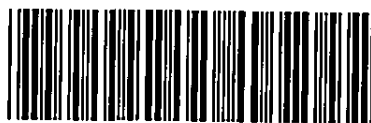


**LCH.Clearnet Limited**

**Report and Financial Statements  
for the year ended 31 December 2009**

FRIDAY



\*ADNR3J7U\*

A24

16/04/2010

471

COMPANIES HOUSE

## Contents

Note	Page	Note	Page
Board of directors	2	10 Intangible assets	33
Directors' Report	3	11 Property, plant and equipment	34
Statement of Directors' responsibilities	7	12 Investments	35
Independent auditors' report	8	13 Cash at bank and in hand	35
Income statement	10	14 Trade and other receivables	35
Statement of comprehensive income	11	15 Balances with clearing members	36
Statement of financial position	12	16 Called up share capital	37
Statement of cash flows	13	17 Default fund	37
Statement of changes in equity	14	18 Pension commitments	38
Notes to the financial statements		19 Interest bearing loans and borrowings	42
1 Corporate information	15	20 Trade and other payables	42
2 Accounting policies	15	21 Other financial commitments	43
3 Exchange rates	25	22 Related party disclosure	44
4 Revenue	26	23 Financial risk management objectives and policies	45
5 Administrative expenditure	27	24 Financial instruments	50
6 Finance income	28	25 Management of capital	58
7 Tax on profit on ordinary activities	28	26 Ultimate parent undertaking	58
8 Directors' emoluments and transactions	31		
9 Employees	32		

# **LCH.Clearget Limited**

## **Board of Directors**

---

**Chairman**                      A Chris Tupker

### **Directors**

Martin Abbott	
Ian Abrams	
Nazir Badat	
Francis Berthomier	
Dame Clara Furse DBE	(resigned 11 March 2009)
Gerard Hartsink	(resigned 11 March 2009)
Christophe Hémon	
Jenny Ireland	
Jerome Kemp	
Vivien Levy-Garboua	
Roger Liddell	
Jean-Pierre Mustier	(resigned 11 March 2009)
Alberto Pravettoni	
Hervé Saint-Sauveur	
Lawrence Shaw	(resigned 11 March 2009, re-appointed 28 April 2009)
Jean-François Théodore	(resigned 11 March 2009)
John Townend	
Francesco Vanni d'Archirafi	(resigned 11 March 2009)
David Williams	(resigned 11 March 2009)
Denise Wyllie	(resigned 11 March 2009)

<b>Secretary</b>	Stephan Giraud-Prince	(appointed 28 April 2009)
	Jackie Alexander	(resigned 28 April 2009)

---

### **Registered Office**

Aldgate House  
33 Aldgate High Street  
London  
EC3N 1EA

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

Registered in England  
Number 25932

Established in 1888 as The London Produce Clearing House Limited

The Company is a wholly owned subsidiary of LCH Clearget Group Limited and is a member of the LCH Clearget group of companies

The directors present their report and the audited financial statements for the 12 months ended 31 December 2009

The Company is a subsidiary of LCH Clearnet Group Limited and more comprehensive details are provided in the 2009 Report and Consolidated Financial statements of the parent company (see note 26)

**Results and Dividend**

The profit for the year, after taxation, amounted to €270,532,000 (2008 €171,132,000) The directors do not recommend the payment of a final dividend to ordinary shareholders following an interim dividend payment in 2009 of €225 0 million and a final payment for 2008 of €160 0 million that were both made during 2009

**Principal activity and review of the business**

The Company's principal activity during the year continued to be the provision of central counterparty and related services to clearing members as a part of the LCH Clearnet Group The Company was in a sound financial position at the year-end, and is well placed to take advantage of any opportunities which may arise in the future

The Company continues to satisfy the requirements of the Financial Services Authority as a Recognised Clearing House in the U K , and the requirements of the Commodity Futures Trading Commission as a Derivatives Clearing Organization in the USA

The new clearing agreement with NYSE Liffe became effective from 30 July 2009 and as part of the termination of the previous agreement the company received a one off payment of € 260 4 million Under this new agreement NYSE Liffe became the central counterparty for London-based Liffe contracts, whilst the Company continued to provide Liffe with risk management services under the previously existing arrangements and continues to run all the normal day to day operational clearing processes for Liffe In the event of a default the Company will be fully responsible for the management of the default

Overall volumes in 2009 were down on the previous year and the markets most affected were equities, derivatives and energy (due to the loss of the ICE business) As the crisis of late 2008 abated, volatility diminished and markets became more subdued Other markets, including fixed income and interest rate swaps, held up well with volumes increasing Clearing fees fell by € 66 0 million to € 132 2 million (2008 € 198 2 million) following the loss of the ICE business in November 2008, the effect of the new clearing arrangements with NYSE Liffe and further cash equity tariff reductions Treasury income decreased by € 42 2 million to € 126 3 million (2008 € 168 5 million) with the easing of both market volatility and activity reducing the amount of cash and collateral margin held by the Company and as treasury markets gradually returned to more normal conditions

The Company opened a branch in New York in late 2009 to exploit opportunities in the OTC markets

**Principal risks and uncertainties**      The Company's Board, risk committee and audit committee meet on a regular basis to monitor and manage the principal risks and uncertainties of the Company, which are financial, technological, competitive, legal and personnel related. The Company's financial risk management objectives and policies are described in Note 23.

**Future developments**      The Company, as part of the LCH Clearnet Group, aims to be the leading provider of central counterparty clearing services to international securities and derivatives markets.

The Company will continue to provide central counterparty facilities for clearing members in relation to eligible contracts traded on certain exchanges, trading platforms or over-the-counter (OTC) markets, maintain and extend services to its clearing members, and seek opportunities to broaden the range of markets served. The Company is committed to competitive tariff levels and to delivering high quality clearing services to its clearing members. The Company will continue to co-operate with, and assist new developments for, the markets and clearing members that it currently serves.

The Company continuously strives to provide services in the most efficient and cost effective manner, and its systems and processes are designed and developed to that end.

The Company is fully supportive of the European Code of Conduct for clearing houses and settlement agents, and looks forward to gaining access to other markets in the future.

Further details on future developments are included in the LCH Clearnet Group Limited 2009 Report and Consolidated Financial Statements.

**Directors**      The directors of the Company are set out on page 2.

**Directors' Interests**      None of the directors of the Company had any interests in the shares of the Company or the Group Company at any time during the years ended 31 December 2009 and 31 December 2008, but the following each held one share in LCH Clearnet SA, a fellow subsidiary undertaking, as at 31 December 2009: Messrs Liddell, Hémon, Townend and Saint-Sauveur. At 31 December 2008 Messrs Liddell, Hémon, and Saint-Sauveur held one share.

Directors' Report continued

---

**Indemnity of Directors** Each director is indemnified out of the assets of the Company against all costs, charges, losses and liabilities incurred by him in the proper exercise of his duties. Directors who have resigned during the year also benefited from the same indemnity arrangement. In addition to this the directors are covered by an indemnity insurance policy.

**Charitable donations** The Company made charitable donations during the year of €112,955 (2008 €82,220).

**Staff** It is the policy of the Company 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 continued employment, with appropriate training.

Staff involvement in the Company's business is encouraged and information is shared with staff through web-based communication and regular meetings.

The Company recognises its responsibilities to provide a safe working environment for staff and measures are in place to ensure that the appropriate health and safety-at-work regulations are strictly observed in all workplaces.

**Going concern and liquidity risk** The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The Company's financial risk management objectives and policies are described in note 23, details of financial instruments and exposure to credit risk and liquidity risk in note 24 and its capital management processes in note 25.

The Company has sufficient financial resources. The contracts for the majority of the exchanges the Company clears for have a notice period of at least one year. It has a large number of members and is not unduly reliant on any single member or group of members.

The Company has its own treasury and banking arrangements and is not reliant on arrangements with its parent or fellow subsidiaries.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Directors' Report continued**

---

**Disclosure of  
Information to  
the Auditors**

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

- I So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- II The director has taken all steps that they ought to have taken as a 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

**Events since  
the statement of  
financial  
position date**

There are no events to report

**Auditors**

The auditors, Ernst & Young LLP, have indicated their willingness to be re-appointed under the provisions of the Companies Act 2006

By order of the Board



**A. Chris Tupker**  
**Chairman**  
15 February 2010

**Statement of Directors' Responsibilities**

---

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

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that period. In preparing those financial statements, the directors are required to

- ▶ Select suitable accounting policies in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", and then apply them consistently,
- ▶ Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- ▶ Provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- ▶ State that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper 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



## **LCH.Clearnet Limited**

### **Independent Auditors' Report to the Members of LCH.Clearnet Limited**

We have audited the financial statements of LCH Clearnet Limited for the year ended 31 December 2009 which comprise the Statement of Financial Position, Income Statement, the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 26. 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 auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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.

**Independent Auditors' Report to the Members of  
LCH.Clearnet Limited continued**

---

**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 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

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

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

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- 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, or
- we have not received all the information and explanations we require for our audit



*Andrew Woosey (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
15 February 2010*

**Income statement**  
**For the year ended 31 December 2009**

	Note	2009 €'000	2008* €'000
<b>Revenue</b>			
Interest income	4	189,875	749,132
Interest expense and similar charges	4	(63,535)	(580,603)
Net interest income		126,340	168,529
Clearing fees	4	132,195	198,232
Other fee income	4	13,649	10,858
Compensation for termination of contract	4	260,417	-
<b>Net revenue</b>		<b>532,601</b>	<b>377,619</b>
<b>Costs and expenses</b>			
Employee benefits expense	9	(59,722)	(53,951)
Depreciation and amortisation charge	5	(6,867)	(8,910)
Other operating costs	5	(95,733)	(102,163)
Total costs and expenses		(162,322)	(165,024)
<b>Operating profit</b>		<b>370,279</b>	<b>212,595</b>
Finance income	6	2,438	8,609
<b>Profit before taxation</b>		<b>372,717</b>	<b>221,204</b>
Taxation expense	7	(102,185)	(50,072)
<b>Profit for the year</b>		<b>270,532</b>	<b>171,132</b>

The results for both years are in respect of continuing operations

Dividends paid in the year were €385,000,000 (2008 €100,000,000) including a final dividend for 2008 of €160,000,000 and an interim dividend for 2009 of €225,000,000 (2008 €nil)

\*Reclassification between clearing and treasury revenue (note 2)

The notes on pages 15 to 58 form part of these financial statements

**LCH.Clearnet Limited**

**Statement of comprehensive income  
For the year ended 31 December 2009**

---

	Note	2009 €'000	2008 €'000
<b>Profit for the year</b>		270,532	171,132
<b>Other comprehensive income</b>			
Actuarial gain/(loss) on pension fund		2,287	(16,675)
Deferred tax on actuarial gain		(640)	4,669
<b>Other comprehensive income/(expense) for the year, net of tax</b>		1,647	(12,006)
<b>Total comprehensive income for the year, net of tax</b>		<u>272,179</u>	<u>159,126</u>

---

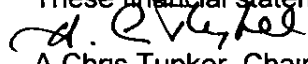
The notes on pages 15 to 58 form part of these financial statements

**LCH.Clearnet Limited**

**Statement of financial position  
As at 31 December 2009**

	Note	2009 €'000	2008 €'000
<b>Non-current assets</b>			
Intangible assets	10	17,740	9,462
Property, plant and equipment	11	7,905	10,969
Investments	12	20,272	7,675
Deferred taxation	7	10,698	11,164
		<u>56,615</u>	<u>39,270</u>
<b>Current assets</b>			
Cash at bank and in hand	13	12,353,669	20,078,197
Other financial assets	24	6,585,837	9,545,075
Trade and other receivables	14	13,572	71,457
Balances with clearing members	15	278,898,999	244,844,269
		<u>297,852,077</u>	<u>274,538,998</u>
<b>Total assets</b>		<u>297,908,692</u>	<u>274,578,268</u>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	16	53,037	53,037
Share premium account		17,212	17,212
Capital redemption reserve		5,078	5,078
Retained earnings		80,272	193,093
<b>Total equity</b>		<u>155,599</u>	<u>268,420</u>
<b>Non-current liabilities</b>			
Default Fund	17	683,959	622,420
Employee benefits	18	726	21,088
<b>Total non-current liabilities</b>		<u>684,685</u>	<u>643,508</u>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	19	71,000	-
Income tax payable		48,713	37,446
Other financial liabilities	24	-	56,010
Trade and other payables	20	44,533	216,797
Balances with clearing members	15	296,904,162	273,356,087
<b>Total current liabilities</b>		<u>297,068,408</u>	<u>273,666,340</u>
<b>Total liabilities</b>		<u>297,753,093</u>	<u>274,309,848</u>
<b>Total equity and liabilities</b>		<u>297,908,692</u>	<u>274,578,268</u>

These financial statements were approved by the Board

  
A Chris Tupker, Chairman  
15 February 2010

The notes on pages 15 to 58 form part of these financial statements

**Statement of cash flows**  
**For the year ended 31 December 2009**

	Note	2009 €'000	2008 €'000
<b>Cashflows arising from operating activities</b>			
<b>Profit for the year</b>		270,532	171,132
<i>Adjustment to reconcile profit for the year to net cash (outflow)/inflow from operating activities</i>			
Taxation expense		102,185	50,072
Finance income		(2,438)	(8,609)
Depreciation and amortisation		6,867	8,910
Fair value loss/(gain) on financial assets		20,053	(22,177)
Decrease/(increase) in trade and other receivables		57,885	(26,993)
(Decrease)/increase in employee benefits		(18,073)	77
Increase in default fund		11,596	9,347
(Decrease)/increase in trade and other payables		(172,264)	180,145
Margin monies cash (outflow)/inflow		<u>(10,506,654)</u>	<u>17,970,937</u>
Net cash (outflow)/inflow from operating activities		<u>(10,230,311)</u>	<u>18,332,841</u>
Taxation received		-	2,051
Taxation paid		<u>(90,183)</u>	<u>(41,380)</u>
<b>Net cash (outflows)/inflows from operating activities</b>		<b><u>(10,320,494)</u></b>	<b><u>18,293,512</u></b>
<b>Investing activities</b>			
Investment in intangible assets		(9,653)	(1,812)
Purchase of property, plant and equipment		(2,428)	(4,905)
Purchase of investments		(12,597)	(7,650)
Redemption of/(investment in) other financial assets		2,883,175	(9,466,888)
Interest received		<u>2,438</u>	<u>8,609</u>
<b>Net cash inflow/(outflow) from investing activities</b>		<b><u>2,860,935</u></b>	<b><u>(9,472,646)</u></b>
<b>Financing activities</b>			
Proceeds from short-term loans	19	71,000	-
Dividend paid		<u>(385,000)</u>	<u>(100,000)</u>
<b>Net cash used in financing activities</b>		<b><u>(314,000)</u></b>	<b><u>(100,000)</u></b>
(Decrease)/increase in cash and cash equivalents		(7,773,559)	8,720,866
Cash and cash equivalents at 1 January		20,078,197	11,544,725
Effect of foreign exchange movements		49,031	(187,394)
Cash and cash equivalents at 31 December		<b><u>12,353,669</u></b>	<b><u>20,078,197</u></b>
Cash and cash equivalents at 31 December comprise			
Investments in secured short-term loans		11,953,406	18,778,765
Cash at bank and in hand on demand		<u>400,263</u>	<u>1,299,432</u>
	13	<b><u>12,353,669</u></b>	<b><u>20,078,197</u></b>

The notes on pages 15 to 58 form part of these financial statements

# LCH.Clearnet Limited

## Statement of changes in equity For the year ended 31 December 2009

	Called up share capital €'000	premium account €'000	Share redemption reserve €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2008	53,037	17,212	5,078	133,967	209,294
Profit for the year	-	-	-	171,132	171,132
Other comprehensive expense	-	-	-	(12,006)	(12,006)
Total comprehensive income	-	-	-	159,126	159,126
Dividends	-	-	-	(100,000)	(100,000)
Shareholders' equity at 31 December 2008	<b>53,037</b>	<b>17,212</b>	<b>5,078</b>	<b>193,093</b>	<b>268,420</b>
Profit for the year	-	-	-	270,532	270,532
Other comprehensive income	-	-	-	1,647	1,647
Total comprehensive income	-	-	-	272,179	272,179
Dividends	-	-	-	(385,000)	(385,000)
Shareholders' equity at 31 December 2009	<b>53,037</b>	<b>17,212</b>	<b>5,078</b>	<b>80,272</b>	<b>155,599</b>

The notes on pages 15 to 58 form part of these financial statements

**Notes to the financial statements**

---

**1 Corporate information**

a) Authorisation for publication

The financial statements of LCH Clearnet Limited for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 15 February 2010, and the statement of financial position was signed on the Board's behalf by the Chairman, A Chris Tupker on 15 February 2010. LCH Clearnet Limited is a limited company incorporated and domiciled in England and Wales. It is wholly owned by LCH Clearnet Group Limited.

b) Principal activities

LCH Clearnet Limited is a Recognised Clearing House under the Financial Services and Markets Act 2000 and a Derivatives Clearing Organization in the USA. It provides central counterparty services in respect of a broad range of cash and derivative products traded on or through various exchanges and trading platforms in the United Kingdom, Europe and the USA, or traded in OTC markets.

**2 Accounting policies**

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union ("EU"), and with those parts of the Companies Act 2006 applicable to those companies reporting under IFRSs.

b) Basis of preparation

A summary of the Company's accounting policies applied in preparing the financial statements for the year ended 31 December 2009 is set out below. These policies have been applied during the years ended 31 December 2009 and 31 December 2008.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities held at fair value through profit or loss.



**Notes to the financial statements**  
continued

---

**2 Accounting policies**

continued

b) Basis of preparation (continued)

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 may ultimately 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 of defined benefit pension obligations. This 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 18).

The directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the directors are not 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.

All values are rounded to the nearest thousand (€'000) except where otherwise indicated.

c) Reclassification within 2008 income statement

A reclassification of €9,880,000 has been made between net interest income and clearing fees (to increase the latter) within the income statement in relation to a revenue share arrangement. The net revenue balance remains unchanged.

d) Presentation currency

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

e) 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 exchange differences are recorded in the income statement.

**Notes to the financial statements**  
continued

---

**2 Accounting policies**  
continued

f) Intangible assets

Intangible assets are initially recognised at cost and are capitalised onto 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 as follows

Software	-	Over three years
----------	---	------------------

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.

g) Property, plant and equipment

Property, plant and equipment is initially recognised at cost and capitalised in the statement of financial position 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 evenly over its expected useful lives as follows

Leasehold refurbishment costs	-	Over the term of the lease
Computer equipment	-	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 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.

**Notes to the financial statements**  
continued

---

**2 Accounting policies**

continued

h) 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 asset may not be fully recoverable.

For the purpose of impairment testing assets are allocated to cash-generating units monitored by management, usually at business segment 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 assets 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.

i) Financial instruments

The Company classifies its financial instruments into the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, cash and cash equivalents, trade and other payables, or interest bearing loans and borrowings or 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.

**Notes to the financial statements**  
continued

---

**2 Accounting policies**  
continued

Balances with clearing members are included in this category, being designated as such 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.

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 cash equivalents 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 three months or less. For the purposes of the cash flow statement, cash and cash equivalents are as defined above, 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.

**Notes to the financial statements**  
Continued

---

**2 Accounting policies**  
continued

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 foreign currency forward exchange contracts, they reduce exposure to 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 cashflow analysis and other valuation techniques commonly used by market participants. Where discounted cashflow analysis and other valuation techniques are used, assumptions are validated against market observable inputs.

j) 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.

k) Derecognition of financial assets and 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.

**Notes to the financial statements**  
continued

---

**2 Accounting policies**

continued

**l) Taxation**

**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 statement of financial position date.

**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 statement of financial position date.

Deferred tax liabilities are recognised for all taxable 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 and taxable profit will be available against which the temporary differences can be utilised.

**m) Leases**

The Company is a lessee. 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.

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

**n) Share capital, share premium and dividends**

Called up share capital comprises ordinary shares. Dividends are recorded as a liability in the period in which the liability to pay shareholders arises.

**Notes to the financial statements**  
continued

---

**2 Accounting policies**

continued

**o) Revenue recognition**

Clearing fee income and associated rebates, together with other fee income, is 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 member clearing activity, less interest paid to clearing members on their margin and other monies lodged with the Group. Interest expense or income is recorded using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument.

Finance income is revenue earned on the Company's own cash and financial assets balances and is also recognised on a time-apportioned basis.

**p) Pensions and post-retirement benefits**

The Company operates a defined benefit pension scheme (the LCH Pension Scheme) which requires contributions to be made into a separate trustee-administered fund.

A full actuarial valuation was carried out at 30 June 2007, and partially updated to 31 December 2009, by a qualified independent actuary. Major assumptions used by the actuary are included within Note 18.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction, and gains are measured when all parties whose consent is required are irrevocably committed to the transaction.

**Notes to the financial statements**  
continued

---

**2 Accounting policies**

continued

p) Pensions and post-retirement benefits (continued)

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

Actuarial gains and losses are recognised in full in the statement of changes in equity in the period in which they occur. The defined benefit pension liability in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair-value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information, and in the case of quoted securities is the published mid-market price.



**Notes to the financial statements**  
continued

---

**2 Accounting policies**

continued

r) Changes in accounting policies and disclosures

The Company has adopted the following new and amended accounting standards as of 1 January 2009

- |                        |   |
|------------------------|---|
| • Amendments to IFRS 7 | Financial Instruments Disclosures   |
| • IFRS 8               | Operating Segments  |
| • IAS 1                | Presentation of Financial Statements                                      |
| • IAS 23 (Revised)     | Borrowing Costs   |
| • IAS 39               | Financial Instruments Recognition and Measurement – Eligible Hedged Items |

When the adoption of the standard is deemed to have an impact on the financial statements or performance of the Group its impact is described below

**IFRS 7 Financial Instruments: Disclosures**

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. Financial instrument disclosures are presented in note 24.

**IAS 1 Presentation of Financial Statements**

The standard introduces the statement of comprehensive income which presents all items of recognised income and expense. The Company has elected to present this in two linked statements.

**Notes to the financial statements**  
continued

---

**2 Accounting policies**  
continued

- q) New standards and interpretations not applied

During the year the IFRIC has issued the following interpretation with an effective implementation date after the date of these financial statements

<b>International Financial Reporting Interpretations Committee (IFRIC)</b>	<b>Effective date</b>
<ul style="list-style-type: none"> <li>IFRIC 17 Distributions of Non-Cash Assets to Owners</li> </ul>	Periods beginning on or after 1 July 2009

The Company will adopt IFRIC 17 in the year it becomes effective, but does not anticipate that it will have a material impact on the financial statements

**3 Exchange rates**

The principal exchange rates used in these financial statements are as follows

	2009 Closing rate	2009 Average rate	2008 Closing rate	2008 Average rate
Euro (€) to US Dollar (\$)	1 43	1 39	1 40	1 47
Euro (€) to Pound (£)	<u>0 89</u>	<u>0 89</u>	<u>0 96</u>	<u>0 79</u>

**Notes to the financial statements**  
continued

**4 Revenue**

Revenue and operating profits are derived from the provision of services to clearing members and exchanges, including interest received on deposits and custody fees

	2009 €'000	2008* €'000
<b>Turnover analysis</b>		
Interest on default fund (refer to note 17)	10,936	38,268
Treasury earnings	178,939	710,864
Interest income	<u>189,875</u>	<u>749,132</u>
Clearing fees	132,195	198,232
Other income	13,649	10,858
Compensation for termination of contract	<u>260,417</u>	<u>-</u>
	<u>406,261</u>	<u>209,090</u>
	<u>596,136</u>	<u>958,222</u>
<b>Interest paid to clearing members analysis</b>		
Treasury	45,797	529,920
Default fund (refer to note 17)	<u>17,738</u>	<u>50,683</u>
Interest expense and similar charges	<u>63,535</u>	<u>580,603</u>

On 30 July 2009, the Company received €260,416,667 in connection with the termination of the clearing agreement between itself and NYSE Liffe. The Company also entered into a new clearing relationship agreement with NYSE Liffe. Under this agreement the Company continues to provide risk management services, default management services and settlement services to LIFFE Administration and Management which has become a self-clearing Recognised Investment Exchange and NYSE Liffe pays the Company a fixed monthly fee together with 5 per cent of treasury income attributable to the NYSE Liffe market. This new agreement has been in effect since 30 July 2009.

\*Reclassification between treasury revenue and clearing revenue in 2008 (note 2)

**Notes to the financial statements**  
continued

**5 Administrative expenditure**

Administrative expenditure includes

	2009 €'000	2008 €'000
Staff costs (Note 9)	59,722	53,951
Depreciation of Property, Plant and Equipment (Note 11)	5,492	4,753
Amortisation of Intangible Fixed Assets (Note 10)	1,375	4,157
	<u>6,867</u>	<u>8,910</u>
Hire of equipment under operating leases	984	426
Property lease rentals	5,684	4,385
Foreign exchange losses	3,081	2,725
Auditors' remuneration - audit	212	244
Auditors' remuneration – non-audit	<u>10</u>	<u>86</u>

**Notes to the financial statements**  
continued

**6 Finance income**

	2009 €'000	2008 €'000
Interest received on own funds	<u>2,438</u>	<u>8,609</u>

**7 Tax on profit on ordinary activities**

The tax charge is made up as follows

	2009 €'000	2008 €'000
<b>Current tax:</b>		
United Kingdom corporation tax		
- current year charge	(100,620)	(53,059)
- prior year tax (under)/over provision	<u>(834)</u>	<u>3,153</u>
Total current tax charge	<u>(101,454)</u>	<u>(49,906)</u>
<b>Deferred tax:</b>		
- current (provision)/credit	(437)	611
- prior year over provision	1,545	-
- deferred tax on pension liability	<u>(1,839)</u>	<u>(777)</u>
	<u>(731)</u>	<u>(166)</u>
<b>Tax on profit on ordinary activities in income statement</b>	<u><b>(102,185)</b></u>	<u><b>(50,072)</b></u>
Deferred tax (charge)/credit relating to actuarial gain/(loss) on UK pension scheme	<u>(640)</u>	<u>4,669</u>
<b>Tax (charge)/credit in statement of other comprehensive income</b>	<u><b>(640)</b></u>	<u><b>4,669</b></u>

**Notes to the financial statements**  
continued

---

**7 Tax on profit on ordinary activities continued**

**Reconciliation of total tax charge**

	2009 €'000	2008 €'000
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008 28.5%)	104,361	63,043
Permanent differences - expenses not deductible for tax purposes	179	1,474
Tax over-provided in previous periods	(711)	(3,153)
Exchange differences	(1,644)	(11,292)
<b>Total tax charge</b>	<b><u>102,185</u></b>	<b><u>50,072</u></b>
<b>Effective income tax rate</b>	<b><u>27.4%</u></b>	<b><u>22.6%</u></b>

The UK statutory corporation tax rate remained 28% in 2009. Exchange differences have arisen on the translation of the closing sterling tax creditor which is payable to the UK tax authority.

**Notes to the financial statements**  
continued

**7 Tax on profit on ordinary activities continued**

Deferred tax	Statement of financial position		Income statement	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Post-employment benefits	5,962	7,804	(1,839)	(777)
Reduced depreciation for tax purposes	4,736	3,360	(437)	611
Prior year over provision			1,545	-
Deferred tax charge			<u>(731)</u>	<u>(166)</u>
Net deferred tax asset	<u>10,698</u>	<u>11,164</u>		
Reconciliation				
Net deferred tax asset at 1 January	11,164	8,727		
Deferred tax in income statement	(731)	(166)		
Deferred tax relating to actuarial loss	(640)	4,669		
Other movements*	905	(2,066)		
Net deferred tax asset at 31 December	<u>10,698</u>	<u>11,164</u>		

\*Other movements are principally due to exchange differences, since the underlying deferred tax asset is held in sterling

**Notes to the financial statements**  
continued

**8 Directors' emoluments and transactions**

The emoluments of directors of the Company were

	2009 €'000	2008 €'000
Aggregate Emoluments	<u>2,303</u>	<u>2,342</u>

Aggregate emoluments comprise amounts payable to Messrs Liddell and Pravettoni (2008 Messrs Liddell and Pravettoni) The Company does not pay any emoluments to other directors

Amounts payable to directors under a long-term incentive plan were €609,000 (2008 €692,000) The amounts payable in respect of 2009 will be paid during 2012 Under the Company's accounting policies only €203,000 (2008 €231,000) of this deferred payment was recognised in this year's income statement

At 31 December 2009 two (2008 two) directors were in the defined benefit pension scheme

The Company's contributions to the defined benefit pension scheme in respect of directors were €175,000 (2008 €175,000)

Aggregate emoluments and benefits paid to the highest paid director were €1,408,000 (2008 €1,427,000) Pension contributions on behalf of the highest paid director were €102,000 (2008 €101,000)

The accrued annual pension of the highest paid director in office as at 31 December 2009 was €8,000 (2008 €5,000) and the accrued lump sum benefit is €135,000 (2008 €85,000)



**Notes to the financial statements**  
continued

**9 Employees**

	2009 Number	2008 Number
The monthly average number of staff employed during the year was	<u>456</u>	<u>382</u>
	2009 €'000	2008 €'000
<b>The aggregate staff costs were:</b>		
Wages and salaries	43,621	41,114
Social security costs	4,735	4,644
Pension costs	11,366	8,193
	<u>59,722</u>	<u>53,951</u>

**Notes to the financial statements**  
continued

**10 Intangible assets**

	2009 Software €'000	2008 Software €'000
<b>Cost</b>		
Balance 1 January	51,401	43,570
Additions	9,653	7,831
Balance 31 December	<b>61,054</b>	<b>51,401</b>
<b>Amortisation</b>		
Balance 1 January	41,939	37,782
Charge for the year	1,375	4,157
Balance 31 December	<b>43,314</b>	<b>41,939</b>
<b>Net book value</b>		
Balance at 1 January	9,462	5,788
Balance 31 December	<b>17,740</b>	<b>9,462</b>

The balance of capitalised business development costs that had not yet been brought into use at the end of the year and against which depreciation has not yet been charged was €13,422,000 (2008 €7,197,000)

**Notes to the financial statements**  
continued

**11 Property, plant and equipment**

	Leasehold refurbishment	Computer equipment	Office equipment and other	Total
	€'000	€'000	€'000	€'000
<b>Cost</b>				
Balance 1 January 2009	4,441	18,368	3,704	26,513
Additions	195	2,094	139	2,428
Balance 31 December 2009	<u>4,636</u>	<u>20,462</u>	<u>3,843</u>	<u>28,941</u>
<b>Depreciation</b>				
Balance 1 January 2009	2,732	10,602	2,210	15,544
Charge for the year	355	4,635	502	5,492
Balance 31 December 2009	<u>3,087</u>	<u>15,237</u>	<u>2,712</u>	<u>21,036</u>
<b>Net book value</b>				
Balance 31 December 2009	<u><b>1,549</b></u>	<u><b>5,225</b></u>	<u><b>1,131</b></u>	<u><b>7,905</b></u>

	Leasehold refurbishment	Computer equipment	Office equipment and other	Total
	€'000	€'000	€'000	€'000
<b>Cost</b>				
Balance 1 January 2008	3,846	14,920	2,842	21,608
Additions	595	3,448	862	4,905
Balance 31 December 2008	<u>4,441</u>	<u>18,368</u>	<u>3,704</u>	<u>26,513</u>
<b>Depreciation</b>				
Balance 1 January 2008	2,474	6,647	1,670	10,791
Charge for the year	258	3,955	540	4,753
Balance 31 December 2008	<u>2,732</u>	<u>10,602</u>	<u>2,210</u>	<u>15,544</u>
<b>Net book value</b>				
Balance 31 December 2008	<u><b>1,709</b></u>	<u><b>7,766</b></u>	<u><b>1,494</b></u>	<u><b>10,969</b></u>

**Notes to the financial statements**  
continued

**12 Investments**

During the year the Company invested €12,597,000 (2008 €7,650,000) in the ordinary shares of LCH Clearnet (Luxembourg) S a r l , a company it holds a 51% interest in. The other 49% being held by a fellow subsidiary, LCH Clearnet SA. As at 31 December 2009, the Company has an investment of €20,272,000 (2008 €7,675,000) in LCH Clearnet (Luxembourg) S a r l.

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of LCH Clearnet Group Limited (incorporated in England and Wales) which prepares consolidated financial statements, in which the Company is included, which are publicly available.

**13 Cash at bank and in hand**

	2009 €'000	2008 €'000
Cash at bank and in hand on demand	400,263	1,299,432
Short-term deposits	11,953,406	18,778,765
	<b>12,353,669</b>	<b>20,078,197</b>

€10,549,381,000 (2008 €18,690,747,000) of short-term deposits are fully collateralised by high quality sovereign and investment grade corporate securities in accordance with Risk Committee approved eligibility criteria. Included within short-term deposits is an overnight deposit of €249,645,000 held by LCH Clearnet SA, a fellow subsidiary.

**14 Trade and other receivables**

	2009 €'000	2008 €'000
Other receivables	333	196
Prepayments	6,165	6,007
Accrued income	5,019	57,730
Amount owed by parent undertaking	1,634	1,445
Amount owed by fellow subsidiary	421	6,079
	<b>13,572</b>	<b>71,457</b>

**Notes to the financial statements**  
continued

**15 Balances with clearing members**

Included within balances with clearing members are the following fair value balances at 31 December

	2009 €'000	2008 €'000
<b>Assets</b>		
RepoClear transactions	270,988,367	236,067,898
SwapClear transactions	2,012,099	1,093,543
London Metal Exchange transactions	3,657,788	3,921,442
EquityClear transactions	11,204	15,861
EDX futures	-	312,417
Freight transactions	153,177	379,279
NYSE Liffe Traded Options transactions	2,065,383	3,028,784
	<u>278,888,018</u>	<u>244,819,224</u>
Initial margin and other balances	10,981	25,045
	<u>278,898,999</u>	<u>244,844,269</u>
<b>Liabilities</b>		
RepoClear transactions	(270,988,367)	(236,067,898)
SwapClear transactions	(2,012,099)	(1,093,543)
London Metal Exchange transactions	(3,657,788)	(3,921,442)
EquityClear transactions	(11,204)	(15,861)
EDX futures	-	(312,417)
Freight transactions	(153,177)	(379,279)
NYSE Liffe Traded Options transactions	(2,065,383)	(3,028,784)
	<u>(278,888,018)</u>	<u>(244,819,224)</u>
Initial margin and other balances	(18,016,144)	(28,536,863)
	<u>(296,904,162)</u>	<u>(273,356,087)</u>

The balances due from clearing members recorded in the statement of financial position of €278,899 million (2008 €244,844 million) are fully secured by collateral held by the Company. All outstanding RepoClear transactions are fully collateralised after appropriate haircutting. To date this collateral has not been utilised. At 31 December 2009, the total net amount of non-cash collateral held, including in respect of initial margin, was €299,855 million (2008 €277,073 million) and the total amount of guarantees held was €1,348 million (2008 €2,573 million). Included within the non-cash collateral is the net amount of debt securities received as collateral for the Company's assets in respect of RepoClear transactions, which has in turn been passed on to RepoClear counterparties to secure the Company's liabilities in respect of RepoClear contracts.

**Notes to the financial statements**  
continued

**16 Called up share capital**

	2009 €'000	2008 €'000
<b>Authorised</b>		
120,000,000 ordinary shares of €1 each	<u>120,000</u>	<u>120,000</u>
<b>Issued and fully paid</b>		
53,036,872 ordinary shares of €1 each	<u>53,037</u>	<u>53,037</u>

LCH Clearnet Group Limited owns all of the issued share capital of the Company

**17 Default fund**

	2009 €'000	2008 €'000
Default Fund	<u>683,959</u>	<u>622,420</u>

The purpose of the Default Fund is to fund any losses incurred by the Company in the event of clearing member default if margin monies are insufficient to cover the management and close out of the positions of the defaulting clearing member. Monies are placed on deposit by the Company and interest is paid to clearing members, on their contributions to the Fund, at a rate of not less than three-month sterling LIBOR (or equivalent) plus one per cent. This interest is included within interest paid to clearing members in these financial statements (see Note 4). Clearing members' contributions are adjusted on a quarterly basis and are refundable on resignation subject to the Rulebook of the Company.

**Notes to the financial statements**  
continued

**18 Pension commitments**

The Company participates in the LCH Pension Scheme. This scheme is of the defined benefit type providing benefits to employees of the Company and the assets are held in a separate trustee administered fund. The total pension cost for the Company relating to the scheme in the year to 31 December 2009 was €11,366,000 (2008: €8,193,000).

The pension cost and valuation relating to the scheme is assessed in accordance with the advice of a qualified actuary using the projected unit method. A full actuarial assessment of the scheme was carried out as at 30 June 2007, and partially updated as at 31 December 2009, by a qualified independent actuary for financial reporting purposes in accordance with IAS 19. A summary of the triennial valuation for the scheme, as at 30 June 2007, is as follows:

Actuarial method used	Projected unit			
Rate of investment returns per annum pre-retirement	6.50%			
Rate of investment returns per annum post-retirement	5.125%			
Increase in earnings per annum	5.25%			
Scheme assets taken at market value	€122,038,000			
Wind up funding level	71%			
	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007	As at 31 December 2006
Rate of increase in salaries	5.00%	5.00%	5.25%	5.10%
Rate of increase in pensions	3.25%	2.75%	3.25%	3.10%
Discount rate	5.75%	5.75%	5.50%	5.10%
Inflation assumption	3.50%	3.00%	3.25%	3.10%
Expected rate of return on scheme assets				
Equities	6.50%	6.40%	7.10%	7.00%
Bonds	5.30%	5.00%	5.20%	4.50%
Property	6.50%	6.40%	5.25%	5.00%
Cash	-	2.00%	5.25%	5.00%
Weighted average	6.14%	5.68%	6.57%	6.58%
Post retirement mortality in years				
Currently aged 60 – male	28.7	28.6	26.7	26.6
Currently aged 60 – female	31.6	31.5	29.6	29.5
Currently aged 45 – male	29.6	29.6	27.6	27.6
Currently aged 45 – female	32.5	32.4	30.5	30.4

The discount rate for the scheme has been determined from a curve of AA corporate bond rates by duration which is consistent with the profile of the scheme's liabilities at around 25 years.

**Notes to the financial statements**  
continued

**18 Pension commitments continued**

	2009	2008
	€'000	€'000
Change in benefit obligation		
Benefit obligation at 1 January	92,311	119,938
Current service cost	10,274	9,331
Interest cost	5,644	6,028
Actuarial loss/(gain)	8,266	(10,461)
Employee contributions	3	223
Benefits paid	(1,964)	(2,477)
Exchange rate changes	7,501	(30,271)
Benefit obligation at 31 December	<u>122,035</u>	<u>92,311</u>

	2009	2008
	€'000	€'000
Change in scheme assets		
Fair value of scheme assets at 1 January	71,223	115,601
Expected return on scheme assets	4,552	7,166
Actuarial gains/(losses)	10,553	(27,136)
Employer contribution	31,130	6,880
Employee contributions	3	223
Benefits paid	(1,964)	(2,477)
Exchange rate changes	5,812	(29,034)
Fair value of scheme assets at 31 December	<u>121,309</u>	<u>71,223</u>

	2009	2008
	€'000	€'000
Analysis of pension benefit obligation		
Present value of funded obligations	122,035	92,311
Fair value of plan assets	(121,309)	(71,223)
Deficit for funded plan	<u>726</u>	<u>21,088</u>



**Notes to the financial statements**  
continued

---

**18 Pension commitments continued**

**Components of pension cost**

	2009 €'000	2008 €'000
Current service cost	10,274	9,331
Interest cost	5,644	6,028
Expected return on plan assets	<u>(4,552)</u>	<u>(7,166)</u>
Total pension cost recognised in the income statement	<u>11,366</u>	<u>8,193</u>

	2009 €'000	2008 €'000
Net actuarial (gain)/losses immediately recognised	(2,287)	16,675
Total pension (income)/expense recognised in the statement of comprehensive income	<u>(2,287)</u>	<u>16,675</u>

The cumulative amount of actuarial losses recognised in the statement of changes in equity since 1 January 2004 is €5,451,000 loss (2008 €7,738,000 loss)

## Notes to the financial statements

### continued

#### 18 Pension commitments continued

##### Pension scheme asset allocation

An analysis of the pension scheme assets is set out below

	2009		2008	
	€'000	%	€'000	%
Equities	69,025	57	45,725	64
Bonds	21,472	18	18,304	26
Property and cash	30,812	25	7,194	10
Total	<u>121,309</u>	100	<u>71,223</u>	100

	2009	2008
	€'000	€'000
Actual return on plan assets	<u>15,105</u>	<u>(19,970)</u>

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

##### History of experience gains and losses

	31 December 2009	31 December 2008	31 December 2007	31 December 2006
	€'000	€'000	€'000	€'000
Difference between expected and actual return on scheme assets	10,553	(27,136)	2,048	4,894
- Percentage of scheme assets	9%	38%	2%	5%
Experience gains and (losses) on scheme liabilities	-	(0)	(11,231)	(15)
- Percentage of scheme liabilities	0%	0%	(9%)	0%

In 2010 the Company expects to contribute €8,711,000 (2009 €31,130,000) to its defined benefit pension plan. The 2009 actual contributions included a one-off additional payment of €22,459,000 in December 2009. The scheme was closed to new members from 1 September 2009. New employees have the option of joining a new defined contribution scheme from 1 January 2010.

**Notes to the financial statements**  
continued

---

**19 Interest bearing loans and borrowings**

	2009 €'000	2008 €'000
Short-term loan from Parent company	<u>71,000</u>	<u>-</u>

The Parent company invests funds with the Company so that it can pool with its own cash resources to maximise the return for the Group, investing within Risk policies. The interest that accrues on the funds lent by the Parent company are remitted to that entity.

**20 Trade and other payables**

	2009 €'000	2008 €'000
Trade payables	4,543	5,949
Other tax & social security	1,527	129
Accruals	37,687	33,233
Amounts owed to fellow subsidiary	776	-
Other payables	<u>-</u>	<u>177,486</u>
	<b><u>44,533</u></b>	<b><u>216,797</u></b>

Other payables at 31 December 2008 included a balance of €165,319,000 owed to the administrators of Lehman Brothers Special Financing Inc. This was settled in January 2009.

**Notes to the financial statements**  
continued

**21 Other financial commitments**

**Operating leases**

At 31 December 2009 the Company had annual commitments under non-cancellable operating leases as set out below

	Land & Buildings		Other	
	2009	2008	2009	2008
Operating lease expenditure	€'000	€'000	€'000	€'000
Within one year	4,990	5,127	390	380
In two to five years	14,175	10,831	-	361
In over five years	3,362	5,602	-	-
	<u>22,527</u>	<u>21,560</u>	<u>390</u>	<u>741</u>

**Treasury assets supporting operational facilities**

At 31 December 2009 the Company had assets and collateral in support of the following operational facilities

	2009	2008
	€'000	€'000
Central bank activity	394,522	365,249
Concentration bank services	225,441	208,714
Fixed Income settlement*	14,138,917	18,983,218
Equity and derivatives settlement delivery	174,423	29,625
Performance collateral on energy markets	1,138	1,044
	<u>14,934,441</u>	<u>19,587,850</u>

\*The Company holds highly rated 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

**Notes to the financial statements**  
continued

**22 Related party disclosure**

**Key management personnel**

Details of key management personnel are disclosed in the Directors' Report, and their remuneration is disclosed in note 8

**Other Group undertakings**

Sales to and purchases from other group undertakings 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 2009, the Company has not raised any provision for doubtful debts relating to amounts owed by other group undertakings.

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

	2009	2008
	€'000	€'000
<b>Balances with LCH.Clearnet Group Limited (Parent company)</b>		
Income statement		
Services recharged to Parent company and netted with administrative expenses	12,283	12,038
Services recharged from Parent company and included in administrative expenses	(5,647)	(5,532)
	<u>6,636</u>	<u>6,506</u>
Statement of financial position		
Amount due from Parent company at 31 December	<u>1,634</u>	<u>1,445</u>
<b>Balances with LCH.Clearnet SA</b>		
Services recharged to fellow subsidiary	469	639
Project recharge income (netted with administrative expenses)	618	473
Services recharged from fellow subsidiary	(195)	(125)
	<u>892</u>	<u>987</u>
Statement of financial position		
Amount due from/(to) LCH Clearnet SA at 31 December	<u>421</u>	<u>275</u>
<b>Balances with LCH.Clearnet (Luxembourg) S.a.r.l.</b>		
Project recharge income (netted with administrative expenses)	8,317	4,298
Royalties recharged from fellow subsidiary	(2,069)	-
Services recharged from fellow subsidiary	(2,404)	-
	<u>3,844</u>	<u>4,298</u>
Statement of financial position		
Amount due (to)/from LCH Clearnet (Luxembourg) S a r l at 31 December	<u>(776)</u>	<u>5,804</u>

**Notes to the financial statements**  
continued

---

**23 Financial risk management objectives and policies**

**Introduction**

The Company's activities expose it to a number of financial risks – market risk (foreign currency risk, interest rate risk, volatility in financial markets), credit risk and liquidity risk

The Company manages these risks through various control mechanisms and its approach to risk management is to be both prudent and evolutionary

Overall responsibility for risk management rests with the Board. Dedicated resources within the Risk Management department control and manage the exposures to members and banks on the basis of policies adopted by the Board. The continued appropriateness of risk policies is reviewed by the Board and its Risk Committee, and audits of processes within the Risk Management department are undertaken on a regular basis

**Foreign currency risk**

This risk arises from the fact the presentational and functional currency of the Company is euros, although it incurs a significant portion of its costs and revenues in sterling and other currencies. The Company is exposed to foreign exchange risk primarily with respect to sterling and US dollars in the translation of net assets and earnings denominated in foreign currency. The Company also has transactional exposure to US dollars and sterling. The Company converts surplus foreign exchange balances to euros on a regular basis based upon agreed thresholds which minimises the effect exchange rate fluctuations will have on overall net assets. Any exchange differences on translation of net assets that remain are recorded in the income statement, and the Company does not view this as a material risk.

**Interest rate risk**

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

The interest bearing assets are generally invested for a longer term than the interest bearing liabilities, whose interest rate is reset daily, this makes the associated revenue vulnerable to volatility in overnight rates and shifts in spreads between overnight and term rates.

**Notes to the financial statements**  
continued

---

**23 Financial risk management objectives and policies continued**

**Financial market volatility**

The level or volatility of financial markets in which the Company operates can adversely affect its ability to meet its earnings and its business objectives. Indeed, in the event of a default by a counterparty, the Company faces market risk which is correlated to member positions and market conditions. The market and credit risk management policies of the Company are approved by its risk committee and Board. A variety of measurement methodologies, including stress testing and scenario analysis, are used to quantify and assess the levels of credit and market risk to which the Company is exposed.

As a central counterparty the Company has a balanced position in all cleared contracts and runs no market risk unless a clearing member defaults. The market risk is narrowed by collecting variation margin on marked-to-market positions each day and by establishing initial margin requirements which are the Company's estimate of likely future market risk under normal market conditions which is collected daily and, if necessary, replenished intra-day. The Company also maintains a default fund to be used should the initial margin of a defaulted clearing member not fully cover close-out costs, and also has access to supplementary financial resources, including its own capital, to ensure the continuity of ongoing operations.

This protection was proven to be sufficient during the default of Lehman Brothers in 2008, with all positions being closed out without recourse to the Default Fund. Unused margin and Default Fund contributions were returned to the administrators of Lehman Brothers both during 2008 and in early 2009.

The Company accepts both cash and non-cash collateral to cover margin requirements, the list of acceptable non-cash collateral is restricted and haircuts are set for each security type, taking into account market, credit, country and liquidity risks. All non-cash collateral is, where appropriate, revalued daily.

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

**Credit risk**

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

The Company has credit risk exposure as a direct result of the cash it holds which is primarily a result of its central counterparty activities. This cash portfolio is invested within the confines of clear risk policies which aim to secure a significant portion of the cash portfolio via tri-party repo receiving high quality government and quasi-government securities as collateral or by investing directly in such quasi-government or government securities. Securities received as collateral are subject to a haircut on their market value on a daily basis. The small amount of cash not secured in this way will be deposited in the money markets on an unsecured, short-term basis only to high quality banking institutions.

**Notes to the financial statements**  
continued

---

**23 Financial risk management objectives and policies continued**

**Concentration risk**

Concentration risk includes large connected individual exposures and significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors. Concentration risk only arises with respect to the Company's treasury assets (note 24), and in order to avoid excessive concentrations of risk, the Company maintains a diversified portfolio of treasury assets, and in accordance with policy no single institution can hold more than 15% of funds.

**Liquidity risk**

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 or in case it needs to manage a clearing member default.

Liquidity risk exists as a result of day-to-day operational flows such as repayments of cash collateral to members, provision of liquidity to facilitate settlement and cash flows resulting from investment activity. In the case of a clearing member default the Company has to close out the defaulting member's portfolio which may require additional liquidity during the execution of the default management procedure.

As a result liquidity risk is managed by ensuring that the Company has sufficient available cash to meet its payment obligations and by the provision of facilities to meet short-term imbalances between available cash and payment obligations. The Company has identified two scenarios to evaluate the need for liquidity - a daily operational liquidity need, based on the maximum relevant liquidity outflow observed over an extensive data history, and the default liquidity need which aims to evaluate the liquidity requirement on the day of a default and subsequent days so that the Company can meet its obligations to members as a central counterparty.

The Company's liquidity management is subject to strict minimum liquidity targets that are set by the Board and risk committee and which are kept under constant review. On a day-to-day basis the treasury team 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 a clearing member default.

Liquidity risk is managed by ensuring the Company has sufficient available cash to meet its payment obligations and by the provision of facilities to meet short-term imbalances between available cash and payment obligations.



**Notes to the financial statements**  
continued

---

**23 Financial risk management objectives and policies continued**

**Settlement risk**

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

The Company fully mitigates this risk since it always uses guaranteed and irrevocable Delivery versus Payment (DvP) mechanisms where available. If not available (for example commodities) the payment or delivery is always called first before the Company delivers or makes a payment to the counterparty.

**Settlement bank risk**

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

The Company uses a combination of central bank, payment agent and commercial settlement bank models. The Treasury process is set up to have no balances at commercial settlement banks overnight, and instead have them at the Bank of England. 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**

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

Although the risk of insolvency of Central Securities Depositories, International Central Securities Depositories, or Custodian banks (subject to a minimum credit rating) used by the Company is low, the Group mitigates other risks through legal arrangements and dedicated processes.

**Other risk management**

In addition to the financial risks above the Company is also exposed to operational, 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 through systems and procedures in which processes are documented, authorisation is independent, and transactions are monitored and reconciled.

**Notes to the financial statements**  
continued

---

**23 Financial risk management objectives and policies continued**

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 departments' 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.

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 Management (including the Chief Executive) 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 committees and senior management. Any significant weaknesses are additionally reported to the Boards.

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

**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 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. More details of the pension scheme and assumptions used in valuing their assets and liabilities is included in note 18.

**Compliance, legal and reputational risk**

Compliance 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 authorisation and regulatory requirements regimes in the UK and the USA. 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 management, manage the legal risks of the Company. Legal risk is managed by use of internal and external legal advisors.

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 of the day-to-day operations of the Company is paramount to its reputation.

**Notes to the financial statements**  
continued

## 24 Financial instruments

The Company's financial assets and liabilities are as follows

		2009 €'000	2008 €'000
	Note		
<b>Financial assets at fair value through profit or loss</b>			
Fair value of transactions with clearing members	15	278,888,018	244,819,224
Government backed, bank issued certificates of deposits included in current assets		4,024,643	6,113,558
Treasury bills		2,561,194	2,973,801
Government notes		-	436,254
Government backed, bank securities		-	21,462
Other financial assets		<u>6,585,837</u>	<u>9,545,075</u>
<b>Loans and receivables</b>			
Debtors and other receivables	14	7,407	65,450
Initial margin and other member balances	15	10,981	25,045
Cash at bank and in hand in the statement of financial position	13	12,353,669	20,078,197
<b>Financial liabilities at fair value through profit or loss</b>			
Fair value of transactions with clearing members	15	(278,888,018)	(244,819,224)
Collateral borrowings		-	(56,010)
<b>Financial liabilities at amortised cost</b>			
Short-term loan from Parent company	19	(71,000)	-
Trade and other payables	20	(43,006)	(216,668)
Initial margin and other member balances	15	(18,016,144)	(28,536,863)
<b>Interest bearing loans and other borrowings</b>			
Default Funds	17	(683,959)	(622,420)

## Notes to the financial statements

continued

### 24 Financial instruments continued

#### 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

As at 31 December 2009, the Company held the following financial instruments measured at fair value

	2009 €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
<b>Assets measured at fair value</b>				
Fair value of transactions with clearing members	278,888,018	5,887,552	273,000,466	-
Government backed, bank issued certificates of deposits	4,024,643	-	4,024,643	-
Treasury bills	2,561,194	2,561,194	-	-
<b>Liabilities measured at fair value</b>				
Fair value of transactions with clearing members	(278,888,018)	(5,887,552)	(273,000,466)	-

#### Credit risk

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

Credit risk in the Company principally arises from cash and cash equivalents, and exposures to member balances. 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. The Company's exposure to member balances and the treasury portfolio are managed through the Company's risk policies. Members are subject to strict eligibility criteria which are monitored on a regular basis, and in addition are required to contribute to the Default Fund as well as depositing initial margin and daily variation margin when entering into clearing contracts.

**Notes to the financial statements**  
continued

**24 Financial instruments continued**

The table below shows the Company's treasury portfolio and member balances by reference to the credit rating of the counterparty. The treasury portfolio includes Cash at bank and Other financial assets.

	2009 €'000	2008 €'000
<b>Fair value of member balances</b>		
(Ratings as measured by Fitch)		
Members rated AAA	19,076,174	1,786,462
AA+	1,191,615	1,194,998
AA	65,867,076	60,372,192
AA-	76,953,499	86,728,521
A+	78,856,777	64,925,554
A	28,683,079	13,807,005
A-	1,665,371	1,255,007
BBB+	55,731	1,644,315
BBB	6,271,735	7,209,093
BBB-	219,067	-
Unrated	47,894	5,896,077
	<u>278,888,018</u>	<u>244,819,224</u>
<b>Treasury portfolio</b>		
(Ratings assigned with reference to major agencies)		
AAA Government backed	6,829,586	9,545,075
AA+/AA- Government backed	634,474	-
AA/AA+/AAA Secured	1,490,539	10,272,894
AA/AA+/AAA Unsecured	445,078	1,007,191
A+/AA- Secured	9,075,811	8,383,386
A+/AA- Unsecured	464,018	414,726
	<u>18,939,506</u>	<u>29,623,272</u>

The balances due from clearing members are fully secured by collateral held by the Company. At 31 December 2009, the total net amount of non-cash collateral held, including in respect of initial margin, was €299,855 million (2008: €277,073 million) and the total amount of guarantees held was €1,348 million (2008: €2,573 million).

**Concentration risk**

The largest concentration of Treasury exposures as at 31 December 2009 was 27.2% (2008: 20.5%) of the total investment portfolio to UK Government backed securities.

**Notes to the financial statements**  
continued

**24 Financial instruments continued**

**Liquidity and interest rate risk**

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

<b>2009</b>	<b>On demand</b>	<b>Less than</b>	<b>3 months to 1</b>	<b>1 to 5</b>	<b>Total</b>
	<b>€'000</b>	<b>3 months</b>	<b>year</b>	<b>years</b>	
		<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Cash and short-term deposits	9,024,849	3,328,820	-	-	12,353,669
Other financial assets	-	3,193,697	2,234,003	1,156,013	6,583,713
Treasury portfolio	9,024,849	6,522,517	2,234,003	1,156,013	18,937,382
Fair value of transactions with clearing members - asset	278,888,018	-	-	-	278,888,018
Initial margin and other member balances - asset	10,981	-	-	-	10,981
Fair value of transactions with clearing members - liability	(278,888,018)	-	-	-	(278,888,018)
Initial margin and other member balances - liability	(18,016,144)	-	-	-	(18,016,144)
Default Fund	(683,959)	-	-	-	(683,959)
Net balance with members	(18,689,122)	-	-	-	(18,689,122)
Debtors and other receivables	-	7,407	-	-	7,407
Interest bearing loans and borrowings	-	(71,000)	-	-	(71,000)
Trade and other payables	-	(43,006)	-	-	(43,006)

**Notes to the financial statements**  
continued

**24 Financial instruments continued**

2008	On demand €'000	Less than 3 months €'000	3 months to 1 year €'000	Total €'000
Cash and short-term deposits	12,046,151	8,032,046	-	20,078,197
Other financial assets	-	6,756,481	2,766,417	9,522,898
Treasury portfolio	12,046,151	14,788,527	2,766,417	29,601,095
Fair value of transactions with clearing members - asset	244,819,224	-	-	244,819,224
Initial margin and other member balances - asset	25,045	-	-	25,045
Fair value of transactions with clearing members - liability	(244,819,224)	-	-	(244,819,224)
Initial margin and other member balances - liability	(28,536,863)	-	-	(28,536,863)
Default Fund	(622,420)	-	-	(622,420)
Net balance with members	(29,134,238)	-	-	(29,134,238)
Debtors and other receivables	-	65,450	-	65,450
Collateral borrowings	-	(24,234)	(31,776)	(56,010)
Trade and other payables	-	(216,668)	-	(216,668)

All of the financial assets of the Company are either based upon floating rates or upon fixed rates with an interest term of less than six months. For Default Funds, the tenor of the liability, on which interest is paid based on 3 month LIBOR, is matched with the interest reset dates of the asset and does not exceed 3 months, although the assets themselves have a longer maturity. The weighted average maturity of the portfolio is 82 days, with strict risk criteria being applied for any assets over 6 months.

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.

## Notes to the financial statements

continued

### 24 Financial instruments continued

#### Interest sensitivity analysis

The Company's exposure to interest rate fluctuations is limited through the off-set that exists between the bulk of its 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 only exposed for the time it takes to reset the interest rates on its investments. Interest rates are reset for a period which does not exceed six months, even for those assets with a longer maturity.

The following table shows the estimated impact on 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 assuming no disposal of assets.

	2009 €'000 +25bp interest rate	2009 €'000 +50bp interest rate	2009 €'000 +100bp interest rate	2009 €'000 -25bp interest rate	2009 €'000 -50bp of interest rate	2009 €'000 -100bp interest rate
Net exposure of cash and member margin balances	(1,550)	(4,116)	(9,248)	232	233	233
Tax effect of above	425	1,128	2,534	(64)	(65)	(65)
Impact on profit after tax	(1,125)	(2,988)	(6,714)	168	168	168
	2008 €'000 +25bp interest rate	2008 €'000 +50bp interest rate	2008 €'000 +100bp interest rate	2008 €'000 -25bp interest rate	2008 €'000 -50bp of interest rate	2008 €'000 -100bp interest rate
Net exposure of cash and member margin balances	(4,870)	(9,740)	(19,480)	4,870	9,740	19,480
Tax effect of above	1,364	2,727	5,454	(1,364)	(2,727)	(5,454)
Impact on profit after tax	(3,506)	(7,013)	(14,026)	3,506	7,013	14,026

The smaller monetary variance in response to changes in interest rates in 2009 compared to 2008 has arisen due the reduction in treasury portfolio size and the current low level of interest rates meaning that not all increases in interest rates will be passed on to members where the benchmark interest rate is currently below zero.



## Notes to the financial statements

### continued

## 24 Financial instruments continued

### Foreign exchange sensitivity

The Company holds the majority of its net assets in euros which minimises the effect exchange rate fluctuations will have on overall net assets

The table below summarises the foreign exchange exposure on the net monetary position of the Company, expressed in euros, and the effect of a reasonable shift of the relevant exchange rates on the Company's reported net profit, shareholders' equity and net assets. The reasonable shift in exchange rates is calculated as the average movement in the past two years

	2009 £ €'000	2009 \$ €'000	2008 £ €'000	2008 \$ €'000
Net exposure	(20,540)	3,177	(9,776)	4,093
Reasonable shift	15.7%	3.4%	15.8%	3.2%
Total effect on profit of positive movements	3,224	(109)	1,546	(129)
Total effect on profit of negative movements	(3,224)	109	(1,546)	129
Total effect on net assets of positive movements	3,224	(109)	1,546	(129)
Total effect on net assets of negative movements	(3,224)	109	(1,546)	129

**Notes to the financial statements**  
continued

**24 Financial instruments continued**

**Fair value of financial instruments**

There is no material difference between the carrying value and fair value of any of the Company's financial assets or liabilities

**Amounts included in the income statement in relation to financial instruments**

	2009 €'000	2008 €'000
Interest income on assets held at fair value	115,136	130,758
Interest income on assets held at amortised cost	94,792	596,197
Net (loss)/gain on revaluation of other financial assets held at fair value included in net interest income	(20,053)	22,177
Interest income	189,875	749,132
Interest expense on liabilities held at amortised cost	(63,535)	(580,603)
Net interest income	126,340	168,529
Finance income on assets held at amortised cost	2,438	8,609
Finance income	2,438	8,609

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

**Notes to the financial statements**  
continued

---

**25 Management of capital**

The Company is regulated by the Financial Services Authority (FSA) as a Recognised Clearing House under the Financial Services and Markets Act 2000

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

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

In particular the Company is required to ensure that its Financial Resource Requirement (as agreed by the FSA) is met, and its own cash position is sufficient to meet six months operating expenditure

The Financial Resource Requirement in 2009 was £40,900,000 (2008 £34,400,000) and the Company's liquid financial assets were measured as £149,700,000 (2008 £211,900,000) and its net capital as £137,600,000 (2008 £247,900,000)

**26 Ultimate parent undertaking**

The ultimate parent and controlling party is LCH Clearnet Group Limited, which is incorporated in England and Wales. Copies of the financial statements of LCH Clearnet Group Limited are available from

The Company Secretary  
**LCH.Clearnet Group Limited**  
Aldgate House,  
33 Aldgate High Street,  
London EC3N 1EA

---