Company number: 00025932

LCH.CLEARNET LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2015

Board of Directors

Type of director	Name	Note
Executive	Suneel Bakhshi	
Executive	Dennis McLaughlin	
Executive	Martin Pluves (CEO)	Appointed 1 January 2015
Independent	Lex Hoogduin (Chairman)	Appointed Chairman 5 March 2015
Independent	Jacques Aigrain (Chairman)	Resigned 5 March 2015
Independent	Ian Abrams	
Independent	Simon Davies	
Independent	Jonathan Eliot	
Independent	Shona Milne	Appointed 1 April 2015
Group shareholder representative	Charlotte Crosswell	
Group shareholder representative	Stephen Compton	Appointed 5 March 2015
Group shareholder representative	Nikhil Rathi	Appointed 14 October 2015
Group shareholder representative	Lawrence Shaw	Resigned 6 August 2015
Group shareholder representative	Alexander Justham	Resigned 29 September 2015
Group shareholder representative	Brian Hellmann	Resigned 4 March 2015

Secretary

Robert Franklin

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered office

Aldgate House
33 Aldgate High Street
London
EC3N 1EA

Telephone: +44 (0) 20 7426 7000

Registered in England, number: 00025932

LCH.Clearnet Limited (the Company) is a wholly owned subsidiary of LCH.Clearnet Group Limited and is a member of the LCH.Clearnet group of companies. The Company's ultimate parent is London Stock Exchange Group plc.

Business model

The Company's principal activity during the year continued to be the provision of central counterparty (CCP) and related services to clearing members as a part of the LCH.Clearnet Group.

The Company is a leading multi-national clearing house. The Company provides services to mitigate counterparty risk across multiple asset classes for clearing members and their clients operating through an open access model that clears for major exchanges and platforms as well as a range of over-the-counter (OTC) markets.

As a CCP, the Company 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, the Company 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 Company processes all cash flows and marks the trade or book to market, calling variation and initial margin in relation to prevailing risk of the overall portfolio.

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 Company's risk process is its ability to collect quality collateral from clearing members and clients as credit support for their cleared positions. This collateral is often referred to as margin. Margin is calculated on a daily basis, or multiple times a day for certain asset classes, which is important during turbulent markets and is based on clearing members' positions and market risk. If a clearing member fails, this collateral is used by a CCP to fulfil the failed organisation's obligations.

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

Strategic objectives

The Company's principal objectives are:

- to reduce risk and safeguard the financial infrastructure in the markets that the Company serves
- to deliver market leading and efficient clearing services
- working in partnership to serve multiple asset classes around the world

The strategy for achieving these objectives is:

- to maintain a sound risk management approach and resilient systems
- to set and maintain the highest standards across all asset classes cleared, in line with evolving regulatory requirements
- to work closely with market participants to develop and deliver new services and products that increase clearing efficiencies globally

Key performance indicators

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

	2015	2014	Variance
SwapClear			
SwapClear members	**100**	98	2%
Notional cleared ($ trillion)	**521.4**	641.8	-19%
Client trades ('000)	**678**	407	67%
ForexClear			
ForexClear members	**23**	21	10%
Notional cleared ($ billion)	**1,049.6**	907.3	16%
Fixed Income: notional cleared (€ trillion)	**39.5**	40.8	-3%
Listed Derivatives: contracts cleared (million)	**6.9**	32.6	-79%
Cash Equities: trades cleared (million)	**308.2**	256.5	20%
Average cash collateral (€ billion)	**44.6**	36.8	21%

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

Development and performance

LCH.Clearnet won the Risk Magazine Clearing House of the Year for the third year in a row, Central Banking Journal awarded LCH.Clearnet its Market Infrastructure Provider of the Year Award and it was named the FOW International Awards Clearing House Of The Year for the Americas and Europe.

SwapClear

SwapClear is a global market leader in OTC interest rate swaps (IRS). SwapClear offers both buy and sell side clients access to unrivalled liquidity, cost saving efficiencies and rigorous risk management. The SwapClear service is used by members who are in general the large banks paying an annual membership fee to cover all clearing and by clients who are made up of other banks and investment funds and pay a fee per trade cleared. In 2015 SwapClear membership increased to 100 (2014: 98). Total notional cleared was 19% lower at $521 trillion (2014: $642 trillion), of which client clearing totalled $93 trillion (2014: $122 trillion) with trades increasing 67% to 678,000 (2014: 407,000). Total clearing fee revenue for the year was €178.2 million (2014: €133.8 million).

SwapClear's compression services allow members and clients to combine or offset trades resulting in a reduction in notional outstanding, more efficient portfolios and may result in lower regulatory capital requirements. Compression continued to show good progress with $328 trillion compressed (2014: $292 trillion) and driving a record reduction in notional outstanding from $362 trillion at the start of the year to $251 trillion at the end of the year. Over $110 trillion of net notional was eliminated across the year (2014: $64 trillion) increasing market efficiency and reducing client exposures. From October, Forward Rate Agreements (FRAs) blended-rate and variable notional swap compression were introduced, with this enhancement providing the potential for further notional to be eliminated.

April saw SwapClear's introduction of the first inflation-linked swap clearing made by a central counterparty. This service allows market participants to benefit from the efficiencies and enhanced risk management associated with central clearing. Additional benefits are possible by offsetting margin requirements with correlating interest rate derivatives.

ForexClear

ForexClear is LCH's service clearing foreign exchange (FX) non-deliverable forwards (NDF) in 12 currencies. ForexClear membership increased to 23 members (2014: 21), notional cleared increased 16% to $1,050 billion (2014: $907 billion). Total clearing fee revenue for the year was €10.6 million (2014: €10.5 million).

FX today is seen as a payment system and as an asset class in its own right, with over $5.3 trillion traded daily, only a small percentage is currently centrally cleared. Capital rule changes brought in since the financial crisis have impacted the foreign currency exchange market and though there is no mandate for compulsory FX clearing this has led to increased demand for clearing of FX trades.

Fixed Income

LCH.Clearnet delivered a good performance in repurchase agreement (repo) and cash bond markets, with the Company clearing €39.5 trillion in the last year (2014: €40.8 trillion). Total clearing fee revenue for the year was €33.3 million (2014: €32.7 million). Volumes in the repo market overall have declined due to more stringent regulatory requirements on member banks' leverage ratios. However, the leverage ratio has made netting more attractive, such that cleared volumes at LCH.Clearnet have remained stable.

Listed Derivatives, Commodities and Cash Equities

The Company clears across various Listed Derivatives venues. As expected the clearing for the Nodal Exchange successfully migrated to its own clearing house during the year. Contracts cleared in 2015 reduced reflecting ceased business lines.

In Equities, the addition of new trading venues clearing through LCH.Clearnet has increased LCH.Clearnet's market coverage, a primary objective set out at the start of 2015. During the year, Spanish and Polish securities, Turkish derivatives and NASDAQ Nordic exchange began clearing with LCH.Clearnet, broadening the European position. Trades cleared in 2015 increased by 20% to 308.2 million (2014: 256.5 million).

Total clearing fee revenue for the year was €27.2 million (2014: €29.8 million).

Net treasury income

Net treasury income is the result of interest earned on cash assets lodged with the Company, less interest on members' initial margin and default fund contributions. The level of funds held is primarily driven by volumes cleared and volatility in the market. Income is also driven by short-term interest rates predominantly in the euro, US dollar and UK sterling money markets. Average cash collateral held increased 21% to €44.6 billion (2014: €36.8 billion) on increased clearing volumes particularly in SwapClear. Total net treasury income for LCH.Clearnet for 2015 reduced to €54.3 million (2014: €58.7 million).

Cost of sales

Cost of sales for 2015 has increased to €40.3 million (2014: €33.0 million) reflecting increasing data costs and strong growth in SwapClear.

Operating expenses

Operating expenses have increased by 7% to €240.3 million (2014: €225.2 million) reflecting the weakening of the euro. On a constant currency basis, the underlying movement is a reduction of 4%, this reflects underlying cost savings partially offset by investment in business development. The next phase of cost savings is underway, with a target of a further €40 million being driven by addressing further efficiency opportunities in the LCH.Clearnet cost base including the benefit of using appropriate support services within the London Stock Exchange Group. This is in addition to the €60 million already achieved over the past two years. Further efficiencies are also achievable in the longer term as work commences to replace legacy systems.

Future development

A key development for LCH.Clearnet in 2016 will be the launch of LCH Spider. This service is the next step in portfolio margining for OTC and listed rates derivatives. Subject to regulatory approval, the service will offer margin offsets that provide capital efficiencies to its members and clients. With access to the world's deepest pool of cleared swaps liquidity, LCH Spider will be able to identify eligible margin offsets and pass these efficiencies onto members and clients.

In 2016 EMIR introduces mandatory IRS clearing for current clearing members with effect from 21 June and on a phased-in approach for other clients including non-member banks and investment funds.

As ForexClear builds towards offering a complete central counterparty service for members and clients in anticipation of changing capital rules for members, ForexClear has partnered with CLS which operates the largest multicurrency cash settlement system for FX transactions to deliver settlement for cleared FX options. The service is targeted to launch in late 2016. ForexClear is also looking to broaden the range of OTC FX products cleared such as options, forwards and swaps.

A number of opportunities have been identified for the Fixed Income business including planned product enhancements for repo clearing services, opportunities to add new end users as clients and geographic expansion.

Principal risks and uncertainties

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

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

Details of the Company's capital management processes are provided in note 22.

Going concern and liquidity risk

The directors have made an assessment of the Company'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 Company 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.

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

By order of the Board

Lex Hoogduin
Chairman
2 March 2016

The directors of LCH.Clearnet Limited (the Company), registered in England and Wales with company number 00025932, present their report to the shareholder, together with the audited financial statements for the year ended 31 December 2015.

Directors

The current directors and changes made during the year ended 31 December 2015 and subsequently are detailed on page 1.

Indemnity of Directors

Directors are entitled to be indemnified by the Company 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 23. There were no transactions, other than those disclosed in note 18, with Directors during the year.

Staff

It is the policy of the Company 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 Company every effort will be made to ensure continuing employment.

Staff involvement is encouraged through regular meetings and information is shared with staff through web based communication.

The Company 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.

Financial instruments

Details of the Company's financial instruments are provided in note 19.

Disclosure of information to the auditors

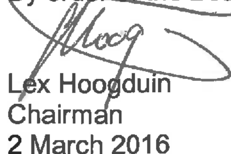
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware there is no relevant audit information of which the Company'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 Company's auditors are aware of that information

Auditors

Ernst & Young LLP are deemed to have been reappointed as the Company's auditor under the provisions of the Companies Act 2006.

By order of the Board



Lex Hoogduin
Chairman
2 March 2016

Statement of directors' responsibilities

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

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

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

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

We have audited the financial statements of LCH.Clearnet Limited for the year ended 31 December 2015 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Ernst & Young LLP

Maurice McCormick (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, London 2 March 2016

Notes:

1. The maintenance and integrity of the LCH.Clearnet web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement

	Note	2015 Before impairment & non-recurring items €'m	2015 Impairment & non-recurring items €'m	2015 Total €'m	2014 (restated*) Before impairment & non-recurring items €'m	2014 (restated*) Impairment & non-recurring items €'m	2014 (restated*) Total €'m
Clearing fees		**249.2**	-	**249.2**	253.3	-	253.3
Other fee income		**58.7**	-	**58.7**	42.2	-	42.2
Revenue sharing arrangements		**(1.2)**	-	**(1.2)**	1.4	-	1.4
Revenue		**306.7**	-	**306.7**	296.9	-	296.9
Treasury income	19	**115.6**	-	**115.6**	84.8	-	84.8
Treasury expense	19	**(61.3)**	-	**(61.3)**	(26.1)	-	(26.1)
Net treasury income		**54.3**	-	**54.3**	58.7	-	58.7
Settlement and other income		**12.3**	-	**12.3**	11.8	-	11.8
Settlement fees payable		**(13.6)**	-	**(13.6)**	(12.3)	-	(12.3)
Net settlement and other income		**(1.3)**	-	**(1.3)**	(0.5)	-	(0.5)
Total income		**359.7**	-	**359.7**	355.1	-	355.1
Revenue share costs		**(27.2)**	-	**(27.2)**	(16.4)	-	(16.4)
Other cost of sales		**(13.1)**	-	**(13.1)**	(16.6)	-	(16.6)
Total cost of sales		**(40.3)**	-	**(40.3)**	(33.0)	-	(33.0)
Gross profit		**319.4**	-	**319.4**	322.1	-	322.1
Operating expenses	4	**(240.3)**	**0.2**	**(240.1)**	(225.2)	(5.6)	(230.8)
Operating profit		**79.1**	**0.2**	**79.3**	96.9	(5.6)	91.3
Finance income	6	**4.5**	-	**4.5**	0.9	-	0.9
Finance expense	6	**(0.1)**	-	**(0.1)**	(0.1)	-	(0.1)
Profit before taxation		**83.5**	**0.2**	**83.7**	97.7	(5.6)	92.1
Taxation expense	7	**(18.9)**	-	**(18.9)**	(20.1)	1.2	(18.9)
Profit for the year		**64.6**	**0.2**	**64.8**	77.6	(4.4)	73.2

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

The notes on pages 17 to 60 form an integral part of these financial statements.

* For details of the restatement see page 17.

Statement of comprehensive income

	Note	2015 €'m	2014 €'m
Profit for the year		**64.8**	73.2
Amounts that will subsequently be reclassified to profit for the year when specific conditions are met:			
Revaluation of available for sale assets		**(1.8)**	(0.3)
Amounts reclassified to the income statement in the year		**0.3**	-
Other		**(0.3)**	-
Amounts that will not subsequently be reclassified to profit for the year:			
Current tax relating to revaluation of available for sale assets	7	**0.4**	-
Remeasurement gains/(losses) on UK defined benefit plan	18	**11.7**	(1.1)
Deferred tax relating to remeasurement gains/(losses) on UK defined benefit plan	7	**(4.1)**	-
Other comprehensive income for the year, net of tax		**6.2**	(1.4)
Total comprehensive income for the year, net of tax		**71.0**	71.8

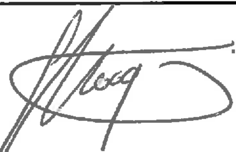
The results for both years are in respect of continuing operations.

The notes on pages 17 to 60 form an integral part of these financial statements.

Statement of financial position

	Note	2015 €'m	2014 €'m
Assets			
Non-current assets			
Intangible assets	8	**100.7**	70.5
Property, plant and equipment	10	**14.7**	9.4
Investment in subsidiaries	11	**20.3**	20.3
Trade and other receivables	13	**0.8**	-
Employment benefits	18	**34.2**	20.7
Total non-current assets		**170.7**	120.9
Current assets			
Balances with clearing members	12	**120,733.9**	145,956.3
Trade and other receivables	13	**84.8**	71.7
Cash and cash equivalents	14	**28,587.9**	21,907.7
Other financial assets	19	**14,422.7**	14,324.4
Total current assets		**163,829.3**	182,260.1
Total assets		**164,000.0**	182,381.0
Current liabilities			
Balances with clearing members	12	**(157,897.8)**	(175,244.1)
Trade and other payables	15	**(196.3)**	(107.9)
Interest bearing loans and borrowings	16	**(0.4)**	(0.4)
Income tax payable		**(7.6)**	(10.3)
Default funds	17	**(5,232.2)**	(6,402.1)
Total current liabilities		**(163,334.3)**	(181,764.8)
Non-current liabilities			
Interest bearing loans and borrowings	16	**-**	(0.4)
Deferred tax liability	7	**(4.0)**	(1.1)
Trade and other payables	15	**(18.9)**	(28.4)
Total non-current liabilities		**(22.9)**	(29.9)
Total liabilities		**(163,357.2)**	(181,794.7)
Net assets		**642.8**	586.3

	Note	**2015 €'m**	2014 €'m
Capital and reserves			
Called up share capital	21	**313.0**	313.0
Share premium	21	**41.2**	41.2
Capital redemption reserve	21	**5.1**	5.1
Retained earnings	21	**283.5**	227.0
Total equity		**642.8**	586.3



Lex Hoogduin
Chairman

Martin Pluves
Chief Executive Officer

The notes on pages 17 to 60 form an integral part of these financial statements.

The financial statements were approved by the Board on 2 March 2016.

Statement of cash flows

	Note	2015 €'m	2014 €'m
Cash flows arising from operating activities			
Profit for the year		**64.8**	73.2
Taxation expense		**18.9**	18.9
Finance income		**(4.5)**	(0.9)
Finance expense		**0.1**	0.1
Depreciation and amortisation		**21.4**	20.3
Share-based payments expense		**5.1**	1.9
(Increase)/decrease in trade and other receivables		**(13.9)**	12.0
Increase/(decrease) in trade and other payables		**78.9**	(86.4)
Unrealised fair value gains on financial instruments		**(1.8)**	(0.4)
Margin monies cash inflow		**7,876.1**	2,885.4
(Decrease)/increase in default funds		**(1,169.9)**	2,297.3
Net cash inflow from operations		**6,875.2**	5,221.4
Taxation paid		**(22.5)**	(17.5)
Net cash inflow from operating activities		**6,852.7**	5,203.9
Investing activities			
Investment in intangible assets		**(47.4)**	(22.8)
Purchase of property, plant and equipment		**(9.5)**	(2.7)
Investment in other financial assets		**(98.3)**	(8,299.2)
Dividend received		**3.6**	-
Net cash outflow from investing activities		**(151.6)**	(8,324.7)
Financing activities			
Interest paid		**(0.1)**	(0.1)
Dividend paid		**(15.0)**	-
Share-based payments contribution		**(5.1)**	(1.9)
Finance lease principal payments		**(0.4)**	(0.3)
Net cash outflow from financing activities		**(20.6)**	(2.3)
Increase/(decrease) in cash and cash equivalents		**6,680.5**	(3,123.1)
Cash and cash equivalents at 1 January		**21,907.7**	25,031.5
Effects of foreign exchange movements		**(0.3)**	(0.7)
Cash and cash equivalents at 31 December		**28,587.9**	21,907.7

	Note	**2015 €'m**	2014 €'m
Cash and cash equivalents at 31 December comprise:			
Investments in secured short-term deposits		**25,425.7**	21,699.9
Cash at bank and in hand		**3,162.2**	207.8
	14	**28,587.9**	21,907.7

The notes on pages 17 to 60 form an integral part of these financial statements.

Statement of changes in equity

	Called up share capital €'m	Share premium €'m	Capital redemption reserve €'m	Retained earnings €'m	Total €'m
Shareholder's equity at 1 January 2014	313.0	41.2	5.1	155.2	514.5
Profit for the year to 31 December 2014	-	-	-	73.2	73.2
Other comprehensive expense	-	-	-	(1.4)	(1.4)
Total comprehensive income	-	-	-	71.8	71.8
Dividends paid	-	-	-	-	-
Share-based payments contribution	-	-	-	1.9	1.9
Share-based payments expense net of tax	-	-	-	(1.9)	(1.9)
Shareholder's equity at 31 December 2014	**313.0**	**41.2**	**5.1**	**227.0**	**586.3**
Profit for the year to 31 December 2015	-	-	-	64.8	64.8
Other comprehensive expense	-	-	-	6.2	6.2
Total comprehensive income	-	-	-	71.0	71.0
Dividends paid	-	-	-	(15.0)	(15.0)
Share-based payments contribution	-	-	-	5.1	5.1
Share-based payments expense net of tax	-	-	-	(4.6)	(4.6)
Shareholder's equity at 31 December 2015	**313.0**	**41.2**	**5.1**	**283.5**	**642.8**

The notes on pages 17 to 60 form an integral part of these financial statements.

1. 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 2015 reporting and endorsed by the EU, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the valuation of financial assets and liabilities held at fair value. 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 Company uses a columnar format for the presentation of its income statement. This aids the understanding of its results by presenting profit for the year before impairment and non-recurring items. Profit before impairment and non-recurring items is reconciled to profit before taxation on the face of the income statement.

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

Changes in accounting treatment

The results for the period ended 31 December 2014 have been restated as follows:

i) to classify fees related to clearing activities with actual clearing fees under a revenue heading
ii) to reflect the presentation of two additional performance measures, being cost of sales and gross profit, on the face of the income statement

These changes in presentation are to further assist users in understanding financial performance and do not impact previously reported profit before tax or profit after tax. The impact on the income statement is as follows:

	2014 As originally reported €'m	Adjustment (i) €'m	Adjustment (ii) €'m	2014 As restated €'m
Revenue	-[1]	296.9	-	296.9
Clearing fees	253.3	(253.3)	-	-
Net treasury income	58.7	-	-	58.7
Net settlement and other income	41.7	(42.2)	-	(0.5)
Revenue sharing arrangements	1.4	(1.4)	-	-
Total income[2]	355.1	-	-	355.1
Cost of sales	-[1]	-	(33.0)	(33.0)
Gross profit	355.1[1]	-	(33.0)	322.1
Operating expenses	(263.8)	-	33.0	(230.8)
Operating profit	91.3	-	-	91.3

[1] measure not originally reported
[2] previously named net revenue

The composition of revenue and cost of sales are detailed further on the face of the income statement. This restatement has no other impact on the income statement or statement of financial position. There are no other restatements in the financial statements as a result of the adoption of new accounting standards or prior year adjustments.

Going concern

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

Presentational currency

The Company's financial statements are presented in euros, which is the functional currency of the Company.

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 intangible assets: intangible assets are assessed when an indication of impairment arises. This requires the estimation of future cash flows and choosing a suitable discount rate (see note 9)
- the measurement of defined benefit pension obligations: measurement of defined benefit pension obligations requires estimation of inflation as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 18)

Investments

The Company recognises its investments in 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 of the Company are translated into the functional currency of the Company at the rates of exchange ruling on the statement of financial position date and the resulting exchange differences are recorded in the income statement. Transactions in foreign currencies are recorded at the prevailing foreign exchange rates on the date of the transaction in the income statement and are not revalued.

In the statement of cash flows, cash flows denominated in foreign currencies are translated into the functional currency of the Company at the average exchange rates for the year or at the rate prevailing at the time of the transaction where more appropriate.

Intangible assets

Intangible assets are initially recognised at cost and are capitalised on the statement of financial position. Where assets are acquired as a result of a business acquisition or the negotiation of an operating agreement, fair values are attributed to the assets acquired. Following initial recognition, the assets are amortised at rates calculated to write off their cost on a straight line basis over their estimated useful lives.

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

Other intangible assets in 2014 represented investment in business development. Amortisation is charged from the date the expenditure is incurred over a five year period.

Property, plant and equipment

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

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

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

Impairment of intangible assets and property, plant and equipment

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 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 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 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.

Financial instruments

The Company classifies its financial instruments into the following categories: financial assets and liabilities at fair value through profit or loss, available for sale assets, 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 assets 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 treasury 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.

Available for sale assets are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group may sell before maturity. After initial measurement available for sale financial assets are subsequently measured at fair value. Changes in fair value are recorded within other comprehensive income until the asset is sold when the whole amount will be recognised in the income statement.

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company 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 Company sells or reclassifies a significant amount of held to maturity investments before maturity (other than in certain specific circumstances) the entire category would have to be reclassified as available for sale. The Company 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 Company retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the 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 Company. 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 Company. 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.

Interest bearing loans and other borrowings 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.

The Company 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.

Default fund and margin deposits

Default fund contributions paid by clearing members are in cash. Clearing members may elect to use cash or securities to cover initial margin requirements; realised variation margin may only be covered in cash. Members

may pledge securities directly using a bilateral delivery mechanism. Cash initial margin, variation margin and default fund deposits are reflected in the statement of financial condition as assets and liabilities.

The amount of margin deposits on hand will fluctuate over time as a result of, among other things, the extent of open positions held at any point in time by market participants in contracts and the margin rates then in effect for such contract.

Non-cash initial margin is not reflected in the statement of financial condition. These non-cash assets are held in safekeeping, and the Company does not take legal ownership of the assets as the risks and rewards remain with the clearing members, unless and until such time as a clearing member defaults on its obligations to the Company.

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 de-recognition 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.

Share capital

Called up share capital comprises ordinary shares. Other capital reserves are described in note 21. Other instruments are classified as liabilities if there is an obligation to transfer economic benefits and if not they are

included in shareholder's funds. The finance cost recognised in the income statement in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

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

Revenue recognition

Clearing fee income and rebates, together with other fee income and net settlement fees, are recognised on a transaction by transaction basis in accordance with the Group's fee scales. Non-cash collateral fees are charged on non-cash collateral provided by clearing members and are included in other fee income.

Net treasury 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 on clearing members' margin and other monies lodged with the Company. 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.

In conditions where negative interest rates apply, the Company recognises interest paid on cash and other assets as an expense and interest received on clearing members' margin as income.

Revenue sharing arrangements – amounts deducted from revenue

Amounts deducted from revenue relate to surplus or revenue share arrangements whereby, as part of an operating agreement, amounts are due back to either the other party to the operating agreement or the actual clearing customers.

Revenue sharing arrangements - revenue share costs

Revenue share costs relate to revenue share arrangements with clearing members where the revenue share is not limited to the amount of revenues receivable from the specific clearing members. As such this has been classified within cost of sales, as it arises, rather than as a deduction from revenue.

Where a financial liability has been created following the recognition of assets used to generate a revenue share, it will be recognised in the income statement on a systematic basis over the useful life of those assets and offset against the related revenue share costs.

Cost of sales

Items of expense that are directly attributable to creating a product or provide a service that directly generates revenue or has the ability to generate revenue are classified as cost of sales.

Employee benefits

The Company operated a defined benefit pension scheme for its UK employees which required contributions to be made to a separate trustee administered fund. This was closed to new members from 30 September 2009 and curtailed on 31 March 2013.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method. Under this method each participant's benefits under the scheme are estimated based on the total pension to which each participant is expected to become entitled at retirement. The liability is the total present value of the individuals' attributed benefits for the valuation purposes at the measurement date 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.

The net interest amount charged to profit or loss is calculated using actuarial assumptions fixed at the start of the annual report period and the defined benefit liability and asset value at the start of the annual reporting period adjusted for the actual contributions and benefit payments made during the period.

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

The Company 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 the Company by the employees and is recorded as an expense in the income statement within employee benefits as incurred.

Share-based compensation

The Company operates share-based compensation plans for employees, settled in shares of the ultimate parent company, London Stock Exchange Group plc. The charge to the income statement is determined by the fair value of the options granted or shares awarded at the date of grant as an indirect measure of the value of employee services received by the Company and recognised over the relevant vesting period.

The share-based compensation plans are accounted for as equity settled. The Company does record a cost for these transactions, representative of the fact that the Company has received a capital contribution from LSEG which has been spent on share-based compensation, with the corresponding credit recorded in equity. A debit will then also be recorded in equity and an intercompany payable recorded reflecting the Group's investment.

Leases

The Company is a lessee. Leases of property, plant and equipment where substantially all the risks and rewards of ownership have passed to the Company 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 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.

Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in an arm's length transaction at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described in note 19.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Non-recurring items

Items of income and expense that are material by size and/or nature and are non-recurring are classified as non-recurring items on the face of the income statement within their relevant category. The separate reporting of these items together with impairment of intangible assets helps give an indication of underlying performance.

New accounting standards, amendments and interpretations

Standards issued and adopted for the financial year beginning 1 January 2015

	Effective date for periods beginning on or after
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	1 February 2015
Annual improvements 2010 – 2012	1 February 2015
Annual improvements 2011 – 2013	1 January 2015

The amendments to IAS19 and the annual improvements 2010 to 2012 have been early adopted, given their effective date is only one month after the start of the year.

Standards issued but not effective for the financial year beginning 1 January 2015 and not early adopted

The following standards, amendments and interpretations have been issued by the IASB and IFRIC with an effective date,after 31 December 2015. With the exception of IFRS 15 Revenue From Contracts With Customers, the Directors do not expect adoption of these standards to have a material effect on the results of the Group. The implementation date for IFRS 15 has been postponed until 1 January 2018. Further consideration of the effects of this standard are ongoing and its likely effects will be reported in due course, but they are not expected to be material.

	Effective date for periods beginning on or after
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016
Annual Improvements 2012-2014	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception*	1 January 2016
IFRS 14 Regulatory Deferral Accounts*	1 January 2016
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017
Amendments to IAS 7: Disclosure Initiative*	1 January 2017
IFRS 9 Financial Instruments*	1 January 2018
IFRS 15 Revenue From Contracts With Customers*	1 January 2018
IFRS 16 Leases*	1 January 2019

* subject to EU endorsement

2. Risk management

Introduction

The Company's activities expose it to a number of financial risks, principally market risk (foreign exchange risk, interest rate risk, volatility in financial markets), sovereign risk, credit risk, liquidity risk and pension risk. In addition to the financial risks, the Company is also exposed to operational, compliance, legal and reputational risk. The Company 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 Company's Board. Day to day responsibility is delegated to the Chief Risk Officer, who ensures effective delegation to the executives in the Company on the basis of risk policies which are calibrated to the Board's risk appetite and are discussed and agreed by the Company's Risk Committee and Board. The application of these policies is undertaken by the business functions as the first line of defence and by the risk management team forming the second line of independent assurance, who control and manage the exposures arising from the various clearing activities. The continued appropriateness of risk policies and key risk data are regularly reviewed by the Risk Committee and Board, and audits of processes within risk management are undertaken periodically. Risk policies are harmonised across the Group.

Enterprise Risk Management framework

Each of the risks identified in this section are governed by the Risk Governance Framework, issued and refreshed at least annually by the Board. The framework describes the overall risk appetite of the Company, defines each risk type and specifies ownership and the tolerance levels. The framework also requires that all risks are measured, monitored and reported periodically via an Enterprise Risk Management framework coordinated by the Chief Risk Officer.

For each of the principal risk types, a description and outline of the risk management approach is provided below.

Financial market volatility (latent market risk)

Risk description

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

Risk management approach

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

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

Potential market risk is reduced by collecting variation margin on marked to market positions and by establishing initial margin requirements which are the Company's estimate of likely future market risk under normal market conditions, calibrated to a 99.7% confidence level for all products. Variation margin add-ons are calculated for clearing member specific concentration, liquidity, wrong way risk and credit risk. Both variation and initial margin are collected daily and replenished intraday subject to credit related thresholds.

The Company accepts both cash and high quality non-cash collateral to cover margin requirements. The list of acceptable non-cash collateral is restricted and haircuts are set for each security type taking into account market,

credit, foreign exchange, country and liquidity risks and calibrated to a 99.7% confidence level. All non-cash collateral is revalued daily.

As at 31 December 2015 the total margin liability of clearing members amounted to €85.5 billion (2014: €60.9 billion), against which the Company had received €37.6 billion (2014: €32.1 billion) in cash and €47.9 billion (2014: €28.8 billion) in non-cash securities. The maximum margin liability during the year was €91.6 billion (2014: €69.8 billion).

New applicants for clearing must meet strict credit, financial and operational criteria, which are regularly reviewed as part of the Company's risk policies and subject to independent validation at least annually.

The Company also requires all clearing members to contribute to pre-funded default funds to be used should the margins of a defaulted clearing member not fully cover close out costs. Supplementary financial resources include a proportion of the Company's own capital and further clearing member contributions to ensure the continuity of ongoing operations. The pre-funded default funds are segregated by clearing service and designed to be sufficient at all times to cover the default of the two clearing member groups giving rise to the greatest losses above margin under extreme, but plausible, market conditions.

As at 31 December 2015 the total of clearing member contributions to the default funds amounted to €5.2 billion (2014: €6.4 billion) (note 17). The maximum amount during the year was €7.0 billion (2014: €9.8 billion). Clearing members are committed to contribute further amounts in the event of a clearing member default equivalent to approximately twice this amount.

The models which calculate margins, collateral haircuts, counterparty credit scores and default fund contributions are independently validated at least annually and meet all applicable regulatory requirements.

Sovereign risk

Risk description

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

Risk management approach

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

The Risk Committee and Board continually monitor such risks and the sovereign risk framework continues to protect the Company against potentially severe market volatility in the sovereign debt markets.

The Company has investments in the following Sovereigns (or equivalent issuer) as at 31 December 2015:

	2015		2014	
Sovereign (or equivalent)	**Investment value € billion**	**Proportion**	Investment value € billion	Proportion
USA	**5.2**	**30%**	6.9	48%
France	**5.1**	**30%**	3.1	22%
UK	**3.6**	**20%**	0.7	5%
Belgium	**1.3**	**7%**	0.6	4%
EU	**0.9**	**5%**	0.7	5%
Germany	**0.8**	**4%**	2.0	14%
Other	**0.6**	**4%**	0.3	2%
Total	**17.5**	**100%**	14.3	100%

The above total includes all other financial assets of €14,422.7 million (2014: €14,324.4 million) along with central bank cash deposits.

Credit risk

Risk description

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

Risk management approach

The Company's investment portfolio is invested in accordance with clear risk policies which require secure investment of a significant portion of the portfolio either via reverse repurchase agreements with credit and financial institutions, receiving high quality government, government guaranteed or supranational securities as collateral, by investing directly in such securities or by the placement of cash with central banks.

The Investment Risk Policy requires that securities received as collateral are subject to a haircut on their market value, that the average maturity of the portfolio will not exceed two years, and that while cash may be deposited on an unsecured basis, this can only be short term with high quality banking institutions and limited to a 12 month average of 5% and a maximum of 10% of all credit institution investment.

The amount of the Company's capital at risk to the default of a banking institution or the issuer of a debt instrument is limited to €15 million by the non-default loss provision to be used in respect of losses that arise other than from a clearing member's default and which threaten the central counterparty's solvency introduced in response to the revision of UK CCP Recognition Requirements which became effective on 1 May 2014. Treasury default losses in excess of €15 million are allocated among clearing members.

The investment portfolio at 31 December 2015 was €43.0 billion (2014: €36.2 billion), of which 99.8% (2014: 99%) was invested securely with an overall average maturity of 28 days (2014: 35 days). The maximum portfolio size during the year was €51.7 billion (2014: €42.8 billion). Note 19 contains further analysis of the investment portfolio including by type and fair value hierarchy.

All counterparties, including clearing members, interoperating CCPs, investment counterparties, custodians and settlement and payment institutions, sovereigns and central banks, are assessed according to an internal credit scoring framework. This framework incorporates elements of the counterparty's financial profile, including funding, liquidity, capital and profitability, and a detailed operational capability assessment. The scoring framework is independently validated at least annually and is continuously monitored for performance. A minimum credit score is

set for joining any clearing service and for institutions to be eligible for investment or as interoperating CCPs and payment, settlement and custodial intermediaries. Increased margins are applied to clearing members when their credit score deteriorates below the entry level. Other actions may include reduced credit tolerances and forced reduction of exposures.

The Company 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 Company is exposed with its clearing members. Credit risk is managed according to the same credit assessment framework applied to clearing members and other counterparties. To cover the latent market risk arising on interoperating exposures, all interoperating CCPs are subject to daily margining.

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

Analysis by credit rating

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

	Note	**2015 €'m**	2014 €'m
Fair value of transactions with clearing members (ratings as measured by Fitch)			
Clearing members rated AAA		**24,962.6**	29,422.2
AA		**3,853.7**	1,044.9
AA-		**13,333.0**	19,523.9
A+		**9,231.4**	5,421.8
A		**59,816.5**	36,812.3
A-		**2,069.1**	35,279.3
BBB+		**5,449.8**	12,030.5
BBB		**758.0**	367.0
Other, < BBB		**534.2**	1,594.8
Unrated		**366.1**	4,435.9
	12	**120,374.4**	145,932.4

Company investment portfolio (ratings assigned with reference to major agencies)		
AAA/AA+/AA- Government backed	**17,480.3**	14,324.4
AA/AA+/AAA Secured	**2,049.9**	-
AA/AA+/AAA Unsecured	**67.0**	21.9
AA-/A+/A/A-/BBB+ Secured	**23,375.9**	21,699.9
A+/AA- Unsecured	**37.5**	185.9
	43,010.6	36,232.1

The total credit risk of the Company is represented by the total financial assets of the Company as disclosed in note 19.

Concentration risk

Risk description

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

Risk management approach

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

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

The largest concentration of investment exposures as at 31 December 2015 was 12.0% of the total investment to the US Government (2014: 19.1% to the US Government).

Procyclicality

Risk description

Systemically important CCPs recognise that they have an important responsibility towards their clearing members and other market participants to ensure that their actions do not unnecessarily amplify existing market stresses. Indeed, risk mitigating actions that are excessively pro-cyclical are undesirable to the Company from a narrow risk management perspective as well as from a macro-economic and regulatory perspective.

Risk management approach

The Company acknowledges that while some level of procyclicality may be unavoidable, as it must protect itself by ensuring adequate margins are held against risk, standards have been introduced for ensuring that procyclicality concerns are appropriately addressed in the risk framework and the margin, haircut and credit scoring models. These standards require all models which are used for setting the levels of resources called from participants, and which therefore may be sources of procyclical outputs, to be tested using an extended period of historical inputs.

Interest rate risk

Risk description

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

Risk management approach

Interest bearing assets are generally invested for a longer term than the interest bearing liabilities, whose interest rate is generally reset daily. This makes treasury income 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. The risk to the Company's capital is managed within interest rate risk limits expressed as a percentage of the Company's capital and calculated under stressed scenarios.

Interest rate sensitivity analysis

The Company aims to minimise its exposure to interest rate fluctuations. Any exposure is predominantly due to the mismatch between the Company's interest bearing assets 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 Company

is exposed for the time it takes to reset the interest rates on its investments and the shifts in spreads between overnight and term rates. The maximum fixed exposure on any asset in the treasury portfolio is one year and the portfolio is subject to an overall interest rate risk limit.

The following table shows the estimated impact of the exposure described in the paragraph above on profit after tax and on retained earnings within shareholders' equity:

	2015			2014		
	+25bp €'m	**+50bp €'m**	**+100bp €'m**	+25bp €'m	+50bp €'m	+100bp €'m
Net exposure of cash and member margin balances	**(7.2)**	**(14.4)**	**(28.8)**	(7.1)	(14.2)	(28.4)
Tax effect of above	**1.5**	**2.9**	**5.8**	1.5	3.0	6.0
Decrease in profit after tax	**(5.7)**	**(11.5)**	**(23.0)**	(5.6)	(11.2)	(22.4)
	-25bp €'m	**-50bp €'m**	**-100bp €'m**	-25bp €'m	-50bp €'m	-100bp €'m
Net exposure of cash and member margin balances	**7.2**	**14.4**	**28.8**	7.1	14.2	28.4
Tax effect of above	**(1.5)**	**(2.9)**	**(5.8)**	(1.5)	(3.0)	(6.0)
Increase in profit after tax	**5.7**	**11.5**	**23.0**	5.6	11.2	22.4

Liquidity risk

Risk description

Liquidity risk is the risk that the Company is unable to meet its payment obligations when they fall due.

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 Company must transfer or liquidate the defaulter's portfolio. This default management process may give rise to additional liquidity requirements to meet losses arising from close out and the defaulter's settlement and margin obligations until the portfolio is closed out or transferred.

Risk management approach

Liquidity risk is managed by ensuring that the Company has sufficient cash to meet its payment obligations supported by facilities to meet short term imbalances between available cash and payment obligations. The Company maintains liquidity buffers against expected daily operational liquidity needs, based on the maximum relevant liquidity outflow observed from an extensive data history, and against the modelled default of one or more clearing members when additional liquidity will be required so that the Company can continue to meet its obligations to clearing members and other counterparties.

The Company's liquidity management is subject to strict minimum liquidity targets set by senior executives within its Risk and Collateral & Liquidity Management (CaLM) department. These targets are reviewed regularly and reported to the Risk Committee and Board. On a day to day basis CaLM is tasked with ensuring that the Company can meet its financing needs at all times, in particular to ensure the business continues to operate smoothly even 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 and secured financing facilities. The Company uses central bank money where such facilities are available to it as a CCP and are practicable as determined through internal review.

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

As at 31 December 2015	**On demand €'m**	**Less than three months €'m**	**Three months to one year €'m**	**One to five years €'m**	**Total €'m**
Fair value of transactions with clearing members	-	**(118,696.3)**	**(1,677.7)**	**(0.4)**	**(120,374.4)**
Initial margin and other clearing member balances	-	**(37,523.5)**	-	-	**(37,523.5)**
Default fund	-	-	**(5,232.2)**	-	**(5,232.2)**
Trade and other payables	**(20.4)**	**(78.3)**	**(81.9)**	-	**(180.6)**
Interest bearing loans and borrowings	-	**(0.1)**	**(0.4)**	-	**(0.5)**

As at 31 December 2014	On demand €'m	Less than three months €'m	Three months to one year €'m	One to five years €'m	Total €'m
Fair value of transactions with clearing members	-	(142,333.9)	(3,583.3)	(15.2)	(145,932.4)
Initial margin and other clearing member balances	-	(29,311.7)	-	-	(29,311.7)
Default fund	-	-	(6,402.1)	-	(6,402.1)
Trade and other payables	(12.4)	(8.0)	(78.0)	-	(98.4)
Interest bearing loans and borrowings	-	(0.1)	(0.3)	(0.4)	(0.8)

For the default funds, the tenor of the liability is matched with the interest reset dates of the asset. The weighted average maturity of the total treasury portfolio is 28 days (2014: 35 days), with strict risk criteria related to interest rate exposure being applied.

Interest due on the financial liabilities is based upon rates set on a daily basis.

Foreign exchange risk

Risk description

The Company incurs the majority of its expenses in UK sterling, while earning revenues and treasury income in several major currencies. This then exposes the Company to foreign exchange risk; this is primarily because the Company translates net assets and liabilities arising in other currencies (principally UK sterling and US dollars) to its functional currency.

Risk management approach

The Company converts surplus foreign currency balances to euros where practicable on a monthly basis. This partially mitigates the impact of exchange rate fluctuations on the Company's financial performance. Any exchange differences on the translation of net assets and liabilities that remain are recorded in the income statement.

The Company has no designated hedges, but seeks to manage its risk by matching currency liabilities against monetary assets. The Company's income statement and regulatory capital volatility as a result of exchange rate movements are monitored.

Foreign exchange sensitivity

The Company reviews sensitivities to movements in exchange rates which are appropriate to market conditions. As at 31 December 2015, the Company has considered movements in UK sterling and US dollars during 2015 and has concluded that a 10% movement in rates is a reasonable level to measure the risk to the Company. At 31 December 2015, if the euro had weakened or strengthened by 10% against UK sterling and/or US dollar with all other variables held constant, the impact on post tax profit for the year ended 31 December 2015 and on equity at 31 December 2015 is set out, with comparatives, in the table below. Movements in other currencies and entities are not significant.

	2015		2014	
	Post tax profit €'m	**Equity €'m**	Post tax profit €'m	Equity €'m
UK sterling – euro strengthen	**1.2**	**1.9**	(3.2)	(3.6)
UK sterling – euro weaken	**(1.4)**	**(2.4)**	3.5	3.9
US dollar – euro strengthen	**(0.5)**	**(0.6)**	0.3	0.3
US dollar – euro weaken	**0.6**	**0.8**	(0.4)	(0.4)

If the average euro exchange rate for the year ended 31 December 2015 had moved 10p against UK sterling and 10 cents against US dollar, this would have changed the Company's operating profit for the year by up to €4.7 million (2014: €1.6 million).

Settlement risk

Risk description

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

Risk management approach

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

Settlement bank risk

Risk description

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

Risk management approach

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

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

Risk policies specify minimum credit scores for all payment and settlement intermediaries and that these are monitored continually, with a full counterparty credit review conducted annually and a full due diligence exercise

carried out at least every two years. The counterparty credit scores are derived from the framework described under credit risk above.

Custody risk

Risk description

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

Risk management approach

Although the risk of insolvency of central securities depositories or custodian banks used by the Company is low the Company mitigates this risk through a due diligence framework which ensures that appropriate legal arrangements and operational processes are in place. In addition, policy sets minimum eligibility requirements, and requires regular credit assessment and back-up contingency arrangements to be in place.

Capital risk

Risk description

Capital risk is the risk that the Company may not maintain sufficient capital to meet its obligations. This includes the risks that regulators may increase capital requirements or that own capital levels may become eroded. Capital is specifically allocated, and therefore at risk ahead of clearing member resources, in the event of either a clearing member or investment counterparty default. In addition, capital may be at risk to operational losses in excess of insurance protection.

Risk management approach

The Company's approach to capital management and a review of the current regulatory requirements are detailed in note 22. In addition:

- the default waterfalls for each clearing service feature the Company's own capital, to be utilised after the defaulted clearing member's collateral and default fund contributions and before the balance of the mutualised default funds and further, non-prefunded, resources available from the clearing members. In aggregate this capital at risk is equivalent to 25% of regulatory capital requirement for the Company
- the non-default loss provision for the Company (as detailed on page 28) limits the amount of capital at risk to the investment default/loss of a banking institution or the issuer of a debt instrument to €15 million for this entity
- the Company can manage its capital structure by varying returns to shareholders, issuing new shares or increasing or reducing borrowings

Pension risk

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

The pension scheme is UK-based and 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 the Company to make good any shortfall over a period of time. Details of the pension scheme and assumptions used in valuing their assets and liabilities are included in note 18.

Operational risk

Risk description

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.

Risk management approach

The Company 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 the 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 Company's senior management and Audit Committee. 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 Company'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 Committee and senior management. Any significant weaknesses are reported to the Board.

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

Other risks

Legal, compliance and regulatory risk

These risk categories include the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise negatively affect the operations or condition of the organisation, and the risk of loss of license or other penalties imposed due to non-compliance with regulations governing clearing house activities in each jurisdiction in which the Company operates.

It is the responsibility of the Heads of the Legal, Regulatory and Compliance functions to provide assurance to the Board that these risks are measured and monitored, while the responsibility for any mitigation actions resides with the relevant business and functional heads.

In the normal course of business, the Company receives legal claims in respect of commercial, employment and other matters. Where a claim is more likely than not to result in an economic outflow of benefits from the Company (and is measureable), a provision is made representing the expected cost of settling such claims.

Reputational risk

The maintenance of the Company'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 Company are paramount to its reputation.

Business and strategic risks

Business risk is the risk of loss or of profit decrease where declining volumes lead to lower revenues which cannot be offset by adjusting variable costs within a reasonable time period, while strategic risk is the risk of reduction in earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Business heads are responsible for managing these risks and liaising closely with the Board when issues arise.

Project risk and business continuity, information security and cyber risks

These risk categories include the risk to earnings and capital arising from project execution deficiencies, the risk of loss arising from the disruption of critical business or IT processes due to adverse circumstances or events, and the risk that valuable and sensitive LCH.Clearnet data is compromised, lost or misused. The Heads of dedicated business functions and of each business are responsible for managing these risks.

Model risk

This is the risk that, for example, a margin model may not capture the essence of the stress loss/events being modelled, or that there are mistakes in the underlying calculation, which may result in systemic under-margining for the products in question. Model risk management is the responsibility of the heads of business lines which place reliance on the models, and is effected through appropriate testing and maintenance of the models and in particular through the strict governance required for model change, including independent expert validation and senior executive approval.

Default management risk

The additional risk arising from not having a well defined process in place prior to a default event, so that valuable time may be lost trying to reconcile positions, contacting the relevant people, etc, leading to a material deterioration in the market value of assets held.

For each service, it is the joint responsibility of the Chief Risk Officer and the relevant business head to ensure that a functioning Default Management Company is in place in accordance with group policies and guidelines, and that drills are held regularly to ensure the default management process functions smoothly.

3. Exchange rates

The most significant exchange rates for the Company are as follows:

	2015 Closing rate	**2015 Average rate**	2014 Closing rate	2014 Average rate
Euro (€) to US dollar ($)	**1.09**	**1.11**	1.21	1.33
Euro (€) to pound sterling (£)	**0.74**	**0.73**	0.78	0.81

4. Operating expenses

The following items are included in operating expenses (total operating expenses includes non-recurring items; a full analysis is given in note 5):

	2015 €'m	2014 (restated) €'m
Employee costs (note 18)	**107.7**	107.1
Depreciation and amortisation (see below)	**21.4**	20.3
Other operating expenses	**111.0**	103.4
Operating expenses	**240.1**	230.8
Depreciation and amortisation		
Depreciation of property, plant and equipment	**4.2**	4.0
Amortisation of intangible assets	**17.2**	16.3
	21.4	20.3
Other operating expenditure includes:		
Property lease rentals	**4.7**	4.5
Foreign exchange gains	**(2.0)**	(1.8)
Auditor's remuneration		
Audit fees	**0.3**	0.2

5. Non-recurring items

	2015 €'m	2014 €'m
Synergy plan gains/(costs)	**0.2**	(5.6)
Total non-recurring items	**0.2**	(5.6)
Tax effect of non-recurring items	**-**	1.2
Net non-recurring items	**0.2**	(4.4)

6. Finance income and expense

	2015 €'m	2014 €'m
Dividends received	**3.6**	-
Net finance income on pension assets	**0.9**	0.9
Finance income	**4.5**	0.9
Interest paid on finance leases	**(0.1)**	(0.1)
Net finance income	**4.4**	0.8

7. Taxation

The major components of taxation expense are:

	2015 €'m	2014 €'m
Current tax		
United Kingdom current tax charge	**(16.5)**	(19.4)
Adjustments in respect of current tax in previous years	**(2.3)**	2.8
Overseas current tax charge	**(0.7)**	-
Adjustments in respect of current taxation in previous years	**(0.1)**	-
Total current tax	**(19.6)**	(16.6)
Deferred tax		
Deferred tax relating to the origination and reversal of temporary differences	**(1.2)**	(2.0)
Deferred tax effect of future rate changes	**2.6**	0.1
Adjustment in respect of deferred tax in previous years	**(0.7)**	(0.4)
Deferred tax	**0.7**	(2.3)
Tax expense reported in the income statement	**(18.9)**	(18.9)
Statement of comprehensive income		
Deferred tax relating to remeasurement gains on UK defined benefit pension plan	**(4.1)**	-
Tax relating to revaluation of available for sale assets	**0.4**	-
Tax expense reported in the statement of comprehensive income	**(3.7)**	-
Statement of changes in equity		
Tax allowance on share awards in excess of expense recognised	**0.5**	-
Tax expense reported directly in equity	**0.5**	-

Reconciliation of tax expense

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

	2015 €'m	2014 €'m
Accounting profit before taxation	**83.7**	92.1
Tax at UK statutory corporation tax rate of 20.25% (2014: 21.5%)	**(16.9)**	(19.8)
Effect of:		
Disallowed expenses and non-taxable income	**(0.7)**	(0.1)
Adjustments in respect of prior periods	**0.2**	2.3
Re-measurement of deferred tax – change in corporation tax rate	**(0.7)**	0.1
Higher rate of tax on overseas earnings	**(0.4)**	(0.4)
Higher rate of tax on pension surplus	**(0.1)**	(0.2)
Foreign exchange adjustment	**(0.3)**	(0.8)
Total tax charge	**(18.9)**	(18.9)
Effective corporate tax rate	**22.6%**	20.5%

The UK Finance Bill 2015 was enacted in November 2015 reducing the standard rate of corporation tax from 20% to 19% effective from 1 April 2017 and 18% effective from 1 April 2020. Accordingly the UK deferred tax balances at December 2015 have been stated at 20%, 19% or 18% dependent on when the timing differences are expected to reverse.

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

Deferred tax

	Statement of financial position		Income statement	
	2015 €'m	2014 €'m	2015 €'m	2014 €'m
Post-employment benefits	**(11.9)**	(7.3)	**0.6**	0.3
Reduced depreciation for tax purposes	**5.4**	5.2	**(0.3)**	0.9
Deferred compensation	**0.9**	1.0	**(0.3)**	1.1
Share based payments	**1.6**	-	**(0.7)**	-
Deferred tax charge			**(0.7)**	2.3
Deferred tax liability	**(4.0)**	(1.1)		

	2015 €'m	2014 €'m
Net deferred tax (liability)/asset at 1 January	**(1.1)**	1.2
Deferred tax in income statement	**0.7**	(2.3)
Deferred tax relating to share based payments	**0.5**	-
Deferred tax relating to remeasurement losses on UK defined benefit pension plan	**(4.1)**	-
Net deferred tax liability at 31 December	**(4.0)**	(1.1)

8. Intangible assets

	2015			2014		
	Self-developed software €'m	**Other €'m**	**Total €'m**	Self-developed software €'m	Other €'m	Total €'m
Cost						
At 1 January	**141.5**	-	**141.5**	69.9	4.6	74.5
De-recognition	-	-	-	4.6	(4.6)	-
Additions	**47.4**	-	**47.4**	67.0	-	67.0
At 31 December	**188.9**	-	**188.9**	141.5	-	141.5
Accumulated amortisation						
At 1 January	**71.0**	-	**71.0**	54.7	0.5	55.2
Amortisation charge for the year	**17.2**	-	**17.2**	16.3	-	16.3
De-recognition	-	-	-	-	(0.5)	(0.5)
At 31 December	**88.2**	-	**88.2**	71.0	-	71.0
Net book value at 31 December	**100.7**	-	**100.7**	70.5	-	70.5

The portion of capitalised self-developed software costs disclosed above that relates to software not currently brought into use amounted to €38.2 million (2014: €8.6 million). No amortisation has been charged during the year against these assets (2014: €nil), but instead they are tested for impairment (see note 9).

9. Impairment testing of intangible assets

The Company carries out annual impairment testing on software not currently brought into use in December of each year, or more often if circumstances show that an impairment may be likely.

For intangible assets, impairment is assessed by reviewing the carrying value of the asset against its recoverable amount, which is determined by value in use calculations for the relevant cash generating unit using discounted cash flow projections.

Assumptions

The key assumptions used in the valuations relate to discounted cash flow projections prepared by management covering a five year period. The cash flow projections are based on the Company's budget for 2016 and the approved plan for the two financial years following the last financial year in the budget. Cash flows beyond this period are extrapolated using the estimated long term growth rates and applying the pre-tax discount rates.

Management has based its value in use calculations for each CGU on key assumptions about short and medium term revenue and cost growth, long term economic growth rates (used to determine terminal values) and pre-tax discount rates, as follows:

i) The values assigned to short and medium term revenue and cost growth are based on the 2016 budget and the Group approved plan. The assumptions are derived from an assessment of current trends, anticipated market and regulatory developments, discussions with customers and suppliers and management's experience. These factors are considered in conjunction with the Company's long-term strategic objectives to determine appropriate short and medium growth assumptions
ii) Long term growth rates of 2% (2014: 2%) represent management's internal forecasts based on external estimates of GDP and inflation
iii) The pre-tax discount rate of 10.5% (2014: 10.1%) is based on a number of factors including the risk-free rate, the Company's estimated market risk premium and a premium to reflect inherent risks

Impairment results

Having completed the tests as described above, self developed software assets were found not to be impaired.

Sensitivity analysis

Reasonably possible changes in key assumptions and rates at 31 December 2015 are detailed below and the impact on the impairment recognised noted:

	Base case	Adjusted	Increase to impairment €'m
Reduction in clearing revenues	various	-10%	-
Pre-tax discount rate	10.5%	13.5%	-

10. Property, plant and equipment

As at 31 December 2015	Leasehold refurbishment €'m	Computer equipment €'m	Office equipment €'m	Total €'m
Cost				
At 1 January	9.1	32.1	3.9	45.1
Additions	0.3	9.2	-	9.5
Disposals	-	-	-	-
At 31 December	9.4	41.3	3.9	54.6
Accumulated depreciation				
At 1 January	3.0	28.8	3.9	35.7
Depreciation charge for the year	0.9	3.3	-	4.2
Disposals	-	-	-	-
At 31 December	3.9	32.1	3.9	39.9
Net book value at 31 December	5.5	9.2	-	14.7

As at 31 December 2014	Leasehold refurbishment €'m	Computer equipment €'m	Office equipment €'m	Total €'m
Cost				
At 1 January	9.3	29.4	3.9	42.6
Additions	-	2.7	-	2.7
Disposals	(0.2)	-	-	(0.2)
At 31 December	9.1	32.1	3.9	45.1
Accumulated depreciation				
At 1 January	2.3	25.8	3.8	31.9
Depreciation charge for the year	0.9	3.0	0.1	4.0
Disposals	(0.2)	-	-	(0.2)
At 31 December	3.0	28.8	3.9	35.7
Net book value at 31 December	6.1	3.3	-	9.4

Assets with a net book value of €nil million (2014: €0.3 million) are held under finance leases and included within office equipment.

11. Investment in subsidiaries

	2015 €'m	2014 €'m
Cost at 1 January & 31 December	**20.3**	20.3

The Company owns 51% of LCH.Clearnet (Luxembourg) S.a.r.l., a company that holds intellectual property rights.

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by section 400 of the Companies Act 2006 as its parent company, LCH.Clearnet Group Limited, prepares consolidated financial statements which are publicly available.

The Company also owns the following dormant companies that are not material.

Company name	Principal activity	Country of incorporation
BondClear Limited	Dormant	England and Wales
SwapClear Limited	Dormant	England and Wales
LCH Pensions Limited	Trustee company	England and Wales
RepoClear Limited	Dormant	England and Wales
Bondnet Limited	Dormant	England and Wales
EquityClear Limited	Dormant	England and Wales
The London Clearing House Limited	Dormant	England and Wales
RepoNet Limited	Dormant	England and Wales
ForexClear Limited	Dormant	England and Wales
International Commodities Clearing House Limited	Dormant	England and Wales
The London Produce Clearing House Limited	Dormant	England and Wales

In addition, the Company also has representative offices in the USA and Australia and a branch in Japan.

12. Balances with clearing members

	2015 €'m	2014 €'m
Assets		
Fair value of transactions with clearing members	**120,374.4**	145,932.4
Other clearing member balances	**359.5**	23.9
	120,733.9	145,956.3
Liabilities		
Fair value of transactions with clearing members	**(120,374.4)**	(145,932.4)
Initial margin and other clearing member balances	**(37,523.4)**	(29,311.7)
	(157,897.8)	(175,244.1)

The balances due from clearing members recorded in the statement of financial position of €120,374.4 million (2014: €145,932.4 million) are fully secured by collateral held by the Company.

At 31 December 2015 the total of fully collateralised loans in respect of fixed income transactions was €151,714.4 million (2014: €144,335.1 million). This collateral has in turn, been passed on to fixed income counterparties to secure the Company's liabilities in respect of fixed income contracts.

The total net amount of non-cash collateral not recognised on the balance sheet, including that in respect of initial margin, at 31 December 2015 was €47,886.1 million (2014: €28,842.1 million).

13. Trade and other receivables

	2015 €'m	2014 €'m
Non-current		
Other receivables	**0.8**	-
Current		
Trade receivables	**26.7**	25.8
Other receivables	**39.8**	34.7
Provision for doubtful debts	**(0.4)**	(1.3)
Prepayments	**8.8**	5.9
Amount owed by parent companies	**3.7**	1.5
Amount owed by fellow subsidiary companies	**6.2**	5.1
	84.8	71.7

A doubtful debt provision was brought forward in respect of €1.3 million due from one customer. This was fully utilised during the year and new provisions of €0.4 million were established in relation to specific uncertain accounts during 2015. Included within other receivables is €7.0 million (recognised in the current year) in relation to a change in accounting estimates of balances due from prior years.

14. Cash and cash equivalents

	2015 €'m	2014 €'m
Cash at bank and in hand	**3,162.2**	207.8
Short-term deposits	**25,425.7**	21,699.9
	28,587.9	21,907.7

The short-term deposits are collateralised by sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Risk Committee.

Of the cash and cash equivalents total, €575.4 million (2014: €561.9 million) is regarded as own cash. €71.0 million (2014: €64.0 million) of this amount is restricted as the Company's own resources to be used in the default waterfall. This is allocated by default fund on a pro rata basis as follows at 31 December 2015: SwapClear €47.3 million, ForexClear €4.3 million, RepoClear €15.8 million, Commodities €0.2 million, Equities €2.7 million and Listed Derivatives €0.7 million.

The remaining cash represents the balance of default funds and margin monies placed on deposit for the purpose of earning treasury income.

15. Trade and other payables

	2015 €'m	2014 €'m
Non-current		
Other payables	**18.9**	28.4
Current		
Trade payables	**6.8**	7.8
Other taxation and social security	**6.2**	-
Accruals	**49.1**	64.9
Amount owed to parent companies	**2.4**	2.6
Amount owed to fellow subsidiary companies	**2.7**	2.7
Amount owed to subsidiary company	**15.3**	9.8
Deferred income	**2.8**	1.2
Margin on reverse repurchase investments	**71.5**	-
Other payables	**39.5**	18.9
	196.3	107.9

Other payables (current and non-current) include liabilities of €28.4 million (2014: €37.8 million) that were created on the recognition of intangible assets as a result of the renegotiated operating agreements in respect of SwapClear and ForexClear. These liabilities are being recognised in the income statement on a systematic basis over the useful life of the assets recognised.

16. Interest bearing loans and borrowings

	2015 €'m	2014 €'m
Current		
Finance leases	**0.4**	0.4
Bank overdrafts	-	-
	0.4	0.4
Non-current		
Finance leases	-	0.4
	-	0.4

Bank overdrafts

In order to assist with day to day liquidity management the Company 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.

17. Default funds

The purpose of the default funds is to absorb any losses incurred by the Company in the event of clearing member default if margin collateral is insufficient to cover the management and close out of the positions of the defaulting clearing member. Default funds are segregated to cover the different business lines of the Company. The total default funds held by the Company at 31 December 2015 were €5,232.2 million (2014: €6,402.1 million).

18. Employee benefits

i) Staff costs

All employees and directors	2015 €'m	2014 €'m
Wages and salaries	**83.5**	82.0
Social security costs	**10.4**	10.1
Share-based payment costs	**5.1**	1.9
Pension costs	**8.9**	8.3
Staff costs before non-recurring items	**107.9**	102.3
Staff costs included in non-recurring items (note 5)	**(0.2)**	4.8
Total staff costs	**107.7**	107.1
Average monthly number of staff employed	**523**	549

Key management personnel	**2015 €'m**	2014 €'m
Remuneration	**4.7**	4.6
Deferred bonus and other long-term benefits	**1.5**	2.5
Share-based payment costs	**1.7**	0.4
Pension contributions	**0.3**	0.2
Compensation for loss of office	**1.1**	-
Aggregate emoluments of key management personnel	**9.3**	7.7

The costs above include deferred bonuses, other long-term incentive plan (LTIP) awards and share-based payment costs on an accrued basis. Key management personnel consists of the executive directors and certain senior staff who are regarded as running the business on a day to day basis.

Directors' remuneration	**2015 €'m**	2014 €'m
Remuneration	**3.6**	2.9
Total directors' remuneration	**3.6**	2.9

Remuneration of directors who are also directors of other LCH.Clearnet Group companies is charged by way of a management charge from LCH.Clearnet Group Limited and is included above.

The costs above include deferred bonuses, other long-term incentive plan (LTIP) awards and share-based payment costs when they vest or become payable.

The highest paid director received total remuneration of €1,266,854 (2014: €939,671) in the year.

One director is a deferred member of the Company's defined benefit pension scheme. Contributions of €62,587 have been made on behalf of two directors to the defined contribution scheme.

Three (2014: three) directors, including the highest paid director, participate in the share-based award schemes detailed below.

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.

ii) Share-based payments

Company employees were eligible to participate in one or more of the following London Stock Exchange Group share option based arrangements during the financial year:

i. The London Stock Exchange Group Long Term Incentive Plan 2014 (LSEG LTIP)
ii. The LCH.Clearnet Group Long Term Incentive Plan (LCH LTIP)
iii. The LSEG SAYE Option Scheme and LSEG International Sharesave Plan (SAYE)
iv. The LSEG Restricted Share Award Plan 2008 and LCH.C Companies' Retention Plan 2014 (Restricted Plans)

The **LSEG LTIP** has two elements, an award of Performance Shares and a conditional award of Matching Shares, which is linked to a co-investment being made by the executive. Awards are made in the form of nil-cost options. Under the Matching Shares arrangement, selected executives may invest up to the value of 50% of their net-of-tax base salary in LSEG shares (Invested Value). The Invested Value is then matched 2:1 on a pre-tax basis (up to a maximum Matching Share award of 100% of pre-tax base salary).

Vesting of the LSEG LTIP awards is dependent upon LSEG's total shareholder return (TSR) performance and adjusted basic earnings per share growth (EPS) (50% on each) over a three year period. The following targets applied to options granted in 2014 and 2015:

EPS element (50%): Average growth over 3 years	TSR element (50%): Absolute growth over 3 years	Proportion of element that vests
More than 12% p.a.	More than 16% p.a.	100%
6% p.a.	8% p.a.	25%*
Less than 6% p.a.	Less than 8% p.a.	0%

* Straight line pro-rating applies between this trigger and 100% vesting.

The **LCH LTIP** also has two elements, an award of Performance Shares and a conditional award of Matching Shares, which is linked to a co-investment being made by the executive. The Matching Shares element only applies to selected senior management. The Performance Shares are available to a wider group of executives. Awards are made in the form of nil-cost options. Under the Matching Shares arrangement, selected executives may invest up to the value of 50% of their net-of-tax base salary in LSEG shares (Invested Value). The Invested Value is then matched with a performance related Matching Share award, matched 2:1 on a pre-tax basis (up to a maximum Matching Share award of 100% of pre-tax base salary).

Vesting of the LCH LTIP award is initially dependent upon the achievement of a risk management gateway. If this is achieved, the degree of vesting of the award is assessed against three conditions, measured independently over three years:

1) **Regulatory metric**: a qualitative assessment of LCH.Clearnet Group performance on regulatory matters (comprising up to 34% of the award)
2) **Cost metric:** a quantitative assessment of qualifying cost savings during the performance period (comprising up to 33% of the award)
3) **EBIT metric:** a quantitative assessment of LCH.Clearnet Group earnings before interest and tax (EBIT) performance at the end of the performance period (comprising up to 33% of the award)

For Internal Audit, Risk and Compliance participants, the Cost and EBIT metrics do not apply. Assuming the risk management gateway is achieved, the vesting of the award is assessed against the Regulatory metric only.

The risk management gateway will be assessed by the LCH.Clearnet Group Remuneration Committee ('Committee') who will assess if the LCH.Clearnet Group has managed its risk effectively over the three year period. The award lapses in full if any of the LCH.Clearnet Group CCPs suffers an aggregate loss of more than €12 million (Higher Level Losses). Equally, if, during the performance period any of the LCH.Clearnet Group CCPs suffers losses below this level or circumstances arise in the reasonable opinion of the Committee that have or could have resulted in a significant adverse event which did or could have materially damaged future business operations, the Committee shall determine whether management could or should have taken action to prevent such circumstances and may lapse the award accordingly.

The Regulatory metric shall vest at 100% if it is determined that LCH.Clearnet Group management actions in relation to regulatory matters were wholly effective during the performance period. If it is determined that management actions in relation to regulatory matters were not wholly effective during the performance period, then the Remuneration Committee shall determine a lesser level of vesting as it deems appropriate.

In order for the portion of the Performance Share or Matching Share Award subject to the Cost metric to vest, the Committee, must determine the amount of cumulative net consolidated cost savings of London Stock Exchange Group achieved over the performance period by reference to specified cost saving projections and adjustments set out in the rules of the Plan.

The Cost and EBIT metrics shall vest as follows:

Cost metric: amount of qualifying cost savings determined to have been achieved	EBIT metric: EBIT level	Percentage of shares that vest
2014 award:		
€100 million or more	€120 million or more	100%
€75 million	€106 million	62.5%
€50 million	€92 million	25%
Below €50 million	Below €92 million	0%
2015 award:		
€50 million or more	€152 million or more	100%
€40 million	€138 million	62.5%
€30 million	€124 million	25%
Below €30 million	Below €124 million	0%

Straight line vesting applies between the relevant percentages listed above in respect of the Cost and EBIT metrics.

At the end of the performance period, the Committee shall calculate LCH Group EBIT for the last financial year in the performance period, as approved by the LCH.Clearnet Group Limited Audit Committee. EBIT means earnings before interest, tax and non-recurring items, as reported in the consolidated accounts for LCH.Clearnet Group Limited, subject to such adjustments as the Remuneration Committee considers necessary to take account of matters that it considers to be appropriate.

If circumstances occur, which, in the reasonable opinion of the Committee, justify a reduction to awards granted the Committee may at its discretion reduce an award or not grant future awards. In the event that an award has already vested, the Committee may determine that a repayment is made. The circumstances and timeframe in which the Committee may consider it appropriate to exercise such discretions are covered in the Plan Rules.

The **SAYE schemes** provide for grants of options to employees who enter into a SAYE savings contract; options are granted at 20% below fair market value. The scheme is available to employees based in the UK and US (and approved by HMRC in the UK). The options vest in full after three years, providing the employee remains employed by the LCH Group or the wider LSEG group of companies.

The **Restricted Plans** allow for grants to be made in the form of conditional awards over ordinary shares of LSEG, in the form of nil-cost options to certain executives. The vesting of such awards granted to date under the plans are conditional upon tenure and furthermore, in the case of the LCH.C Companies' Retention Plan 2014 (Retention Plan), upon successful achievement of a risk management gateway. No grants have been made under the Retention Plan in the year.

Movements in the number of share options and awards outstanding and their weighted average exercise price are as follows:

	LSEG LTIP	LCH LTIP	SAYE schemes		Restricted Plans
	Number	Number	Number	Weighted average exercise price (£)	Number
1 January 2014	-	-	-	-	-
Granted in year	123,555	248,721	202,056	12.69	72,271
Exercised in year	-	-	-	-	-
Lapsed/forfeited in year	-	-	(22,527)	12.15	-
31 December 2014	**123,555**	**248,721**	**179,529**	**12.76**	**72,271**
Granted in year	48,820	299,829	35,429	20.42	18,751
Exercised in year	-	-	-		(27,050)
Lapsed/forfeited in year	-	(12,796)	(9,867)	13.06	-
31 December 2015	**172,375**	**535,754**	**205,091**	**14.07**	**63,972**

None of the options were exercisable as at 31 December 2015 (2014: none). The weighted average exercise price is nil for all other schemes except the SAYE. The weighted average share price of LSEG plc shares during the year was £24.89 (2014: £19.56).

The range of exercise prices and weighted average remaining contractual life of awards and options outstanding are as follows:

As at 31 December 2015	Number outstanding	Weighted average remaining contractual life Years
LSEG LTIP - nil	172,375	1.57
LCH LTIP - nil	535,754	2.02
SAYE - over £11.00	205,091	1.51
Restricted Plans - nil	63,972	0.44
Total	**977,192**	**1.73**

The fair value of share options granted during the year was determined using a stochastic valuation model. The key assumptions used in the valuation were as follows:

	LSEG LTIP		LCH LTIP	
	Performance shares	Performance shares	Performance shares*	Matching shares*
Grant date	2/4/15	10/4/15	2/4/15	10/4/15
Grant date share price	£24.84	£25.85	£24.84	£25.85
Options granted	16,857	31,963	250,276	49,553
Expected life (years)	3.00	3.00	3.00	3.00
Dividend yield	1.4%	1.4%	1.4%	1.4%
Risk-free interest rate	0.7%	0.7%	0.7%	0.7%
Volatility	23%	23%	23%	23%
Fair value TSR	£7.00	£7.23	n/a	n/a
Fair value EPS	£23.81	£24.78	n/a	n/a
Fair value non-market conditions	n/a	n/a	£23.81	£24.78

*Includes 31,105 performance shares and 10,975 matching shares that were granted on 15 October 2015 with a market price of £24.75 and a fair value of £23.94 with an expected dividend yield of 1.1%. All other data is the same.

	2015 SAYE	Restricted Plans
Grant date	5/5/2015	15/10/2015
Grant date share price	£24.77	£24.75
Options granted	35,429	18,751
Expected life (years)	3.15	0.5 – 2.0
Exercise price	£20.42	-
Dividend yield	0.9%	1.1%
Risk-free interest rate	1.0%	0.4% - 0.6%
Volatility	23%	23%
Fair value	£6.09	£23.95 - £24.63

The volatility is based on a statistical analysis of LSEG's weekly share price since its flotation in July 2001.

The fair value for LSEG LTIP performance and matching shares granted during the year is based on a total shareholder return (TSR) pricing model which takes into account the TSR vesting conditions. All other fair values of options granted are based on a Black-Scholes model. Holders of share awards and share options are not entitled to receive dividends declared during the vesting period.

iii) Pension commitments

Defined contribution scheme

The Company 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 Company in a fund under the control of the trustees. The total expense charged to the income statement of €7.4 million (2014: €7.4 million) represents contributions payable to the plan by the Company at rates specified in the rules of the plan.

Defined benefit scheme

The Company operated a defined benefit pension scheme for its employees in the UK (the defined benefit section of the LCH Pension Scheme), which was closed to new members from 30 September 2009 and closed to further employee contributions on 31 March 2013.

The valuations of the scheme conducted for financial reporting purposes are based on the triennial actuarial valuation as at 30 June 2013. A summary of the principal assumptions used is detailed below. The Company is not aware of any events subsequent to 31 December 2015, which would have a material impact on the results of the valuation. There was no impact of the asset ceiling test.

	2015	2014
Weighted average assumptions to determine benefit obligations:		
Discount rate	**4.0%**	3.7%
Rate of salary increase	**n/a**	n/a
Rate of price inflation	**3.2%**	3.1%
Rate of pension increases	**2.2%**	2.2%
Life expectancy from age 60 (years):		
Non-retired male member	**30.5**	30.4
Non-retired female member	**32.9**	32.8
Retired male member	**28.3**	28.1
Retired female member	**30.5**	30.4

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. Scheme assets are stated at their market value at the respective statement of financial position dates.

Changes in benefit obligation

	2015	2014
	€'m	€'m
Benefit obligation as at 1 January	**238.5**	179.2
Pension expense:		
Current service cost	**-**	-
Past service gain	**0.1**	-
Net interest	**9.4**	8.5
Re-measurement (losses)/gains:		
Effect of changes in demographic assumptions	**-**	(4.0)
Effect of changes in financial assumptions	**(21.5)**	42.6
Effect of experience adjustments	**-**	-
Benefits paid	**(3.8)**	(2.8)
Foreign exchange	**13.3**	15.0
Benefit obligation as at 31 December	**236.0**	238.5

Changes in scheme assets

	2015 €'m	2014 €'m
Fair value of scheme assets as at 1 January	**259.2**	198.5
Pension income:		
Net interest	**10.2**	9.1
Re-measurement gains:		
Return on plan assets (excluding interest income)	**(9.8)**	37.5
Employer contributions	**0.1**	0.6
Benefits paid	**(3.8)**	(2.8)
Administrative expenses	**-**	(0.3)
Foreign exchange	**14.3**	16.6
Fair value of scheme assets as at 31 December	**270.2**	259.2

An analysis of the pension assets is set out below:

	2015 €'m	2014 €'m
Fair value of scheme assets with a quoted market price:		
Cash and cash equivalents	**3.9**	9.1
Equity instruments	**127.0**	118.4
Debt / LDI instruments	**139.3**	131.7
Total	**270.2**	259.2

Sensitivity analysis

The sensitivity of the value of the benefit obligation to the discount rate is shown below:

		2015 €'m	2014 €'m
Discount rate	- 25 basis points	**221.1**	223.4
Discount rate	+ 25 basis points	**252.0**	254.9

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

Payment from the defined benefit obligation

The following payments are expected to be made in future years out of the defined benefit plan obligation:

	2015 €'m
Within the next 12 months	**3.9**
Between 2 and 5 years	**16.7**
Following 5 years	**24.1**
Total	**44.7**

Contributions

During 2015, contributions of €0.1 million (2014: €0.6 million) were made to the defined benefit pension plan. A contingent commitment in respect of the scheme has been made to make contributions up to £2.5 million in the event of an agreed level of deficit at 30 June 2016; based on the latest valuation details, this contribution is expected to become payable.

The Company does not expect to make any other contributions to its defined benefit pension plan in 2016.

19. Financial instruments

Financial assets and liabilities

	Note	**2015 €'m**	2014 €'m
Financial assets at fair value through profit or loss			
Fair value of transactions with clearing members	12	**120,374.4**	145,932.4
Treasury bills		**9,764.3**	8,785.1
Available for sale assets			
Government issued bonds		**4,658.4**	5,539.3
Other financial assets in the statement of financial position		**14,422.7**	14,324.4
Loans and receivables			
Trade and other receivables	13	**58.9**	65.8
Other clearing member balances	12	**359.5**	23.9
Cash and short-term deposits	14	**28,587.9**	21,907.7
Financial liabilities at fair value through profit or loss			
Fair value of transactions with clearing members	12	**(120,374.4)**	(145,932.4)
Financial liabilities at amortised cost			
Trade and other payables	15	**(180.6)**	(98.4)
Initial margin and other clearing member balances	12	**(37,523.4)**	(29,311.7)
Default funds	17	**(5,232.2)**	(6,402.1)
Interest bearing loans and borrowings	16	**(0.4)**	(0.8)

Prepayments and other taxes within trade and other receivables are not classified as financial assets. Other taxes and the liability in respect of the renegotiated operating agreements within trade and other payables are not classified as financial liabilities.

For assets not marked to market there is no material difference between the carrying value and fair value.

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

Fair value hierarchy

The Company 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 Company has no financial instruments in this category

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

	2015			2014		
	Level 1 €'m	**Level 2 €'m**	**Total €'m**	Level 1 €'m	Level 2 €'m	Total €'m
Assets measured at fair value						
Fair value of transactions with clearing members	**6.9**	**120,367.5**	**120,374.4**	7.4	145,925.0	145,932.4
Government issued bonds at fair value through the profit or loss	**9,764.3**	**-**	**9,764.3**	8,785.1	-	8,785.1
Government issued bonds available for sale	**4,658.4**	**-**	**4,658.4**	5,539.3	-	5,539.3
Liabilities measured at fair value						
Fair value of transactions with clearing members	**(6.9)**	**(120,367.5)**	**(120,374.4)**	(7.4)	(145,925.0)	(145,932.4)

For assets and liabilities classified as level 1, the fair value is based on market price quotations at the reporting date.

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

Income statement

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

	2015 €'m	2014 €'m
Treasury income on assets held at fair value through the income statement	**8.8**	12.8
Treasury income on other financial assets	**53.9**	45.6
Treasury income on liabilities held at amortised cost	**51.3**	25.9
Net fair value gain on revaluation of other financial assets held at fair value included in net interest income	**1.6**	0.4
Treasury income	**115.6**	84.8
Treasury expense on assets held at fair value through the income statement	**(8.7)**	-
Treasury expense on other financial assets	**(14.5)**	(1.0)
Treasury expense on liabilities held at amortised cost	**(38.1)**	(25.1)
Treasury expense	**(61.3)**	(26.1)
Net treasury income	**54.3**	58.7
Net finance income on pension fund assets	**0.9**	0.9
Finance expense on liabilities held at amortised cost	**(0.1)**	(0.1)
Net finance income from financial instruments	**0.8**	0.8

Treasury income on liabilities held at amortised cost represents amounts earned from clearing members' cash collateral deposits which attract negative interest rates. Treasury expense on assets held at amortised cost represents amounts where the Company incurs negative interest on its cash deposits.

Offsetting financial assets and financial liabilities

The Company reports financial assets and financial liabilities on a net basis on the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangements on all financial assets and liabilities that are reported net on the balance sheet.

As at 31 December 2015	**Gross amounts €m**	**Amount offset €m**	**Net amount as reported €m**
Derivative financial assets	**2,197,819**	**(2,194,955)**	**2,864**
Reverse repurchase agreements	**313,775**	**(196,265)**	**117,510**
Other	-	-	-
Total assets	**2,511,594**	**(2,391,220)**	**120,374**
Derivative financial liabilities	**(2,189,981)**	**2,187,117**	**(2,864)**
Reverse repurchase agreements	**(313,775)**	**196,265**	**(117,510)**
Other	-	-	-
Total liabilities	**(2,503,756)**	**2,383,382**	**(120,374)**

As at 31 December 2014	Gross amounts €m	Amount offset €m	Net amount as reported €m
Derivative financial assets	4,082,598*	(4,081,001)*	1,597
Reverse repurchase agreements	344,391*	(200,056)*	144,335
Other	-	-	-
Total assets	4,426,989*	(4,281,057)*	145,932
Derivative financial liabilities	(4,082,598)*	4,081,001*	(1,597)
Reverse repurchase agreements	(344,391)*	200,056*	(144,335)
Other	-	-	-
Total liabilities	(4,426,989)*	4,281,057*	(145,932)

* 2014 comparatives have been revised to correct disclosures made in the financial statements for the year ended 31 December 2014. This revision has no impact on the net amount reported in the statement of financial position or amounts reported in the statement of income, cash flow statement and any other disclosures in the financial statements.

As a CCP, the Company sits in the middle of clearing members' transactions and holds default funds and margin amounts as a contingency against the default of a clearing member. As such, further amounts are available to offset in the event of a default reducing the asset and liability of €120,374 million (2014: €145,932 million) to nil. Default funds for derivatives of €3,801.3 million (2014: €4,975.9 million), repurchase agreements of €1,163.2 million (2014: €1,024.9 million) and other transactions of €267.7 million (2014: €401.3 million) are held by the Company. In addition, the Company holds initial margin of €66,923.9 million (2014: €43,432.9 million) for derivatives, €10,097.4 million (2014: €9,898.5 million) for repurchase agreements and €1,429.0 million (2014: €899.6 million) for other transactions, as well as additional variation margin amounts which are not allocated by business line.

Included within member assets and liabilities are €376.6 million (2014: nil) and €112.8 million (2014: nil) respectively in relation to contracts where changes in net present value have settled to market (available for members to opt in with effect from December 2015).

20. Commitments and contingencies

Operating leases

At 31 December 2015 the Company had annual commitments under non-cancellable operating leases. The total future minimum lease payments due are as follows:

Property	2015 €'m	2014 €'m
Within one year	3.8	4.4
More than one year, but less than five	14.8	14.0
More than five years	17.8	23.0
	36.4	41.4

The main London office lease expires in 2026. The main New York office lease expires in 2023.

Finance leases

The Company has finance leases for various items of office equipment.

	2015		2014	
	Minimum payments €'m	Present value of payments €'m	Minimum payments €'m	Present value of payments €'m
Within one year	0.5	0.4	0.4	0.4
In one to five years	-	-	0.5	0.4
Total minimum lease payments	0.5	0.4	0.9	0.8
Less: future financing charges	(0.1)	-	(0.1)	-
	0.4	0.4	0.8	0.8

Treasury assets supporting operational facilities

At 31 December 2015, the Company had assets and collateral in support of the following operational facilities:

	2015 €'m	2014 €'m
Central bank activity	3,057.6	579.3
Concentration bank services	353.0	334.8
Fixed Income settlement*	15,157.1	18,873.1
	18,567.7	19,787.2

* The Company holds collateral as security against tri-party cash loans as well as government debt and government backed bank issued debt, which is used to support RepoClear settlement activity.

21. Issued capital and reserves

Share capital

Ordinary shares

The company has 313,036,873 fully paid-up ordinary shares of €1.00 each in issue as at 31 December 2015 (2014: 313,036,873).

No shares were issued in the year. All the Company's shares are owned by LCH.Clearnet Group Limited.

Other reserves

Share premium

No additional share premium has been recognised on the shares issued in the year and the balance of €41.2 million is unchanged in the year.

Capital redemption reserve

The balance of €5.1 million is unchanged during the year and represents the nominal value of ordinary shares that have been repurchased and cancelled.

Distributable reserves

Retained earnings of €283.5 million (2014: €227.0 million) are regarded as distributable under the Companies Act 2006, but may be subject to additional regulatory restrictions (see note 22). Included within retained earnings is a revaluation reserve of negative €1.4 million (2014: negative €0.3 million) in relation to the Company's available for sale assets.

During the year, an interim dividend of €15.0 million (€0.0479 per share) was paid.

On 2 March 2016, the Board of Directors proposed a dividend of €59.0 million (€0.1884 per share), which is scheduled for approval and payment in March 2016.

22. Capital management

The Company's approach to capital management is to maintain a strong capital base that will support the development of the business and meet regulatory capital requirements at all times. This is managed with reference to external capital requirements, including a consideration of future impacts to the Company. Capital plans are included within the Company'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 Company's business.

The Company is considered as a Qualifying Central Counterparty (QCCP) under the European Capital Requirements Regulations (CRR) as it has received authorisation under European Markets Infrastructure Regulations (EMIR). It is also registered as a Derivatives Clearing Organization (DCO) in the USA affording it QCCP status for USA members.

The Company is regulated by the Bank of England as a Recognised Clearing House under the Financial Services and Markets Act 2000 and is subject to capital adequacy rules under the EMIR. It is also regulated by the CFTC as a DCO in the USA, and is licensed by the Swiss Financial Markets Supervisory Authority (FINMA) as a CCP to SIX Swiss Exchange in Switzerland. In Canada it is recognised as a Clearing Agent by the Ontario Securities Commission (OSC) in Ontario, and the AMF in Québec, and in Australia it is recognised as a CCP by the Australian Securities & Investments Commission (ASIC).

The Company has fully complied with its externally imposed capital requirements in the year.

In particular the Company is required to ensure that its EMIR Capital Requirement (required by the Bank of England) is met by both its capital and audited reserves and adjusted liquid financial resources.

The Capital Requirement at the end of 2015 was €306.9 million (2014: €271.6 million) and as at the 31 December 2015 the Company's adjusted liquid financial assets were measured as €504.4 million (2014: €497.9 million) after deduction of the contribution to a clearing member default of €71.0 million (2014: €64.0 million). The Company's adjusted net capital as at 31 December 2015 was €500.3 million (2014: €450.5 million) after deduction of the contribution to a clearing member default. The audited retained earnings for the year of €71.5 million will be included in the adjusted net capital of the Company when the financial statements have been approved for publication.

23. Related party transactions

Key management personnel

Details of key management personnel and their total remuneration are disclosed in note 18.

Ultimate parent company and group companies

London Stock Exchange Group plc (LSEG) is the ultimate parent company of the Company and the largest group that prepares consolidated accounts. LCH.Clearnet Group Limited is the immediate parent company and the smallest group that prepares consolidated accounts.

Copies of the consolidated financial statements for LCH.Clearnet Group Limited for the year ended 31 December 2015 are available from the Company Secretary at the registered office. Copies of the consolidated financial statements for London Stock Exchange Group plc for the year ended 31 December 2015 are available from the Company Secretary, London Stock Exchange Group plc, 10 Paternoster Square, London, EC4M 7LS.

Other group companies

Sales to and purchases from other group companies are at arm's length and at normal market rates. Outstanding balances at the year end are unsecured and are settled in cash. For the year ended 31 December 2015, the Company has not raised any provision for doubtful debts relating to amounts owed by other group companies.

Details of transactions with the Company's parent, subsidiary and fellow subsidiary companies which have passed through the income statement during the year, together with details of outstanding balances, are set out below.

	2015 €m	2014 €m
Transactions with parent companies		
Income statement		
Services recharged to parent companies	**12.1**	19.3
Services recharged from parent companies	**(11.0)**	(17.1)
	1.1	2.2
Statement of financial position		
Amount due from/(to) parent companies at 31 December	**1.3**	(1.1)
Transactions with fellow subsidiaries		
Income statement		
Services recharged to fellow subsidiaries	**15.1**	23.6
Services recharged from fellow subsidiaries	**(16.5)**	(9.3)
	(1.4)	14.3
Statement of financial position		
Amount due from fellow subsidiaries at 31 December	**3.5**	2.4
Transactions with subsidiary company		
Income statement		
Project recharge income (netted with administrative expenses)	**-**	2.9
Royalties and maintenance recharged from subsidiary	**(12.0)**	(23.9)
	(12.0)	(21.0)
Statement of financial position		
Amount due to subsidiary company at 31 December	**(15.3)**	(9.8)