Company number: 692 032 485

LCH.CLEARNET SA

ANNUAL REPORT AND FINANCIAL STATEMENTS UNDER IFRS FOR THE YEAR ENDED 31 DECEMBER 2013

Board of Directors

Type of Director	Name	Note
Chairman	Patrick Combes	Viel et Cie Compagnie Financière Tradition SA Financière Vermeer NV La Compagnie Vendôme SAS SCI Viel Foch SCI Vaullongues Bourse Direct Immoviel SARL Swiss Life Banque Privée Verbalys SA Member of steering committee Europlace Member of International strategic committee of Columbia Business School (New York)
Director	Christophe Hémon	LCH Clearnet (Luxembourg) S.à.r.l. AFTI
Director	Jacques Aigrain	LCH.Clearnet Group Ltd LCH.Clearnet Ltd LCH.Clearnet LLC Lufthansa AG, Swiss International Airlines LyondellBassell NV Qatar Financial Center Authorities London Stock Exchange Group plc WPP plc
Director	Ian Abrams	LCH.Clearnet Group Ltd LCH.Clearnet Ltd LCH.Clearnet LLC Highplus Ltd Orchard Wealth Management Ltd (Jersey) Orchard Funds PLC (Dublin)
Director	Neil Walker	LCH.Clearnet Group Ltd Financial Skills Limited
Director	Dennis McLaughlin	LCH.Clearnet Ltd LCH.Clearnet LLC
Director	Serge Harry	SH Consulting
Director	Eric Litvack	International Swaps and Derivatives Association
Director	Rémi Bourrette	Collège Français Bilingue de Londres
Director	Leonard (Lex) Hoogduin	LCH.Clearnet Group Ltd LCH.Clearnet Ltd LCH.Clearnet LLC Lex Hoogduin B.V. Supervisory Board of Statistics Netherlands Supervisory Board of Pallas
Director	Roland Bellegarde Resigned on 21 February 2014	Euronext Paris SA Euronext Brussels S.A./N.V. Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, S.A Intelbolsa - Sociedade de Sistemas de Liquidacao e de Sistemas Centralizados de Valores Mobiliarios S.A. Liffe Administration & Management Euronext Amsterdam N.V. NYSE Euronext (Holding) N.V. NYSE (International) B.V. Quatar Exchange

		Secfinex SmartPool Trading Ltd SmartPool Limited Euronext IP Holdings S.A.S. Euronext IP France S.A.S Sicovam Holding SA Luxnet
Director	Hervé Saint-Sauveur Resigned on 31 December 2013	Sopra Group AXWAY LCH.Clearnet Ltd LCH.Clearnet Group Ltd LCH.Clearnet LLC VIParis Holding Comexposium Conseil National Des Statistiques Chambre de Commerce de Paris
Director	Alain Pochet Resigned on 01 March 2013	
Director	Ian Axe Resigned on 25 September 2013	
Director	Anthony Attia Appointed on 16 April 2014	Euronext Paris SA Euronext SA Euronext France (Holding) SAS NYSE Technologies Holding SAS Euronext N.V. Euronext Group N.V.

Secretary: Fiona Petrovic

Auditors:	**Ernst & Young** Tour First 92037 Paris La Défense	**KPMG** Immeuble Le Belvédère 92923 Paris La Défense

Registered office

18 rue du Quatre Septembre, 75002 Paris

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Registered in France, number: 692 032 485

LCH.Clearnet SA (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 since 1 May 2013 is London Stock Exchange Group plc.

LCH.Clearnet SA
Financial statements for the year ended 31 December 2013
Income Statement

	Note	**2013**			2012		
		Before impairment & non-recurring items	**Impairment & non-recurring items**	**Total**	Before impairment & non-recurring items	Impairment & non-recurring items	Total
		€'m	**€'m**	**€'m**	€'m	€'m	€'m
Revenue							
Clearing fees		**86.4**	**0.0**	**86.4**	86.0	0.0	86.0
Interest income		**160.3**	**0.0**	**160.3**	195.9	0.0	195.9
Interest expense		**(135.4)**	**0.0**	**(135.4)**	(108.2)	0.0	(108.2)
Net interest income		**24.9**	**0.0**	**24.9**	87.7	0.0	87.7
Settlement and other income		**22.8**	**0.0**	**22.8**	39.7	0.0	39.7
Settlement fees payable		**(8.1)**	**0.0**	**(8.1)**	(7.0)	0.0	(7.0)
Net settlement and other income		**14.7**	**0.0**	**14.7**	32.7	0.0	32.7
Net revenue		**126.0**	**0.0**	**126.0**	206.4	0.0	206.4
Costs and expenses							
Employee benefits expense	15	**(32.8)**	**(0.9)**	**(33.7)**	(37.5)	(1.8)	(39.3)
Depreciation and amortisation charge		**(6.8)**	**(8.4)**	**(15.2)**	(5.9)	0.0	(5.9)
Other operating expenditure		**(48.0)**	**(21.4)**	**(69.4)**	(69.0)	(2.7)	(71.7)
Total costs and expenses		**(87.6)**	**(30.7)**	**(118.3)**	(112.4)	(4.5)	(116.9)
Operating profit		**38.4**	**(30.7)**	**7.7**	94.0	(4.5)	89.5
Finance income		**0.1**	**0.0**	**0.1**	1.2	0.0	1.2
Finance costs		**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
Profit before taxation	3	**38.5**	**(30.7)**	**7.8**	95.2	(4.5)	90.7
Taxation expense	4	**(2.6)**	**0.0**	**(2.6)**	(30.0)	0.0	(30.0)
Profit for the year		**35.9**	**(30.7)**	**5.2**	65.2	(4.5)	60.7

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

The notes on pages 11 to 42 form an integral part of these annual financial statements.

	Note	**2013**	2012
		€'m	€'m
Profit for the year		**5.2**	60.7
Amounts that will subsequently be reclassified to profit for the year when specific conditions are met:			
Actuarial gain recognised on pension schemes	15	**2.3**	(4.1)
Deferred tax relating to the actuarial gain	4	**(0.6)**	1.2
Other comprehensive income for the year, net of tax		**1.7**	(2.9)
Total comprehensive income for the year, net of tax		**6.9**	57.8

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

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LCH.Clearnet SA
Financial statements for the year ended 31 December 2013
Statement of financial position

	Note	**2013** €'m	2012 €'m
Assets			
Non-current assets			
Intangible assets	5	**28.7**	23.3
Property, plant and equipment	7	**4.1**	5.0
Investment in subsidiary		**19.9**	19.8
Trade and other receivables	10	**0.1**	0.1
Deferred taxation asset	4	**11.3**	4.1
Total non-current assets		**64.1**	52.3
Current assets			
Cash and cash equivalents	9	**6,445.7**	7,189.8
Other financial assets	19	**3,066.4**	7,955.2
Income tax receivable		**5.9**	3.5
Trade and other receivables	10	**17.3**	26.0
Balances with clearing members	11	**210,345.3**	217,110.8
Total current assets		**219,880.6**	232,285.3
Total assets		**219,944.7**	232,337.6
Liabilities			
Current liabilities			
Interest bearing loans and borrowings	13	**-**	2,488.9
Derivative financial liabilities		**11.1**	27.6
Income tax payable		**-**	0.3
Trade and other payables	16	**77.6**	56.0
Balances with clearing members	11	**217,356.8**	227,537.0
Total current liabilities		**217,445.5**	230,109.8
Non-current liabilities			
Interest bearing loans and borrowings	13	**-**	-
Default funds	14	**2,231.9**	1,965.0
Trade and other payables	16	**-**	-
Employment benefits	15	**5.4**	7.7
Total non-current liabilities		**2,237.3**	1,972.7
Total liabilities		**219,682.8**	232,082.5
Net assets		**261.9**	255.1

	Note	**2013** **€'m**	2012 €'m
Capital and reserves			
Called up share capital	12	**113.1**	113.1
Share premium	12	**0.7**	0.7
Other capital reserves	12	**43.0**	41.4
Retained earnings	12	**105.1**	99.9
Total equity		**261.9**	255.1

Patrick Combes
Chairman, LCH.Clearnet SA

The notes on pages 11 to 42 form an integral part of these annual financial statements.

The financial statements were approved by the Board on 6 May 2014.

LCH.Clearnet SA
Financial statements for the year ended 31 December 2013
Statement of cash flows

	Note	**2013** €'m	2012 €'m
Cash flows arising from operating activities			
Profit for the year		**5.2**	60.7
Taxation expense		**2.6**	29.9
Depreciation and amortisation		**7.8**	5.9
Loss on disposal and write-off of assets		**0.4**	(0.1)
Impairment of intangible assets		**8.4**	-
Decrease/(increase) in trade and other receivables		**8.7**	(4.8)
Movement in employee benefits		**0.5**	(1.2)
Increase/(decrease) in trade and other payables		**20.7**	(48.3)
Unrealised fair value gains on financial instruments		**(16.5)**	(49.7)
Margin monies cash outflow		**(3,414.8)**	(120.7)
Increase in default funds		**266.9**	633.6
Net cash inflow from operations		**(3,110.1)**	505.3
Taxation received		**-**	-
Taxation paid		**(13.1)**	(27.1)
Net cash inflows from operating activities		**(3,123.2)**	478.2
Investing activities			
Investment in intangible assets		**(20.1)**	1.0
Purchase of property, plant and equipment		**(1.0)**	(4.2)
(Investment in)/redemption of short-term deposits		**(2,488.8)**	1,949.8
Redemption of other financial assets		**4,889.1**	1,029.9
Increase/(decrease) in investments		-	(0.3)
Net cash inflow from investing activities		**2,379.2**	2,976.2
Financing activities			
Dividends		**-**	(2.2)
Net cash inflow from financing activities		**-**	(2.2)
Increase in cash and cash equivalents		**(744.0)**	3,452.2
Cash and cash equivalents at 1 January		**7,189.8**	3,737.6
Effects of foreign exchange movements		**-**	0.0
Cash and cash equivalents at 31 December		**6,445.8**	7,189.8

	Note	**2013** €'m	2012 €'m
Cash and cash equivalents at 31 December comprise:			
Cash at bank and in hand		**1,826.5**	5,139.8
Investments in secured short term deposits		**4,619.2**	2,050.0
	9	**6,445.7**	7,189.8
Bank overdrafts	13	**-**	-
		6,445.7	7,189.8

The notes on pages 11 to 42 form an integral part of these annual financial statements.

LCH.Clearnet SA
Financial statements for the year ended 31 December 2013
Statement of changes in equity

	Called up share capital €'m	Share premium €'m	Other capital reserves €'m	Retained earnings €'m	Total €'m
Shareholder's equity at 1 January 2012	113.1	0.7	44.2	41.4	199.4
Profit for the year to 31 December 2012	-	-	-	60.7	60.7
Other comprehensive expense	-	-	(2.8)	-	(2.8)
Total comprehensive income	0.0	0.0	(2.8)	60.7	57.9
Dividends	0.0	0.0	0.0	(2.2)	(2.2)
Shareholder's equity at 31 December 2012	113.1	0.7	41.4	99.9	255.1
Profit for the year to 31 December 2013	**-**	**-**	**-**	**5.2**	**5.2**
Other comprehensive income	**-**	**-**	**1.7**	**-**	**1.7**
Total comprehensive income	**-**	**-**	**1.7**	**5.2**	**6.9**
Dividends	**-**	**-**	**-**	**-**	**-**
Shareholder's equity at 31 December 2013	**113.1**	**0.7**	**43.1**	**105.1**	**262.0**

The notes on pages 11 to 42 form an integral part of these annual financial statements.

Authorisation of financial statements and statement of compliance with IFRS

Authorisation for publication

The financial statements for the Company for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 13 May 2014 these financial statements under IFRS have been prepared in order to show the Company results on this basis. This is for the sole purpose of reporting to the American regulator CFTC as part of the registration of LCH Clearnet SA on CDS business clearing activity.

The presentation under IFRS does not affect the Company's cashflows or the underlying economics of the business although the presentation of certain items in the statement of financial position and income statement differ.

LCH.Clearnet SA is a private limited company incorporated and domiciled in France.

Principal activities

The Company continues to satisfy the requirements of the Autorité de Contrôle Prudentiel et de Résolution as a Recognised Clearing House in France, and the requirements of all other regulatory bodies to whose rules the Company is subject. It provides central counterparty services in respect of a broad range of cash and derivative products traded on platforms or in OTC markets in Europe.

Statement of compliance

The financial statements of the Company have been prepared in accordance with IFRSs as adopted by the EU.

The principal accounting policies adopted in the preparation of the financial statements are set out in note 1. Unless otherwise stated these policies have been applied to the years ended 31 December 2013 and 31 December 2012.

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 2013 reporting

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

The 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 non-recurring items. Profit before non-recurring items is reconciled to profit before taxation on the face of the income statement.

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

Judgements and key sources of estimation uncertainty

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

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

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

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

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 6). The Company regularly reviews its estimate of useful economic lives to ensure it fairly reflects the period over which the Company expects to derive economic benefits from its assets.

Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 15).

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. The Company submitted application to Autorité de Contrôle Prudentiel et de Résolution (ACPR) for reauthorisation under EMIR in line with regulatory deadlines and continues to work with ACPR as per the defined process. reauthorisation. 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.

Investments

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

Foreign currencies

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

Intangible assets

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

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

Property, plant and equipment

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

- leasehold refurbishment over the term of the lease (up to a maximum of ten years)
- computer equipment and purchased software over three years
- office equipment and other fixed assets over three 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 de-recognition 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 goodwill or other asset allocated to the related cash generating units, with its recoverable amount, which is the higher of fair value less costs to sell and value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of less the costs associated with the sale.

Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. The carrying values of 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, held to maturity investments, loans and receivables, cash and short term deposits, trade and other payables, interest bearing loans and borrowings and derivative financial instruments.

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

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

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the 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 were to sell or reclassify a significant amount of held to maturity investments before maturity (other than in certain specific circumstances) the entire category might have to be reclassified as available for sale. The 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.

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

The 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.

Interest bearing loans and borrowings

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

Derecognition of financial assets and financial liabilities

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

Taxation

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

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for all temporary differences. Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, except where the deferred income tax asset arises through investments in subsidiaries and it is not probable that the temporary differences will reverse in the foreseeable future.

Provisions

Provisions are recognised for current obligations arising as consequences of past events where it is probable that a transfer of economic benefits will be necessary to settle the obligation and it can be reliably estimated. All provisions, except for those arising under pension liabilities, are undiscounted where not material.

Share capital

Called up share capital comprises ordinary shares. Other capital reserves are described in note 12. Other instruments are classified as liabilities if there is an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the income statement in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

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

Revenue recognition

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

Net interest income is the total of revenue earned on the cash and other financial assets held that have been generated from clearing member activity, less interest paid to clearing members on their margin and other monies lodged with the 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. Non-cash collateral fees are charged on non-cash collateral provided by members and are included in other fee income.

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

Employee benefits

The Company has committed to assume obligations in respect of certain staff in the Euronext defined benefit pension scheme in Amsterdam who transferred their employment to LCH Clearnet SA in 2004. The obligations in respect of certain staff in an independent defined benefit scheme in Porto were assumed in 2006. A full actuarial valuation of these funds was carried out at 31 December 2013 by a qualified independent actuary. Major assumptions used by the actuary are included within note 15.

The cost of providing benefits under the defined benefit plans is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement.

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

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

The contribution payable to a defined contribution plan is in proportion to the services rendered to LCH.Clearnet SA by the employees and is recorded as an expense in the income statement within employee benefits.

Dividends

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

Leases

The 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.

New accounting standards, amendments and interpretations

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

The Company has applied the following standards for the first time in the current year. These new standards have no or limited impact on financial statements including disclosure notes.

	Effective date for periods beginning on or after
Amendments to IFRS7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS13 Fair Value Measurement	1 January 2013
Amendments to IAS19 Employee Benefits	1 January 2013
IFRS10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IAS 28 (2011) Investments in Associates and Joint Ventures	1 January 2013
Amendments to IAS1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income	1 July 2012

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

The following standards, amendments and interpretations have been issued by the IASB and IFRIC. The directors do not expect adoption of these standards to have a material effect on the results of the Company.

	Effective date for periods beginning on or after
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 27 (2011) Separate Financial Statements	1 January 2014
Amendments to IFRS 10, IFRS 12 & IAS 27	1 January 2014
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRIC Interpretation 21 Levies	1 January 2014
IFRS 9 Financial Instruments	1 January 2018

2. Financial risk management

Introduction

The Company's activities expose it to a number of financial risks, principally market risk (interest rate risk, volatility in financial markets), sovereign risk, credit risk and liquidity 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 executives of the Company on the basis of risk policies that are discussed and agreed by the Company's Risk Committees and Board. The individual application of these policies is undertaken by senior executives within the risk management team who control and manage the exposures to clearing members and counterparty or agent banks on the basis of these policies. Risk policies are harmonised across the Group where relevant. The continued appropriateness of risk policies and key risk data is reviewed by the Risk Committees and Boards, and audits of processes within risk management are undertaken regularly.

Interest rate risk

Risk description

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

Risk management approach

Interest bearing assets are generally invested for a longer term than the interest bearing liabilities, whose interest rate is generally reset daily. This makes investment revenue vulnerable to volatility in overnight rates and shifts in 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 each subsidiary'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, net of interest rate swaps, and interest bearing member liabilities. Since the return paid on member liabilities is generally reset to prevailing market interest rates on an overnight basis the Company is only exposed for the time it takes to reset the interest rates on its investments. The maximum fixed exposure on any asset in the treasury portfolio is six months and subject to an overall interest rate limit.

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

Interest rate movement		**2013**			2012	
	+25bp	**+50bp**	**+100bp**	+25bp	+50bp	+100bp
	€'m	**€'m**	**€'m**	€'m	€'m	€'m
Net exposure of cash and member margin balances	**(1.1)**	**(2.1)**	**(4.3)**	(7.7)	(15.3)	(30.7)
Interest rate swaps	**1.1**	**2.2**	**4.3**	9.0	18.0	36.0
Tax effect of above	**-**	**-**	**-**	(0.5)	(1.0)	(1.9)
Decrease in profit after tax	**-**	**-**	**-**	0.1	0.2	0.3
	-25bp	**-50bp**	**-100bp**	-25bp	-50bp	-100bp
	€'m	**€'m**	**€'m**	€'m	€'m	€'m
Net exposure of cash and member margin balances	**1.1**	**2.1**	**4.3**	7.7	15.3	30.7
Interest rate swaps	**(1.1)**	**(2.2)**	**(4.3)**	(9.0)	(18.0)	(36.0)
Tax effect of above	**-**	**-**	**-**	0.5	1.0	1.9
Increase in profit after tax	**-**	**-**	**-**	(0.1)	(0.2)	(0.3)

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. As a CCP the Company has 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 Committees and Boards at least annually. A variety of measurement methodologies, including both empirical and analytical margin models, stress testing and scenario analysis, are used daily to quantify and assess the levels of credit and market risk to which the 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 which has the effect of reducing the probability of loss from the default of a clearing member with the worst acceptable credit to the level of an AAA rated credit for the next 12 months.

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

The 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 re-valued daily.

As at 31 December 2013 the total margin liability of clearing members amounted to €21.7 billion, against which the Company had received €13.0 billion in cash, €7.7 billion in non-cash securities and 1.0 billion in bank guarantees. The maximum margin liability during the year was €27.4 billion.

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

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

As at 31 December 2013 the total of clearing member contributions to the default funds amounted to €2.2 billion (note 14). Clearing members are committed to contribute further amounts in the event of a clearing member default equivalent to approximately twice this amount. The maximum amount during the year was €2.3 billion.

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

Sovereign risk

Risk description

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

Risk management approach

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

The Risk Committees and Boards continually monitor such risks in the Euro-zone and other sovereigns and enhancements to the risk framework implemented in 2011-2012 continue 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 2013:

Sovereign (or equivalent)	Investment value € billion	Proportion
France	3.5	66%
European Union	0.5	9%
Germany	0.5	9%
Belgium	0.4	8%
Netherlands	0.3	6%
Other	0.1	2%
Total	**5.3**	**100%**

The total investment includes all other financial assets (€3.1 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 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 cash portfolio is invested in accordance with clear risk policies which require secure investment of a significant portion of the cash portfolio via reverse repo with credit institutions, receiving high quality government securities as collateral, by investing directly in such securities or by the placement of cash with central banks. The Company only makes treasury deposits with banks and financial institutions with a credit rating of at least A and also by reference to counterparty limits with respect to concentration and maturity.

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

The investment portfolio at 31 December 2013 was €9.5 billion, 99% of which was invested securely with an average maturity of 32 days. The maximum portfolio size during the year was €14.7 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, are assessed according to an internal credit scoring framework. This framework incorporates financial analysis, external ratings, market implied ratings, expected default frequency, a support assessment and an operational capability assessment. The rating model is independently validated at least annually and the rating scale is continuously monitored for performance. A minimum credit score is set for joining any clearing service and for institutions to be eligible for investment. Increased margins are applied to clearing members when their credit score deteriorates below the entry level. Other actions may include reduced credit tolerances and forced reduction of exposures.

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

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.

As at 31 December 2013 the total interoperating margin placed with and received under reciprocal arrangements with other CCPs amounted to €3.9 billion and €3.5 billion respectively . The maximum during the year was €6.1 billion.

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 treasury portfolio by reference to the credit rating of the counterparty. The treasury portfolio includes cash at bank and other financial assets.

	Note	2013 €'m	2012 €'m
Fair value of balances with clearing members			
(ratings assigned with reference to major agencies)			
Members rated AAA		-	299.6
AA+		-	-
AA		**96.2**	-
AA-		**13,542.8**	32,387.3
A+		**18,475.3**	38,615.5
A		**64,536.9**	85,333.7
A-		**25,378.8**	51,557.4
BBB+		**70,967.8**	4.0
BBB		**8,635.4**	7,735.2
BBB-		**1,636.1**	1,092.8
BB+		**1,945.6**	0.1
Unrated		**5,130.4**	85.2
	11	**210,345.3**	217,110.8
Company treasury portfolio (ratings assigned with reference to major agencies)			
AAA/AA+/AA/AA- Government backed		**3,066.4**	13,091.1
AA/AA+/AAA Secured		**4,219.2**	-
AA/AA+/AAA Unsecured		**2,224.4**	2,053.9
A/A+/A-/AA- Secured		-	-
A/A+/AA- Unsecured		**2.1**	-
	19	**9,512.1**	15,145.0

The total credit risk of the Company is represented by the total financial assets of the Company as disclosed in note 20.

Concentration risk

Risk description

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

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 exposures by member groups.

The largest concentration of treasury exposures as at 31 December 2013 was 17% of the total investment portfolio to the French Government (2012:31%).

Liquidity risk

Risk description

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

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

Risk management approach

Liquidity risk is managed by ensuring that the operating clearing houses in the Company have sufficient cash to meet their payment obligations and by the provision of facilities to meet short term imbalances between available cash and payment obligations. The 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 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 as a CCP.

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

The ability to access liquidity under extreme market conditions is modelled daily. Liquid resources include available cash balances, secured financing facilities and access to central bank liquidity.

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 2013	On demand €’m	Less than three months €’m	Three months to one year €'m	One to five years €'m	More than five years €'m	Total €'m
Cash and short-term deposits	**2,225.5**	**4,220.2**	-	-	-	**6,445.7**
Other financial assets	**0.0**	**1,561.4**	**1,505.0**	-	-	**3,066.4**
Treasury portfolio	**2,225.5**	**5,781.6**	**1,505.0**	**-**	**-**	**9,512.1**
Fair value of transactions with clearing members – asset	**206,195.5**	**-**	**-**	**-**	**-**	**206,195.5**
Other clearing member balances – asset	**4,149.8**	**-**	**-**	**-**	**-**	**4,149.8**
Fair value of transactions with clearing members – liability	**(206,195.5)**	**-**	**-**	**-**	**-**	**(206,195.5)**
Initial margin and other clearing member balances – liability	**(11,161.2)**	**-**	**-**	**-**	**-**	**(11,161.2)**
Default fund	**-**	**-**	**-**	**(2,231.9)**	**-**	**(2,231.9)**
Net balance with clearing members	**(9,243.3)**	**-**	**-**	**-**	**-**	**(9,243.3)**
Trade and other receivables	**16.6**	**-**	**-**	**-**	**-**	**16.6**
Trade and other payables	**(58.1)**	**-**	**-**	**-**	**-**	**(58.1)**
Interest rate swaps - net outflows	**9.7**	**(8.4)**	**(12.4)**	**-**	**-**	**(11.1)**

As at 31 December 2012	On demand €’m	Less than three months €’m	Three months to one year €'m	One to five years €'m	More than five years €'m	Total €'m
Cash and short-term deposits	5,139.8	2,050.0	-	-	-	7,189.8
Other financial assets	-	3,701.2	2,817.6	1,436.4	-	7,955.2
Treasury portfolio	5,139.8	5,751.2	2,817.6	-	-	15,145.0
Fair value of transactions with clearing members – asset	212,442.6	-	-	-	-	212,442.6
Other clearing member balances – asset	4,668.3	-	-	-	-	4,668.3
Fair value of transactions with clearing members – liability	(212,471.7)	-	-	-	-	(212,471.7)
Initial margin and other clearing member balances – liability	(15,065.4)	-	-	-	-	(15,065.4)
Default fund	-	-	-	(1,965.0)	-	(1,965.0)
et balance with clearing members	(10,426.2)	-	-	(1,965.0)	-	(12,391.2)
Trade and other receivables	21.1	-	-	-	-	21.1
Trade and other payables	56.0	-	-	-	-	56.0
Interest rate swaps - net outflows	27.4	(0.4)	(11.5)	(43.1)	-	(27.6)

All of the financial assets of the Company are either based upon floating rates or fixed rates with an interest term of less than six months. For the default funds, the tenor of the liability is matched with the interest reset dates of the asset. The weighted average maturity of the treasury portfolio is 52 days (2012: 100 days), with strict risk criteria related to interest rate exposure being applied.

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

Settlement risk

Risk description

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

Risk management approach

The Company fully 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 are deducted from commercial bank deposit limits. Intraday exposures to commercial banks are also monitored closely and restricted to a maximum of 75% of the subsidiary's capital.

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.

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 ensuring appropriate legal arrangements and operational processes, in addition to minimum eligibility requirements, credit assessment, regular reviews required by policy and a requirement for back-up contingency arrangements to be in place.

Other risk management

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

Operational risk

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

The 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 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 Committees. Following each review, management will put in place an action plan to address any issues identified. Internal Audit evaluates the adequacy and effectiveness of the 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 Committees and senior management. Any significant weaknesses are reported to the relevant Boards.

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

Pension risk

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

Compliance, legal and reputational risk

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

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

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

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.

3. Profit before taxation

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

	2013	2012
	€'m	€'m
Depreciation and amortisation		
Depreciation of property, plant and equipment	**0.5**	0.8
Amortisation of intangible assets	**5.9**	5.0
Loss on write-off of property, plant and equipment	**-**	0.1
Loss on disposal of intangible assets	**0.4**	-
Impairment on intangible assets	**8.4**	-
	15.2	5.9
Other operating expenditure includes:		
Property lease rentals	**4.9**	4.1
Auditor's remuneration:		
Audit fees	**1.0**	1.0
Other assurance services	**0.1**	0.5
Non-recurring items		
Transformation plan costs including redundancy costs	**-**	2.7
redundancy costs	**0.9**	1.8
Social plan costs	**21.4**	**-**
Total non-recurring items	**22.3**	4.5
Net finance income		
Interest on finance leases repayable within five years		
Interest receivable in respect of recoverable development costs	**-**	**-**
Interest received on own funds	**0.1**	**-**
Net finance income	**0.1**	-

4. Taxation

The major components of taxation expense are:

Income statement	2013 €'m	2012 €'m
Current income tax		
France current tax charge	**(9.2)**	(13.0)
Adjustments in respect of current taxation in previous years	**0.3**	0.8
Other European locations current tax charge	**(1.5)**	(4.7)
Adjustments in respect of current taxation in previous years	**-**	-
Total current taxation	**(10.4)**	(16.9)
Deferred tax		
Relating to the origination and reversal of temporary differences	**7.8**	(13.1)
Effect of future rate changes	**-**	-
Adjustment in respect of previous years	**-**	-
Deferred tax	**7.8**	(13.1)
Tax expense reported in the consolidated income statement	**(2.6)**	(30.0)
Consolidated statement of comprehensive income		
Tax relating to actuarial gain on French pension scheme	**-**	0.5
Tax relating to actuarial gain on other European pension schemes	**(0.6)**	0.7
Tax expense reported in the statement of comprehensive income	**(0.6)**	1.2

Reconciliation of tax expense	2013 €'m	2012 €'m
Accounting profit before taxation		
Tax at French statutory corporation tax rate of 34.34% (2012: 36,03%)	**3.3**	32.8
Effect of:		
Disallowed expenses and non-taxable income	**0.0**	0.0
Adjustments in respect of prior periods	**(0.3)**	(0.8)
Re-measurement of deferred tax – change in corporation tax rate		0.0
Net effect of different tax rates of other European locations	**(0.4)**	(2.0)
Foreign exchange adjustment		
Total tax charge	**2.6**	30.0
Effective corporate tax rate	**33.0%**	33.0%

Deferred tax	**Statement of financial position**		**Income statement**	
	2013	2012	**2013**	2012
	€'m	€'m	**€'m**	€'m
Post-employment benefits	**1.8**	1.9	**(0.2)**	
Reduced depreciation for tax purposes	**-**			
Deferred compensation	**2.2**	3.9	**1.7**	0.1
Prior year under provision	**-**			
Other temporary differences	**7.3**	(1.7)	**6.3**	(13.2)
Deferred tax charge			**7.8**	(13.1)
Deferred tax asset	**11.3**	4.1		

	2013	2012
	€'m	€'m
Net deferred tax asset at 1 January	**4.1**	15.9
Deferred tax in income statement	**7.8**	(13.0)
Deferred tax relating to actuarial gain	**(0.6)**	1.2
Net deferred tax asset at 31 December	**11.3**	4.1

5. Intangible assets

	2013				2012			
	Self-developed software €'m	**Other €m**	**Goodwill €m**	**Total €m**	Self-developed software €'m	Other €m	Goodwill €m	Total €m
Cost								
At 1 January	**54.3**	**-**	**52.7**	**107.0**	57.2	-	52.7	109.9
Transfer	**(7.0)**	**7.0**	**-**	**-**	-	-	-	-
Additions	**9.4**	**10.8**	**-**	**20.2**	(0.1)	-	-	(0.1)
Disposals	**(4.6)**	**-**	**-**	**(4.6)**	(2.8)	-	-	(2.8)
At 31 December	**52.1**	**17.8**	**52.7**	**122.6**	54.3	-	52.7	107.0
Accumulated amortisation								
At 1 January	**40.1**	**-**	**43.6**	**83.7**	36.9	-	43.6	80.5
Transfer	**(3.1)**	**3.1**	**-**	**-**	-	-	-	-
Amortisation charge for the year	**1.7**	**1.1**	**-**	**2.8**	5.0	-	-	5.0
Impairment	**8.4**	**-**	**-**	**8.4**	-	-	-	-
Disposals	**(4.2)**	**-**	**-**	**(4.2)**	(1.9)	-	-	(1.9)
At 31 December	**42.9**	**4.2**	**43.6**	**90.7**	40.0	-	43.6	83.6
Net book value at 31 December	**9.2**	**13.6**	**9.1**	**31.9**	14.3	-	9.1	23.4

The portion of capitalised self-developed software costs disclosed above that relates to software not currently brought into use amounted to €1.3 million after a €8.4 million impairment (2012: €8.1 million). No amortisation has been charged during the year against these assets (2012: €nil).

Other intangible assets represent investment in business development.

6. Impairment testing of intangible assets

Assumptions

Goodwill is carried in relation to the Company's branches. The recoverable amount associated with these subsidiaries is determined based on value in use calculations.

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

The key assumptions used in the valuations are as follows:

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

Impairment results

Having completed the tests as described above, goodwill and other intangibles were not found to be impaired. The excess of value in use over carrying value is €5.9 million at 31 December 2013 in respect of goodwill.

An impairment of €8.4 million was recognised in relation to self-developed software; this relates to one project for which the relevant cash generating unit is not anticipated to generate sufficient positive cash flows.

Sensitivity analysis

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

Goodwill	**Base case**	**Adjusted**	**Increase to impairment €'m**
Cash flow growth beyond the five year period	2%	0%	5.4
Future development of business lines	various	-10%	16.3
Pre-tax discount rate	12%	15%	21.6

Other intangible assets/self-developed software	**Base case**	**Adjusted**	**Increase to impairment €'m**
Future development of business lines	various	-10%	-
Pre-tax discount rate	12%	15%	-

7. Property, plant and equipment

2013	**Leasehold refurbishment**	**Computer equipment**	**Office equipment**	**Total**
	€'m	**€'m**	**€'m**	**€'m**
Cost				
At 1 January	**3.1**	**5.0**	**0.9**	**9.0**
Additions	**0.1**	**0.9**	**-**	**1.0**
Disposals	**-**	**-**	**-**	**-**
At 31 December	**3.2**	**5.9**	**0.9**	**10.0**
Accumulated depreciation				
At 1 January	**2.1**	**1.3**	**0.6**	**4.0**
Depreciation charge for the year	**0.3**	**1.5**	**0.1**	**1.9**
Disposals	**-**	**-**	**-**	**-**
At 31 December	**2.4**	**2.8**	**0.7**	**5.9**
Net book value at 31 December	**0.8**	**3**	**0.2**	**4.1**

2012	Leasehold refurbishment	Computer equipment	Office equipment	Total
	€'m	€'m	€'m	€'m
Cost				
At 1 January	3.0	1.0	0.8	4.8
Additions	0.1	4.0	0.1	4.2
At 31 December	3.1	5.0	0.9	9.0
Accumulated depreciation				
At 1 January	1.7	0.9	0.5	3.1
Depreciation charge for the year	0.4	0.4	0.1	0.9
At 31 December	2.1	1.3	0.6	4.0
Net book value at 31 December	1.0	3.7	0.3	5.0

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8. Investment in subsidiary

	2013	2012
	€'m	€'m
Cost at 1 January & 31 December	**19.9**	19.8

The Company owns 49% (€19.5 million) 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 annual 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.

9. Cash and cash equivalents

	2013 €'m	2012 €'m
Cash at bank and in hand	**1,826.5**	5,139.8
Short-term deposits	**4,619.2**	2,050.0
	6,445.7	7,189.8

Total short-term deposits in 2013 and 2012 are fully collateralised by sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Group's Risk Committees.

Of the total cash and cash equivalents, €217.5 million (2012: €223.4 million) is own cash. €45.1 million of this amount is restricted as the Company's own resources to be used in the default waterfall. Upon EMIR authorisation, this will be allocated by default fund on a pro rata basis.

10. Trade and other receivables

	2013 **€'m**	2012 €'m
Other receivables	**6.2**	4.5
Prepayments	**0.7**	8.0
Amount owed by fellow subsidiary companies	-	0.4
Amount owed by subsidiary company	**10.4**	13.1
	17.3	26.0

There are no trade and other receivables that are past due or impaired.

11. Balances with clearing members

	2013 **€'m**	2012 €'m
Assets		
Fair value of transactions with clearing members less variation margin	**206,195.5**	212,238.5
Other clearing member balances	**4,149.8**	4,872.3
	210,345.3	217,110.8
Liabilities		
Fair value of transactions with clearing members, less variation margin	**(206,195.5)**	(212,238.5)
Initial margin and other clearing member balances	**(11,161.2)**	(15,298.6)
	(217,356.7)	(227,537.1)

The balances due from clearing members recorded in the statement of financial position of €206,195.5 million (2012: €212,238.5 million) are fully secured by collateral held by the Company. To date this collateral has not been utilised.

At 31 December 2013 the total of fully collateralised loans in respect of fixed income transactions was €206,195.5 million (2012: €212,238.5 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, including that in respect of initial margin, was €7,708.5 million (2012: €4,887.5 million) and the total amount of guarantees held was €997.4 million (2012: €1,525.0 million).

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

12. Issued capital and reserves

Share capital

Ordinary shares

During the year the Company issued no new ordinary shares. All the Company's shares are owned by LCH.Clearnet Group Limited.

The company has 7,416,700 fully paid-up ordinary shares of €15.24 each in issue as at 31 December 2013 (2012: 7,416,700).

Other reserves

Share premium

No additional share premium has been recognised on the shares issued in the year.

Other capital reserves

The balance of €43.0 million (2012: €41.4 million) includes €11.3 million in 2013 and 2012 of non-distributable reserves.

Distributable reserves

Retained earnings of €105.1 million (2012: €99.9 million) are regarded as distributable.

13. Interest bearing loans and borrowings

	2013 €'m	2012 €'m
Other loans	-	2,488.8
	-	2,488.8

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

Bank overdrafts

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

14. 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 split into several different funds to cover the different business lines of the Company, The total default funds held by the Company at 31 December 2013 were €2,231.9 million (2012: €1,965.0 million)

15. Employee benefits

Staff costs – all employees and directors

	2013	2012
	€'m	€'m
Wages and salaries	**22.7**	26.1
Social security costs	**8.5**	11.1
Pension costs	**1.6**	0.4
Staff costs before non-recurring items	**32.8**	37.6
Staff costs included in non-recurring items (note 3)	**0.9**	1.8
Total staff costs	**33.7**	39.4
Average monthly number of staff employed	**198**	192

Key management personnel

The key management personnel of the Company are the members of the Group Executive Committee (ExCo). Further details of ExCo are disclosed in the consolidated accounts of LCH.Clearnet Group Limited.

Directors' remuneration

	2013	2012
	€'m	€'m
Remuneration	**0.3**	0.2
Total	**0.3**	0.2

This amount excludes the CEO's compensation.

Pension commitments

Defined contribution schemes

The Company pays fixed contributions to the defined contribution scheme in Portugal 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. There is no expense charged to the income statement in 2013 and 2012 representing contributions payable to the plan by the Company at rates specified in the rules of the plan.

Defined benefit schemes

The Company operated a defined benefit pension scheme for its employees in the Netherlands, which was closed in December 2013.

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

The Company is not aware of any events subsequent to 31 December 2013, which would have a material impact on the results of the valuation. There was no impact of the asset ceiling test.

Changes in benefit obligation

	2013		2012	
	France	**A'dam/Porto**	France	A'dam/Porto
	€'m	**€'m**	€'m	€'m
Benefit obligation as at 1 January	**6.3**	**6.6**	4.5	3.5
Pension (income)/expense:				
Current service cost	**0.4**	**0.3**	0.3	0.2
Past service gain (curtailment gain)	**(1.7)**	**(2.0)**	-	-
Net interest	**0.2**	**0.2**	0.2	0.2
Subtotal included in the income statement	**(1.1)**	**(1.5)**	0.5	0.4
Re-measurement (losses)/gains:				
Effect of changes in demographic assumptions	**0.2**	**-**	-	-
Effect of changes in financial assumptions	**-**	**-**	1.5	2.7
Effect of experience adjustments	**(0.2)**	**(0.5)**	(0.1)	-
Subtotal included in other comprehensive income	**-**	**(0.5)**	1.4	2.7
Reduction in obligation due to settlement	**-**	**(4.2)**	-	-
Benefits paid	**(0.2)**	**-**	(0.1)	-
Foreign exchange	**-**	**-**	-	-
Benefit obligation as at 31 December	**5.0**	**0.4**	6.3	6.6

Change in scheme assets

		2013		2012
	France	**A'dam/Porto**	France	A'dam/Porto
	€'m	**€'m**	€'m	€'m
Fair value of scheme assets as at 1 January	**-**	**4.3**	-	3.4
Pension income:				
Net interest	**-**	**0.1**	-	0.2
Subtotal included in the income statement	**-**	**0.1**	-	0.2
Re-measurement gains:				
Return on plan assets (excluding interest income)	**-**	**(0.3)**	-	0.1
Subtotal included in other comprehensive income	**-**	**(0.3)**	-	0.1
Employer contributions	**0.2**	**0.6**	0.1	0.6
Benefits paid	**(0.2)**	**(0.1)**	(0.1)	-
Foreign exchange	**-**	**(4.2)**	-	**-**
Fair value of scheme assets as at 31 December	**-**	**0.4**	-	4.3

Assumptions

A summary of the principal assumptions used is detailed below.

		2013		2012
	France	**A'dam/Porto**	France	A'dam/Porto
Weighted-average assumptions to determine benefit obligations:				
Discount rate	**3.0%**	**3.0%**	3.0%	3.0%
Rate of salary increase	**3.0%**	**n/a / 3,0%**	3.0%	3,5% / 3,0%
Rate of price Inflation	**2.0%**	**n/a / 2.0%**	2.0%	2.0%
Rate of pension increases	**n/a**	**n/a / 1,5%**	n/a	0,5% / 1,5%
Post retirement mortality in years:				
Currently aged 60 male	**23.3**	**n/a / 20,6**		
Currently aged 60 female	**27.5**	**n/a / 20,6**		
Currently aged 45 male	**23.3**	**n/a**		
Currently aged 45 female	**27.5**	**n/a**		

Analysis of pension assets		**2013**		2012
	Amsterdam	**Porto**	Amsterdam	Porto
Fair value of scheme assets at 1 January	**3.9**	**0.4**	3.2	0.2
Expected return of scheme	**(0.4)**	-	0.2	-
Interest income	**0.1**	-	-	
Actuarial gain/(loss)	-	-	0.1	-
Employer contribution	**0.6**	-	0.4	0.2
Settlement payment from plan	**(4.2)**	-	-	-
Expenses paid	**-**	**-**	-	-
Fair value of plan asset as of 31 December	0	0.4	3.9	0.4

16. Trade and other payables

	2013	2012
	€'m	€'m
Trade payables	**8.4**	6.7
Other taxation and social security	**23.4**	29.0
Payable related to default	**19.1**	19.1
Amount owed to parent company	**0.9**	1.0
Amount owed to fellow subsidiary company	**5.3**	0.0
Deferred income	**0.0**	0.0
Provision for liabilities	**18.9**	0.0
Other payables	**1.6**	0.2
	77.6	56.0

Provision for liability is related to the restructuring of the derivatives activity.

17. Commitments and contingencies

Operating leases

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

	2013 Property €'m	2012 Property €'m
Within one year	**4.0**	4.0
More than one year, but less than five	**16.0**	16.2
More than five years	**1.3**	1.3
	21.3	21.5

The main Paris office lease expires in 2018.

The Company has no finance lease.

Supplier agreements

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

Treasury assets supporting operational facilities

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

	2013 €'m	2012 €'m
Central bank activity	**4,825.1**	5,398.4
	4,825.1	5,398.4

18. Related party transactions

Key management personnel

Details of key management personnel and their total remuneration are disclosed in note 15.

Ultimate parent company and group companies

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

On 1 May 2013, London Stock Exchange Group plc (LSEG) acquired a further 55.5% of the ordinary share capital of LCH.Clearnet Group Limited and is now the ultimate parent company of the Company and the largest group that prepares consolidated accounts. LCH.Clearnet Group Limited continues to be 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 2013 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 March 2014 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 2013, 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 and fellow subsidiaries which have passed through the income statement during the year, together with details of outstanding balances, are set out below.

	2013	2012
	€m	€m
Transactions with parent company		
Income statement		
Services recharged to parent company and netted with administrative expenses	**(1.5)**	(1.4)
Services recharged from parent company	**2.8**	5.3
Services recharged from parent company disclosed as non-recurring costs	**-**	2.7
	1.3	6.6
Statement of financial position		
Amount due (to)/from parent company at 31 December	**0.9**	1.0
Transactions with fellow subsidiaries		
Income statement		
Services recharged to fellow subsidiaries	**4.0**	2.4
Project recharge income (netted with administrative expenses)	**4.9**	1.2
Services recharged from fellow subsidiaries	**(5.8)**	(2.4)
	3.1	1.2
Statement of financial position		
Amount due from fellow subsidiaries at 31 December	**5.2**	(0.4)
Transactions with subsidiary company		
Income statements		
Services recharged to fellow subsidiary	**0.2**	(0.1)
Project recharge cost (included in administrative expenses)	**8.7**	7.5
Services recharged from fellow subsidiary	**(2.9)**	(4.2)
	6.0	3.2
Statement of financial position		
Amount due from subsidiary company at 31 December	**(10.3)**	(13.1)

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

As at 31 December 2013, the Company owed CC&G, a fellow subsidiary of LSEG, €3,459.9 million and CC&G owed the CC&G €3,850.4 million to the Company, both amounts related to balances with clearing members.

19. Financial instruments

Financial assets and liabilities

	Note	2013 €'m	2012 €'m
Financial assets at fair value through profit or loss			
Fair value of transactions with clearing members	11	**206,196.5**	212,238.5
Government backed, bank issued certificates of deposits		**1,473.5**	1,740.1
Treasury bills		**1,592.9**	6,215.1
Held-to-maturity assets (in other financial assets)			
Government backed, bank issued certificates of deposits			
Other financial assets in the statement of financial position		**3,066.4**	7,955.2
Loans and receivables			
Trade and other receivables	10	**16.6**	18.0
Other clearing member balances	11	**4,149.8**	4,872.3
Cash and short-term deposits in the statement of financial position	9	**6,445.8**	7,189.8
Financial liabilities at fair value through profit or loss			
Fair value of transactions with clearing members	11	**(206,195.5)**	(212,238.5)
Financial liabilities at amortised cost			
Trade and other payables	16	**(58.1)**	(56.0)
Initial margin and other member balances	11	**(11,161.2)**	(15,298.6)
Default funds	14	**(2,231.9)**	(1,965.0)

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

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

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

As at 31 December 2013 the Company held the following significant financial instruments measured at fair value:

		2013			2012	
	Level 1	Level 2	Total	Level 1	Level 2	Total
	€'m	€'m	€'m	€'m	€'m	€'m
Assets measured at fair value						
Fair value of transactions with clearing members	-	**206,196.5**	**206,196.5**	-	212,238.5	212,238.5
Treasury bills	**1,592.9**	-	**1,592.9**	6,215.1	-	6,215.1
Liabilities measured at fair value						
Fair value of transactions with clearing members	-	**(206,195.5)**	**(206,195.5)**	-	(212,238.5)	(212,238.5)
Other items where fair value is known						
Government backed, bank issued certificates of deposit	**1,473.4**	**0.1**	**1,473.5**	4,691.1	3,304	7,995.2

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:

	2013 €'m	2012 €'m
Interest income on assets held at fair value	**73.7**	137.0
Interest income on assets held at amortised cost	**21.9**	22.8
Net fair value gain/(loss) on revaluation of other financial assets held at fair value included in net interest income	**(33.1)**	10.8
Net fair value gain/(loss) on interest rate swaps	**29.4**	25.3
Interest income	-	-
Interest expense on assets held at fair value	**(61.5)**	(88.3)
Interest expense on liabilities held at amortised cost	**(5.4)**	(20.0)
Net interest income	**25.0**	87.6
Finance income on assets held at amortised cost	-	1.0
Finance expense on liabilities held at amortised cost		-
Net finance income	**-**	1.0

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 2013	**Gross amounts €m**	**Amount offset €m**	**Net amount as reported €m**
Reverse repurchase agreements	**225,021**	**(18,825)**	**206,196**
Total assets	**225,021**	**(18,825)**	**206,196**
Reverse repurchase agreements	**(225,021)**	**18,825**	**(206,196)**
Total liabilities	**(225,021)**	**18,825**	**(206,196)**

As at 31 December 2012	Gross amounts €m	Amount offset €m	Net amount as reported €m
Reverse repurchase agreements	234,002	(21,764)	212,238
	234,002	(21,764)	212,238
Total assets			
Reverse repurchase agreements	(234,002)	21,764	(212,238)
Total liabilities	(234,002)	21,764	(212,238)

As a CCP, the Company sits in the middle of members' transactions and holds default funds and margin amounts as a contingency against the default of a member. As such, further amounts are available to offset in the event of a default reducing the asset and liability of €206,196 million (2012: 212,238 million) to nil. Default funds for equities, and derivatives, fixed income and CDS of €1,122.0 million, repos of €809.7 million and other transactions of €300.1 million are held by the Company. In addition, the company holds margin of 5,198.7 million for equities and derivatives, 14,084.1 million for repos and 740.9 million for other transactions.

20. Capital management

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

Capital plans are included within the 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.

Compliance with capital adequacy regulations

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

The Company manages its capital to ensure that it complies with requirements from its regulators, as well as ensuring its capital base is adequate to cover the risks inherent in the business.

The Company submitted application to Autorité de Contrôle Prudentiel et de Résolution (ACPR) for reauthorisation under EMIR in line with regulatory deadlines and, at the time of issuing this report, continues to work with ACPR as per the defined process.

21. Material events after the balance sheet date

During April 2014, the operating agreement in respect of the CDSClear business line was renegotiated to ensure compliance with the EMIR regulatory regime. The renegotiated terms were backdated to 1 January 2014. The amended terms include changes to the governance arrangements. The principal effects on the accounting treatment at 1 January 2014 are:

- the recognition of intangible assets in respect of self-developed software of €16.4 million
- the de-recognition of the other intangible assets of €13.6 million in relation to investment in the relevant business development and current receivables of €2.8 million

22. Contingent liabilities

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