect of margins earned on members' foreign currency balances.

Future developments

The company will continue to provide clearing and central counterparty facilities for members on exchanges and for over-the-counter (OTC) markets, maintain and extend services to its members and seek opportunities to broaden the range of markets served. The company will continue to co-operate with, and assist new developments for, the markets and members that it currently serves. The company is continuously developing its systems to enable more efficient and cost effective services to be provided.

Directors

The directors of the company, shown on page 8, were directors throughout the year unless otherwise indicated.

Directors' interests

None of the directors of the company during the years ended 31 October 2000 and 31 October 1999 had any interests in the stocks, shares or debentures of the company or any member of the group at any time during the year.

Report of the Directors *continued...*

Directors' responsibilities

Company Law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss and cash flows of the group for that period. In preparing those financial statements, the directors are required to:

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

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

Charitable donations

The company made charitable donations during the year of £9,383.

Auditors

The auditors, Ernst & Young, have indicated their willingness to be re-appointed under the provisions of the Companies Act 1985.

By order of the Board

S M Ward
Secretary
29 January 2001

Corporate Governance

The Board is accountable to the company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the company and the company's compliance with the Code provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel. As a non-listed company, The London Clearing House Limited is not required to comply with the code, but it wishes to demonstrate high standards of corporate governance through voluntary compliance.

Statement by the directors on compliance with the provisions of the Combined Code

The Board believes that The London Clearing House Limited complies with the Combined Code, in as far as it is relevant to its constitution and structure, except where noted below. The Code is principally aimed at companies listed on the London Stock Exchange and, therefore, not all of its requirements are directly applicable to the constitution and structure of The London Clearing House Limited.

The workings of the Board and its Committees

The Board

The Board focuses on strategic and operational issues including financial performance. It determines how the company operates within a framework of delegated authorities and reserve powers.

In the context of the Code, the principal difference between The London Clearing House Limited and listed companies relate to the composition of the Board. The Articles of Association of The London Clearing House Limited prescribe the composition of the Board and the procedures for appointment to it. The Chief Executive is the only member of the Board who is a member of the management of the Clearing House. Nine 'A' directors are elected by the clearing members, following a nomination process conducted by the Nominating Committee, a further three 'B' directors are appointed to represent LIFFE, LME and IPE. The remaining four directors consist of the Chairman, Chief Executive and two other non-executive directors appointed by the Board, making a maximum of 16.

The following committees deal with specific aspects of the company's affairs.

Risk Committee

The Risk Committee considers membership applications, risk management policies and other developments affecting the company's risk profile including the introduction of new contracts.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for senior management. The Board itself determines the remuneration of the Chairman.

Corporate Governance *continued...*

Internal control

The Board is responsible for the company's system of internal financial control which aims to safeguard the company's assets, ensure proper accounting records are maintained and that the financial information used within the business for publication is reliable. Any system of internal control can provide reasonable, but not absolute, assurance against material misstatement and loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

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

- *Organisation and culture*

  The Board seeks to emphasise a culture of integrity, competence, fairness and responsibility. The Board has appointed Operations and Risk Committees to assist with this requirement.

- *Financial reporting*

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

- *Identification of business risks*

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

- *Internal risk control*

  The company operates within a laid down control framework which is monitored by the internal risk control function which reports to the Audit Committee.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The responsibilities of auditors

The responsibilities of the company's independent auditors are established by statute, the Auditing Practices Board, and the accountancy profession's ethical guidance. Their responsibilities in relation to the Annual Report are set out below.

They report to the shareholders their opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. They also report to the shareholders if, in their opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if they have not received all the information and explanations they require for their audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

They read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. They consider the implications for their report to shareholders if they become aware of any apparent misstatements or material inconsistencies with the financial statements.

Auditors' Report
to the members of The London Clearing House Limited

We have audited the financial statements on pages 14 to 28 which have been prepared under the historical cost convention and the accounting policies set out in note 1.

Respective responsibilities of directors and auditors

As described on page 10 the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 October 2000 and of the result of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditors
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

29 January 2001

Consolidated Profit and Loss Account

For the year ended 31 October 2000

	Note	2000 £'000	1999 £'000
Turnover	2	131,802	117,498
Interest paid to members		(94,962)	(82,246)
		36,840	35,252
Operating expenses	3	(37,601)	(34,695)
(Loss)/Profit before taxation		(761)	557
Tax credit/(charge) on profit on ordinary activities	4	761	(1,359)
(Loss)/Profit for the financial year transferred to reserves		0	(802)

All gains and losses have been recognised in the profit and loss account for the financial year.

The notes on pages 17 to 28 form part of these financial statements.

Consolidated Balance Sheet

As at 31 October 2000

	Note	2000 £'000	1999 £'000
Fixed Assets			
Tangible assets	8	12,527	11,645
Investments		0	9
		12,527	11,654
Current Assets			
Debtors and other amounts receivable	10	12,939,723	2,864,682
Cash at bank and in hand	11	1,850,936	1,726,158
		14,790,659	4,590,840
Creditors:			
amounts falling due within one year	12	(14,557,330)	(4,380,166)
Net current assets		233,329	210,674
Total assets less current liabilities			
		245,856	222,328
Creditors:			
amounts falling due after more than one year	13	(193,772)	(170,244)
		52,084	52,084
Capital and Reserves:			
Called up share capital			
(including non-equity interests)			
Ordinary shares	16	39,100	39,100
Share premium		12,984	12,984
Profit and loss account		-	-
		52,084	52,084

The financial statements were approved by the Board on 29 January 2001.

The notes on pages 17 to 28 form part of these financial statements

Sir Michael Jenkins, Chairman

Consolidated Cash Flow Statement

For the year ended 31 October 2000

	Note	2000 £'000	1999 £'000
Reconciliation of operating profit to net cash flow from operating activites (see note 19)			
Cash received from interest income, clearing and other services		208,028	123,470
Interest paid to members		(93,412)	(86,317)
Cash paid to and on behalf of employees		(11,718)	(9,057)
Cash payments to suppliers and other cash payments		(26,996)	(24,442)
Net cash inflow from operating activities before movement in margins held and Default Fund		75,902	3,654
Cash Flow Statement			
Net cash inflow from operating activities before movement in margins held		75,902	3,654
Margin monies net cash inflow/(outflow)		31,040	(243,343)
Payments from members relating to the Default Fund		23,528	20,188
Net cash inflow/(outflow) from operating activities		130,470	(219,501)
Taxation	20	(12)	(1,347)
Capital expenditure	20	(5,702)	(8,592)
Increase/(Decrease) in cash		124,756	(229,440)

The notes on pages 17 to 28 form
part of these financial statements.

Notes to the Financial Statements

For the year ended 31 October 2000

1 Accounting policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Basis of consolidation

The financial statements comprise the financial statements of the company and its subsidiary undertakings made up to 31 October. All of the subsidiary undertakings are dormant and the company's investment in them immaterial; accordingly the results, financial position and cash flows of the company reflect those of the group. No separate company balance sheet has been prepared.

c) Investments in associated undertakings

Investments are stated at the lower of cost and the company's share of net assets translated at closing rates of exchange, less any provision for permanent impairment in value.

d) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

e) Tangible fixed assets and depreciation

Tangible fixed assets are capitalised and depreciated at rates calculated to write off their cost over their estimated useful lives as follows:

Office refurbishment costs	-	Straight line basis over the term of the lease
Computer equipment, office equipment, software and other fixed assets	-	Straight line basis between 3 and 5 years

f) Financial instrument contracts

Financial instruments, including exchange-traded futures and options and swaps, are recorded in the balance sheet at fair value. Fair values are calculated based on quoted market prices.

Accounting policies...

g) Repurchase and reverse repurchase agreements

In its role as central counterparty, members enter into LCH RepoClear contracts with the company. LCH RepoClear transactions consist of agreements to repurchase securities which have already been sold and agreements to resell securities which have already been purchased. As the central counterparty to these transactions, for each LCH RepoClear contract the company has an equal and opposite contract with another member. The present value of amounts payable in respect of agreements to repurchase securities previously sold are recorded in the balance sheet as liabilities to members under 'Balances with members'. The present value of amounts receivable in respect of agreements to resell securities previously purchased are recorded in the balance sheet as an asset of the company owed by members and shown under 'Balances with members'. Securities acquired under such contracts are not recorded in the balance sheet.

h) Deferred taxation

Deferred taxation is recognised at current rates of taxation on timing differences between profits stated in the financial statements and profits computed for taxation purposes only if there is a reasonable probability that a liability or benefit will crystallise in the foreseeable future.

i) Leases

Assets held under finance leases are capitalised as fixed assets and are depreciated over the shorter of their useful lives and the lengths of the leases. Finance charges are allocated to accounting periods so as to produce a constant rate of return over the period of the lease. Operating lease rentals are charged to the profit and loss account in the period to which they relate.

j) Pension costs

Contributions to the LCH Pension Scheme are assessed by a qualified actuary and are charged to the profit and loss account so as to spread the cost over the service lives of the employees. Actuarial surpluses and deficits are spread forward over the average remaining service lives of the employees.

2 Turnover

Turnover and operating profits are wholly derived from the provision of services to members and exchanges, including interest received on deposits and accommodation charges, and relate to activities in London.

3 Operating expenses

Operating expenses include:	2000 £'000	1999 £'000
Staff costs (Note 6)	11,740	8,658
Depreciation of assets owned by the company	4,517	2,378
Office equipment	739	714
Hire of plant and machinery under operating leases	50	27
Property lease rentals	955	822
Auditors' remuneration	60	60
Interest on bank overdrafts and loans repayable within 5 years	55	43
Loss on disposal of fixed assets	303	-

Fees payable to Ernst & Young for non-audit services in 2000 were £67,200 (1999 - £84,000).

4 Tax on profit on ordinary activities

	2000 £'000	1999 £'000
United Kingdom corporation tax		
- current year charge	(259)	(12)
- prior year over/(under) provision	1,020	(1,347)
	761	(1,359)

The prior year over provision adjustment made in the current year is in respect of short-term timing differences for which no deferred tax asset has been recognised. The charge for UK taxation has been provided at a rate of 31% in respect of the prior year over provision and 20.4%, being the average small companies rate, for the year ended 31 October 2000.

Notes to the Financial Statements *continued...*

5 Directors' emoluments and transactions

The emoluments of directors of the company were:	2000 £'000	1999 £'000
Aggregate emoluments	417	345

Remuneration is only paid to the Chairman and Chief Executive. Remuneration is determined by the Board based on the recommendations of the Remuneration Committee. There is one director in the defined benefit pension scheme. The remuneration is as follows:

	Basic salary and fees £	Benefits £	Performance related bonuses £	Total 2000 £	Total 1999 £
Sir Michael Jenkins	40,000	-	-	40,000	41,549
David Hardy	252,500	12,125	100,000	364,625	281,863
	292,500	12,125	100,000	404,625	323,412

The value of the accrued pension for the highest paid director was £71,245 per annum at 31 October 2000 (1999 - £59,125).

During the year an interest free loan of £3,132 for the purchase of a season ticket was made available to D M Hardy. An amount of £nil was outstanding at 31 October 2000.

6 Employees

The average number of staff employed during the year was:	2000	1999
London	180	150

The aggregate staff costs were:	£'000	£'000
Wages and salaries	10,373	7,662
Social security costs	1,028	719
Other pension costs	339	277
	11,740	8,658

7 Results of the company

The London Clearing House Limited has not presented its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985. The loss after taxation of the company for the year ended 31 October 2000 dealt with in the financial statements was £nil (1999 Loss: £802,000).

8 Tangible assets

Group and company	Leasehold refurbishments £'000	Computer and office equipment, software and other fixed assets £'000	Total £'000
Cost:			
Balance at 1 November 1999	1,937	15,844	17,781
Additions	20	5,682	5,702
Disposals	-	(1,708)	(1,708)
Balance at 31 October 2000	1,957	19,818	21,775
Depreciation:			
Balance at 1 November 1999	486	5,650	6,136
Charge for the year	263	4,254	4,517
Disposals	-	(1,405)	(1,405)
Balance at 31 October 2000	749	8,499	9,248
Net book value 31 October 2000	1,208	11,319	12,527
Net book value 31 October 1999	1,451	10,194	11,645

9 Balances with members

Balances with members at 31 October 2000	Assets £'000	Liabilities £'000
LCH RepoClear transactions	12,023,029	(12,023,029)
Fair values of other contracts	390,977	(390,977)
Deposits and amounts in respect of settled transactions	146,009	(1,660,038)
	12,560,015	(14,074,044)
Effect of permissible netting of cash cover	362,256	(362,256)
Total balances with members included in the balance sheet	12,922,271	(14,436,300)

Balances with members at 31 October 1999	Assets £'000	Liabilities £'000
LCH RepoClear transactions	2,562,552	(2,562,552)
Fair values of other contracts	381,919	(381,919)
Deposits and amounts in respect of settled transactions	112,037	(1,596,453)
	3,056,508	(4,540,924)
Effect of permissible netting of cash cover	(203,384)	203,384
Total balances with members included in the balance sheet	2,853,124	(4,337,540)

The balances due from members recorded in the balance sheet of £12,922 million are fully secured by non-cash collateral or guarantees held by the company. At 31 October 2000, the total amount of non-cash collateral held was £13,352 million and the total amount of guarantees held was £1,004 million. Included in the total non-cash collateral held is £12,248 million of government debt used to secure the company's assets in respect of LCH RepoClear contracts. These securities have in turn been passed to LCH RepoClear counterparties to secure the company's liabilities on LCH RepoClear contracts.

All gross fair value balances due to and from members mature within one year, except for £83 million in respect of the fair value of other contracts.

Notes to the Financial Statements *continued...*

10 Debtors and other amounts receivable

Group and company	2000 £'000	1999 £'000
Amounts falling due within one year:		
Balances with members	12,922,824	2,855,219
Trade debtors	408	15
Other debtors	797	324
Prepayments and accrued income	15,694	9,124
	12,939,723	2,864,682

11 Cash at bank and in hand

Group and company	2000 £'000	1999 £'000
Cash and balances with banks, money on deposit and at call	1,850,936	1,726,158

12 Creditors: amounts falling due within one year

Group and company	2000 £'000	1999 £'000
Bank overdrafts and loans	117	94
Balances with members	14,454,954	4,343,307
Trade creditors	95,386	32,211
Other creditors	3	3
Taxation and social security	982	452
Accruals	5,888	4,099
	14,557,330	4,380,166

13 Creditors: amounts falling due after more than one year

Group and company	2000 £'000	1999 £'000
Default Fund	193,772	170,244

The Default Fund is fully funded by members' contributions. Its purpose is to meet losses incurred by the company in the event of member default where margin monies are insufficient to cover the management and close out of the positions of the defaulting member. Monies are placed on deposit by LCH and interest has been paid to members at a rate of not less than three-month LIBOR (or equivalent) plus one per cent on their contributions to the Default Fund, which is included within interest paid to members in these financial statements. Members' contributions are adjusted on a quarterly basis and are refundable on resignation subject to the rules and regulations of the company.

14 Commitments under operating leases

Group and company	2000 £'000	1999 £'000
Operating lease commitments		
The total annual commitments in respect of non-cancellable operating leases are analysed by year of expiry as follows:		
Land and buildings		
Lease expiry date:		
Within one year	-	-
In the second to fifth years inclusive	209	209
Over five years	746	746
	955	955
Other operating leases		
Lease expiry date:		
Within one year	25	19
In the second to fifth years inclusive	33	6
Over five years	-	-
	58	25
Total operating lease commitments	1,013	980

15 Deferred taxation

Group and company

The potential amounts of deferred tax asset, none of which are recognised in the financial statements, amount to £1,350,000 (1999: £950,000) relating to accumulated depreciation in excess of capital allowances.

16 Called up share capital (including non-equity interests)

	2000 £'000	1999 £'000
Authorised		
'A' redeemable ordinary (equity) shares of £200,000 each	50,000,000	50,000,000
'B' redeemable ordinary (equity) shares of £12,500 each	12,500,000	12,500,000
'C' ordinary (non-equity) share of £1	1	1
	62,500,001	62,500,001
Issued and fully paid		
'A' redeemable ordinary (equity) shares of £200,000 each	26,600,000	26,600,000
'B' redeemable ordinary (equity) shares of £12,500 each	12,500,000	12,500,000
'C' ordinary (non-equity) share of £1	1	1
	39,100,001	39,100,001

The 'A' shares carry one vote per share, the 'B' shares carry in total one third of the number of votes to which 'A' shareholders are entitled. The 'C' share is non-voting and carries no right to participate in the income of the company.

The company may, at its sole discretion (subject as permitted by law), redeem an outgoing member's share at the original subscription price, although it is not the company's policy routinely to build up reserves with a view to effecting such redemption.

17 Reconciliation of movements in shareholders' funds

	2000 £'000	1999 £'000
Profit/(Loss) for the year	0	(802)
Net increase/(decrease) in shareholders' funds	0	(802)
Shareholders' funds at 1 November	52,084	52,886
Shareholders' funds at 31 October	52,084	52,084

18 Pension commitments

The company participates in the LCH Pension Scheme. This scheme is of the defined benefit type providing benefits to certain employees of The London Clearing House Limited and the assets are held in a separate trustee administered fund. The total pension cost for the company relating to the scheme in the year to 31 October 2000 was £338,721 (1999 - £277,000).

The pension cost relating to the scheme is assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest actuarial assessment of the scheme was carried out as at 30 June 1998. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investment and the rates of increase in salaries and pensions. It was assumed that the investment return would be 7% per annum, that salary increases would average 5% per annum and that present and future pensions would increase at the rate of 3% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £31 million and the actuarial value of the assets was sufficient to cover 142% of the benefits that had accrued to the members, after allowing for expected future increases in earnings.

As a result, the company has adopted a funding rate recommended by the actuary of 4.8%, which equates to the regular pension cost on the assumptions noted above.

Notes to the Financial Statements *continued...*

19 Reconciliation of operating profit to net cash flow from operating activities

	2000 £'000	1999 £'000
Operating (loss)/profit	(761)	557
Depreciation charges	4,517	2,378
Loss on disposal of fixed assets	303	0
Write-down of investments	9	0
(Increase)/Decrease in debtors	(4,343)	3,074
Increase/(Decrease) in creditors	76,177	(2,355)
Net cash inflow from operating activities	75,902	3,654

20 Gross cash flows

		2000 £'000	1999 £'000
Taxation			
UK Corporation tax	- paid	(12)	(1,704)
	- received	-	357
		(12)	(1,347)
Capital expenditure			
Purchase of tangible fixed assets		(5,702)	(8,592)

21 Analysis of changes in net funds

	At 31 October 2000 £'000	At 1 November 1999 £'000
Cash in hand, at bank	1,850,936	1,726,158
Overdraft	(116)	(94)
Total	1,850,820	1,726,064

The London Clearing House Limited
Aldgate House
33 Aldgate High Street
London EC3N 1EA

Tel: +44 (0)20 7426 7000
Fax: +44 (0)20 7426 7001
Website: www.lch.com

©2001 The London Clearing House Limited
LCHRep&Acc003/03/01(2)