LCH.CLEARNET

Press Release

Contact:
LCH.Clearnet Andrea Schlaepfer / Rachael Harper: 020 7426 7463 / 7175
Brunswick Group Andrew Garfield / Gill Ackers / Fiona Micallef-Eynaud: 020 7404 5959

LCH.Clearnet Group Limited Results 2011

10 February, 2012

LCH.Clearnet Group Limited (LCH.Clearnet) today announces its results for the year ended 31 December 2011.

Financial highlights

- Underlying net revenues up 16% to €387.2 million (2010: €335.0 million)
- Underlying operating profit up 81% to €106.9 million (2010: €58.9 million)
- Clearing income up 16%
- Net investment income up 21%
- Strong volume growth across all key business areas
- Tier 1 capital ratio of 17.3%
- Expansion of multi asset offering - FX ready to launch and CDS service to be enhanced in 2012

Operational highlights

- Appointment of new CEO and investment in senior talent
- Implementation of a transformation plan to position the Group for further growth in a changing regulatory and competitive environment
- Development of a single infrastructure across group to eliminate costly duplication
- Successful resolution of MF Global default (closed market positions with a combined notional value of over €14.7 billion); no recourse to Default Fund

Commenting on performance Ian Axe, Chief Executive, said:

"We had a successful year in which underlying revenues were up 16% and underlying operating profit was up substantially by 81%. This is testimony to the strong growth in our core exchange clearing business as well as our fast growing OTC business.

Since my appointment in April last year I set a clear goal of transforming this business into an efficient, commercially minded organisation focused on risk management. We believe that will be the winning combination in an increasingly competitive and complex environment. I am pleased to say that we have made some major strides towards that objective this year, eliminating duplication, increasing our leadership position in OTC derivatives and bringing together our collateral and liquidity management functions into a single focal point."

Click here to view the full 2011 Report and Accounts

Ends

***Underlying operating profit and underlying net revenue are defined in the business review on p12.**

About LCH.Clearnet

LCH.Clearnet is the leading independent clearing house group, serving major international exchanges and platforms, as well as a range of OTC markets. It clears a broad range of asset classes including: securities, exchange traded derivatives, commodities, energy, freight, interest rate swaps, CDS and euro and sterling denominated bonds and repos; and works closely with market participants and exchanges to identify and develop clearing services for new asset classes.

A clearing house sits in the middle of a trade, assuming the counterparty risk involved when two parties (or members) trade. When the trade is registered with a clearing house, it becomes the legal counterparty to the trade, ensuring the financial performance; if one of the parties fails, the clearing house steps in. By assuming the counterparty risk, the clearing house underpins many important financial markets, facilitating trading and increasing confidence within the market.

Initial and variation margin (or collateral) is collected from clearing members; should they fail, this margin is used to fulfill their obligations. The amount of margin is decided by the clearing house's highly experienced risk management teams, who assess a member's positions and market risk on a daily basis. Both the soundness of the risk management approach and the resilience of its systems have been proven in recent times. LCH.Clearnet is regulated or overseen by the national securities regulator and/or central bank in each jurisdiction from which it operates.

1 Chairman's statement

This has been an eventful year. Having weathered 2008 and the collapse of Lehman Brothers, few of us expected to have to face anything like it again. However, 2011 saw the financial system once again tested to its limits.

While the final outcome of the Eurozone crisis has yet to play itself out, I am pleased to say that LCH.Clearnet has acquitted itself well in managing client risk in these extraordinary circumstances and played no small part in ensuring markets continued to function, and clients to trade despite these shocks.

There can be no more eloquent demonstration of the value of a well-resourced and well managed clearing house than the way our team handled the MF Global situation, closing out market positions with a combined nominal value of over €14.7 billion. This was achieved in turbulent market conditions with minimal disruption to clients, and no recourse to the default fund.

That success has been reflected in our financial performance with underlying operating profits up 81%. This increase is attributable to strong revenue growth in both our traditional exchange clearing business and, which is particularly encouraging, in our fast growing OTC businesses which are an important part of our future.

Even while managing these challenges on behalf of our clients and members, our Board and Management team refused to be deflected from their primary goal of ensuring LCH.Clearnet is fit for purpose in the new world in which we are having to operate. In April, I brought in a new Chief Executive, Ian Axe, from Barclays Capital to orchestrate a transformation of the business. Ian has set a clear strategic direction for the firm, in particular ensuring we can compete in an ever changing regulatory environment. This transformation coupled with a focus on client and member relationships will support the objective of becoming the premier multi asset European Central Counterparty (CCP) Service.

As part of that process, the Board has been reinforced by the appointment of Michael Bagguley, Global Head of FX Trading at Barclays Capital, where he is responsible for all aspects of risk and strategic positioning for Barclays Capital FX franchise globally and Naveed Sultan, who is the Global Head of Treasury and Trade Solutions for Citigroup's Global Transaction Services (GTS) business. They will bring invaluable insight to our Board deliberations. Sadly, we have at the same time lost the services of Francesco Vanni d'Archirafi and David Williams. I would like to thank them both for their contribution during their time on the Board.

Last autumn, following a number of approaches from interested parties, the Board appointed the investment bank JP Morgan to advise on the options for the business. As a user and exchange owned Group, LCH.Clearnet was clear that as well as providing a fair value for the business and an opportunity for those who wish to exit to do so, any transaction we might contemplate would have to support the long-term objectives of our business and be compatible with user and shareholder preferences

for exchange neutrality as a cardinal principle of the way LCH.Clearnet operates. The London Stock Exchange confirmed in September that it was in exclusive discussions with LCH.Clearnet regarding a possible transaction. As things stand at the time of writing, these discussions are still ongoing and there can be no certainty about their outcome.

The challenges ahead are many. The renewed regulatory focus on both sides of the Atlantic on clearing and CCPs as a way of modulating and monitoring systemic risk presents tremendous opportunities for a multi-asset class clearer like LCH.Clearnet. We are working tirelessly with the regulators to ensure that the final shape of legislation achieves its objectives of making the system safer while working with the grain of the markets. At the same time, our clients are demanding more sophisticated services and more efficient and responsive infrastructure while competition is increasing, particularly from exchanges wishing to provide straight through clearing services at marginal cost.

I would like to take this opportunity to thank the Board for their insights, support and undivided attention over this eventful period. I remain grateful to our staff who have continued to show extraordinary commitment to this business, to their clients and to colleagues. Finally, I would like to thank our clients, who have given us their business and continue to put their trust in LCH.Clearnet.

Jaques Aigrain
Chairman
9 February 2012

2 Chief Executive's statement

The regulatory and market environment for clearing has changed considerably in the last three to four years. Regulatory expectations and obligations have increased, there is greater competitive pressure and clients have continued to place more significant demands on clearers.

Central counterparties (CCPs), such as LCH.Clearnet, are no longer institutions that simply handle clearing related, back office operations that incidentally manage some counterparty risk. Instead they are now seen by regulators and most of the market as the key mechanism for managing counterparty risk and hence subsequent systemic infection risk.

This change has created major opportunities and challenges for LCH.Clearnet. The opportunities come mainly in the form of increased market scope; from new asset classes requiring clearing and wider geographic inclusion. The challenges result from greater competition from exchanges and multilateral trading facilities (MTFs) seeking to 'verticalise' their share of the markets.

In this context, LCH.Clearnet has a strong corporate ambition to:

- Be the most efficient, scale clearing consolidator for EU listed business, with carefully chosen pockets of excellence in Asian listed markets;
- Become a global leader in OTC clearing across asset classes;
- Provide market leading risk and collateral management capabilities to support this; and,
- Remain committed to a membership focused, collegiate philosophy.

2011 has also been a successful financial year for LCH.Clearnet. Underlying net revenues have increased 16% to €387.2 million (2010: €335.0 million), primarily driven by volume growth. We saw a 16% increase in clearing income and a 21% increase in net investment income. Total investment income grew by 58%, and the Group shared a greater proportion of this with its members, returning €354.8 million, an increase of 79% on 2010.

The increased revenues, combined with carefully managed investment spend and a rigorous cost control culture, resulted in an underlying operating profit of €106.9 million, up 81% on 2010. This excludes a €39.3 million mark to market charge on bonds and associated interest rate swaps held for hedging purposes (2010: €12 million charge).

Our key business areas performed strongly:

In Fixed Income we cleared over €152 trillion of nominal volumes, up 11% on 2010, and welcomed 11 new members, consolidating our position as the leading clearer of fixed income in Europe with a 70% plus market share. Volumes have been driven by increased levels of clearing from both new and existing members, with market participants turning to CCPs for risk management in a highly volatile environment.

During 2011 SwapClear grew steadily to $283 trillion, in notional principal outstanding. Average daily volumes rose year on year by 30% to 1,930 trade sides. At year end, there were over a million trades in SwapClear and 61 clearing members. Our original March release of the US Futures Commission

Merchant (FCM) model for SwapClear was further enhanced in December, resulting in a sharp increase in client volumes. SwapClear remains the unquestionable leader in Interest Rate Swaps clearing globally.

The current CDS offering has also seen steady growth. At 31 December 2011 our French member total notional value stood at €58.7 billion, an increase of 100% on 2010 and representing €4.6 billion of open interest. The foundations for an international service have been laid; a multi-jurisdictional offering created and operational and technical testing completed. Similarly, our FX clearing service, ForexClear, is ready to launch, pending regulatory approval. The OTC FX clearing service will initially clear interbank Non-Deliverable Forwards, with a view to expanding the client and product set during 2012.

Our Commodities and Listed Derivatives businesses, including financial derivatives, metals, freight and energy continued to grow in 2011 with volumes, 11% up on 2010, despite aggressive competition. We have maintained our 70% market share in freight and new clearing businesses have emerged such as Iron Ore, Coal and Steel.

Our current Cash Equities market position is strong despite a highly competitive landscape which has significantly lowered fees. Our European consolidation strategy continued to focus on efficiency and interoperability with Group wide, cash equity volumes increasing by 23% (year on year).

These successes were underpinned by a Transformation addressing the demands of an increasingly competitive and regulatory environment. The Transformation has three core objectives:

- To ensure consolidation and efficiency of LCH.Clearnet with 'One firm';
- To promote the horizontal multi-asset class clearing model;
- To expand our Client Risk & Collateral service model;

In creating 'One firm' we are leveraging the strength and synergies across LCH.Clearnet and aligning our businesses closer to our clients' demands. The Transformation is allowing us to develop 'One' infrastructure by reducing the costly duplication of systems across the Group. The implementation of the Group fixed income platform has already commenced and a further 37 Group wide applications have been identified for deduplication. In addition to the IT cost efficiencies, there are multiple process efficiencies under consideration which we expect to deliver a 10% reduction in run rate costs.

The Transformation will only be achieved with the right leadership and we are investing in talented individuals at senior management and Executive committee level and have made some important hires and appointments in 2011.

Our horizontal multi-asset clearing strategy continued to be popular with both members and clients in 2011. We saw the NYSE Listed Derivatives and Cash Equities contracts extend to 2013 as well as volumes from the LSE, Turquoise and LME increase. New trading venues, such as BATS have included us in their interoperability strategies and firm plans are in place for Chi-X in 2012. We have expanded our emerging markets strategy into China with HKMEx in parallel to our US OTC product expansion led by Swapclear. 2012 will further see the product expansion and launch of our OTC CDS and FX businesses.

The Transformation is also based on complementing the firm's traditional strength of processing to one that can truly market itself on risk default expertise, risk analytics, credit analysis and collateral efficiency. The importance of this capability is consistently highlighted by our members and clients and something we are improving while actively leading by example. The Euro sovereign debt crisis in 2011 saw LCH.Clearnet facilitating liquidity in the interbank market and engendering confidence at the most stressed of times. The crisis claimed a high profile financial victim in MF Global and the default of its UK arm, MF Global UK Ltd, brought the clearing house its second member default within three years; a complex book, €14.7 billion in European fixed income positions and a myriad of client and house positions across cash equities, commodities, metals, financial and energy derivative markets. The successful resolution of the default with no use of the default fund, highlighted once again the importance and value of our risk and collateral management expertise.

The successes achieved during 2011 are evidence of this firm's ambition to adapt to a challenging market and continue our journey of becoming the premier European CCP choice for our clients. Finally, I would like to thank our members, clients and regulators for their continued support. I look forward to working with all of you during what promises to be another interesting and challenging year.

I Axe
Chief Executive
9 February 2012

3 Business review

Financial Commentary

	2011 €'m	2010 €'m	Change €'m	Change %
Clearing revenue	236.7	203.4	33.3	16%
Total cash and collateral investment income	494.1	313.6	180.5	58%
Interest on collateral paid to members	(354.8)	(198.0)	(156.8)	79%
Net investment income	139.3	115.6	23.7	21%
Other income	54.7	48.6	6.1	13%
Less amounts related to cost recovery	(43.5)	(32.6)	(10.9)	33%
Underlying Net Revenue	**387.2**	**335.0**	**52.2**	**16%**
Operating expenses	(256.8)	(257.6)	0.8	-
Depreciation and amortisation	(23.5)	(18.5)	(5.0)	27%
Underlying Expenses	(280.3)	(276.1)	(4.2)	2%
Underlying Operating Profit	**106.9**	**58.9**	**48.0**	**81%**
Unrealised net investment loss	(39.3)	(12.0)		
Non-recurring expenditure	(22.5)	(3.4)		
Statutory Operating Profit	**45.1**	**43.5**		

Underlying Operating Profit *of €106.9 million differs from statutory operating profit of €45.1 million since it excludes unrealised fair value investment movements (shown within interest income on the face of the income statement) of €39.3 million relating to bonds and associated interest rate swaps and also the impairment of intangible assets and other non-recurring items of expenditure of €22.5 million.*

Underlying Net Revenue *of €387.2 million differs from statutory net revenue of €391.4 million since it excludes unrealised losses of €39.3 million, but includes deductions for development costs of €25.2 million and settlement costs of €18.3 million that are recovered from members.*

Underlying Expenses *of €280.3 million differs from statutory costs and expenses of €346.3 million since it excludes settlement costs of €18.3 million and €25.2 million of certain development costs which are recovered from members, and impairment and non-recurring items of expenditure of €22.5 million.*

Underlying Operating Profit

The Group's underlying operating profit for the year increased by €48.0 million to €106.9 million (2010: €58.9 million), a substantial 81% increase, and was achieved in a year of turbulent market conditions and an increasingly competitive environment. The interaction of significantly improved realised revenues and control over costs has supported the delivery of this significant year on year improvement.

Underlying net revenues in 2011 rose by €52.2 million (16%) to €387.2 million (2010: €335.0 million). There has been strong revenue growth in 2011 across the Group's product offerings, principally driven by a substantial increase in transaction volumes. This is particularly the case with Fixed Income which has seen record levels of activity in the context of the Eurozone crisis. Overall there has been an increase in clearing income of €33.3 million (16%) to €236.7 million (2010: €203.4 million).

Whilst the Group's collateral investment policy is primarily focused on security and liquidity management, significant increases in transaction volumes and levels of collateral have, through sound investment management, resulted in net investment income significantly increasing during the year by €23.7 million (21%) to €139.3 million (2010: €115.6 million).

Despite significant strategic investment, particularly in OTC Derivatives, underlying expenditure excluding depreciation and amortisation fell by €0.8 million to €256.8 million, reflecting a culture of cost control within the business and early benefits of the transformational plan. These efficiencies have allowed the Group to absorb the cost of investments in strategic business lines.

Clearing fees

	2011 €'m	2010 €'m	2011 Volumes, m	2010 Volumes, m	Increase in fees, %	Increase in volumes, %
Fixed income	42.9	38.0	2.7	2.3	13	17
OTC Derivatives	44.2	21.2	0.5	0.4	108	30
Commodities & listed derivatives	105.6	104.1	1,421.1	1,276.0	1	11
Cash equities	44.0	40.1	427.7	346.7	10	23
	236.7	203.4	1,946.0	1,710.8	16	13

Revenue from clearing fees increased by €33.3 million (16%) to €236.7 million, and trade volumes increased by 13% to 1,946.0 million (2010: 1,710.8 million).

During the Eurozone crisis the Group continued to facilitate liquidity and confidence in the market, resulting in a growth in volumes, particularly in the Fixed Income business. Fixed Income clearing fees increased by €4.9 million (13%) to €42.9 million and volumes increased by 17%, with the notional value cleared rising by 11% to €152 trillion.

OTC Derivatives clearing fees increased to €44.2 million due to both a tariff increase and an increase in the membership of the SwapClear service, which rose from 36 members at the end of 2010 to 61 at the end of 2011. Volumes grew by 30% year on year. During 2011, the amount of notional principal outstanding cleared by SwapClear grew steadily to $283 trillion (net of $88.9 trillion torn up to date), from $248 trillion at the end of 2010.

Commodities and listed derivatives clearing fees increased to €105.6 million and total volumes increased by 11%, principally due to heightened activity in the NYSE and LME markets. The Group was able to be responsive to market price pressures while retaining its position as the leading CCP in the Freight market.

Overall cash equities clearing fees increased by €3.9 million (10%) to €44.0 million, with volumes increasing by 23%, as more members benefited from the changes made to the pricing structure late in 2010.

Net Investment Income

	2011 €'m	2010 €'m	Change €'m	Change %
Realised Income from cash and collateral margin	477.8	303.1	174.7	58%
Interest earned on Default Funds	16.3	10.5	5.8	55%
Total Cash & Collateral income	494.1	313.6	180.5	58%
Interest paid on cash and collateral margin	(332.7)	(183.5)	(149.2)	81%
Interest paid on Default Funds	(22.1)	(14.5)	(7.6)	52%
Interest expense and similar charges	(354.8)	(198.0)	(156.8)	79%
Net income earned on cash and collateral margin	145.1	119.6	25.5	21%
Net interest earned on Default Funds	(5.8)	(4.0)	(1.8)	45%
Realised investment income	139.3	115.6	23.7	21%
Retained share of total interest earned	28%	37%		

There was a significant increase both in interest income received and interest paid to members. Total investment income received in relation to both margin collateral and Default Fund deposits increased by €180.5 million (58%) to €494.1 million (2010: €313.6 million).

The Group also pays compensation to its members in relation to cash collateral lodged and amounts deposited in its Default Funds. The amount of interest paid to members increased in total by €156.8 million (79%) to €354.8 million (2010: €198.0 million), reflecting the higher levels of collateral held and higher levels of interest earned on Euro-denominated collateral. A small deficit was incurred in relation to member deposits into the Default Funds which amounted to €5.8 million in the year (2010: €4.0 million).

The Group's realised net investment income increased by €23.7 million (21%) in the year to €139.3 million (2010: €115.6 million).

The Group's share of the total interest earned fell from 37% in 2010 to 28% in 2011 as the Group returned a greater proportion to members. This was due in part to the increase in underlying Euro interest rates during the majority of the year, which meant that the Group's retained return was a smaller proportion of total revenue.

The Group is Europe's largest clearer of government debt and has been at the heart of developments in this area where it has sought to preserve liquidity in Europe's debt markets and protect members' interests. Market volatility resulted in increased levels of activity and substantially increased collateral requirements, particularly during the second half of the year.

Other income

Other fee income increased by €6.1 million (13%) to €54.7 million (2010: €48.6 million). Other income includes annual fees charged to members, recovery of settlement fees and the recovery of certain development costs.

Amounts related to cost recovery

Costs recovered from members include €18.3 million (2010: €13.9 million) settlement fees and €25.2 million (2010: €18.7 million) for certain development costs.

Settlement costs, which are recovered from members through other income, increased by €4.4 million (35%) due to higher underlying volumes in Fixed Income and Cash equities.

Recovery of technological development costs during the year increased by €6.5 million (35%). During 2010, the Group entered into new funding arrangements with certain members for the purpose of developing clearing systems for new products or upgrading existing systems. Under these arrangements, the members underwrite the development costs and the Group reflects the recovery of amounts expended through other income in accordance with its accounting policies.

Underlying expenses

Underlying expenses rose by €4.2 million (2%) to €280.3 million (2010: €276.1 million).

The early achievements of the rigorous cost control introduced under the transformation plan have not been fully reflected through operating expenses. Cost control procedures implemented during the year resulted in savings of €7.4 million against the original 2011 plan.

At the same time, the Group has continued to make investments in its OTC Derivatives business. In particular, the Group invested in the growth of the SwapClear business in the US with the launch of the FCM model for buy-side clients, the development of its CDS offering and the building of the infrastructure to support the FX service. The strategic expansion of these services will help to provide a platform for future revenue growth for the Group. The Group has also invested in the talent pool during the year. Despite the significant strategic investments, the cost control programme managed to achieve a reduction in operating expenses which fell by €0.8 million to €256.8 million.

Other depreciation and amortisation increased by €5.0 million to €23.5 million, reflecting the investment the Group has made over the last two years in its technology infrastructure, in particular the Group's new derivatives platforms.

Unrealised Net Investment Income

A key principle of the Group's investment policy is that it will only invest in high quality assets, typically high grade government issued bonds. Prudent liquidity management allows the Group to benefit from improved yields from longer term investments when facilitated by market conditions. Where investments are made in longer term fixed rate assets, the Group hedges the interest rate risk that arises from receiving a fixed rate of return and paying members a floating rate of return by taking out interest rate swaps. The interest rate swaps and underlying investment are generally held to maturity.

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

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

During the year, the mark-to-market adjustment on bonds and related interest rate hedging instruments resulted in a charge to the income statement of €39.3 million (2010: €12.0 million), representing a 0.3% movement on portion of the portfolio that is subject to fair value adjustments (2010: 0.1%). At 31 December 2011, the total unrealised losses contained in the balance sheet were €31.1 million (2010: €8.2 million profit). These related to an investment portfolio of €11.2 billion (2010: €11.4 billion) which are individually due to mature between 2012 and 2014. By the time of maturity, and assuming full recovery of the principal, the mark-to-market positions will have fully reversed through the income statement.

Impairment and non-recurring expenditure

The impairment of intangible assets and other non-recurring costs increased by €19.1 million (562%) to €22.5 million (2010: €3.4 million).

The charge in 2011 includes a write-off of €3.4 million (2010: €3.4 million) related to software assets that are now wholly written off.

Further to this, non-recurring costs of €19.1 million substantially relate to the transformation plan and assisting the new management team to implement the plan, de-duplicate systems and processes and upgrade talent to meet the new business challenges. Other non-recurring costs include costs associated with supporting corporate activity.

Capital resources

The total equity of the Group increased during the year by €13.1 million to €333.1 million (2010: €320.0 million).

The total regulatory capital of the Group, at €307.4 million (2010: €303.9 million) continues to significantly exceed the minimum "Pillar 1" requirements of €92.6 million (2010: €105.3 million), and the combined "Pillar 1" and "Pillar 2" requirement of €210.3 million (2010: €212.6 million).

The Group's tier 1 asset ratio of 17.3% (2010: 14.8%) substantially exceeds the minimum requirement of 4%, and the total capital ratio of 26.6% (2010: 23.1%) is also substantially above the 8% minimum required.

The Group's Standard & Poor's rating of 'A+' was reaffirmed in November 2011.

Business line review

The Group's revenue base is increasingly diversified. As OTC and Fixed Income businesses grow, the proportion of the Group's revenues derived from the more traditional asset classes will reduce.

Fixed income

In 2011 we cleared over €152 trillion of notional value, up 11% on 2010, equivalent to a 17% increase in volumes. We welcomed 11 new members to the services, consolidating our position as the leading clearer of fixed income in Europe with a 70% plus market share.

Volumes have been driven by increased levels of clearing from both new and existing members and the influx of new members as market participants have turned to clearing to mitigate risk in a highly volatile environment. There remains continued potential for growth and we have a strong pipeline of new members.

Clearing revenues grew by 13% from €38.0 million to €42.9 million. Member balances have increased to €491 billion (2010: €474 billion).

As part of the transformation, fixed income, which is led by the Repo & Exchanges CEO, Alberto Pravettoni (who is also responsible for the Commodities & Listed Derivatives and Cash Equities business lines), will be the first business line to benefit from a single infrastructure. The Fixed Income Clearing platform, developed in-house and deployed in London in 2010, is intended to replace the clearing system currently used in Paris. In addition to generating intra-Group efficiencies, it will harmonise functionality across the Group. We are already working on introducing collateral baskets with pledge in Paris, to complement the London-based service.

OTC Derivatives

SwapClear

During 2011 cleared notional outstanding in SwapClear reached $283 trillion, an additional $88.9 trillion was removed via the Tri-Optima compression utility. Average daily volumes have also risen year on year by 30% to 1,939 trade sides* per day. At year end there were over a million trades* in SwapClear and 61 clearing members. The majority of this activity is between SwapClear members but there has also been a steady increase in end-user client adoption ahead of the regulatory clearing mandate, and to reduce counter party risk.

In 2011 SwapClear, headed by Michael Davie (CEO, SwapClear), generated clearing revenues of €44 million, up from €21m in 2010. This is an increase of 110%, driven by the increase in clearing members, cleared volumes and a tariff increase.

2011 has been an exciting but challenging year for SwapClear on a number of fronts. As the clearing opportunity shifts from the interbank market to end-user clients, LCH.Clearnet has focused on building out its buy-side offering in Europe and the US.

In the US, the advanced state of post Dodd Frank rulemaking is creating business opportunities. In response to this, the Futures Commission Merchant (FCM) offering was successfully launched in March, and greatly enhanced in December. There are now 13 FCM members offering the service to some 53 live buy-side accounts, comprising asset managers, hedge funds and banks.

During 2011 we invested considerably in expanding our US presence, growing our local team 10 fold. The move of the head of OTC risk and operations to New York, has been followed by the hiring of a dedicated SwapClear sales and marketing team. We have further grown the NY team to include Client Service staff as well as local operations and risk management professionals. To support all their efforts we have made a significant investment in advertising and marketing.

In April a technology and operational refresh was implemented, a core part of which is the new Murex technology platform. As a result of the refresh, new products can be added easily and there is now live capacity for 25,000 IRS trade sides per hour and a total portfolio of 4 million trade sides. The platform has been future proofed and is designed to scale to some 10 million trade sides.

The breadth of SwapClear's offering and the quality of LCH.Clearnet's risk management remain market leading. In August we introduced OIS discounting for JPY, matching an equivalent offering across GBP, EUR and USD. During the year we continually enhanced the product breadth, delivering unadjusted fixed and final period end dates for IRS, a further three currencies (HUF, CZK, SGD taking the total to 17), and FRAs in 10 currencies. In addition we have made a range of enhancements specifically targeted to the end-user, buy-side clients including variable notional swaps in 3 major currencies (EUR, GBP and USD), direct trade flow through the ClearLink API, simplified and futures-like workflow, risk-free compression of offsetting trades and portability of client positions and collateral.

In conjunction with our Buy and Sell side working groups we have a full agenda of additional products and services for 2012 delivery, including ever faster trade registration, further workflow simplification to make OTC trades more futures-like, improved reporting and ever broader product scope. We will continue to run "fire drill" tests to ensure default readiness and will implement such changes to the platform as regulatory mandate requires.

* Trades and trade sides. When two clearing members trade with one another, a single IRS trade is created. When each of them gives up their trade to SwapClear, that creates two trade sides. SwapClear thus books and maintains two trades for every one bi-lateral trade. SwapClear trade sides is an important measure for CCP risk and operating capacity whereas dealer trade volume is a better indicator of member market activity.

OTC: CDSClear

The current French CDS offering has seen steady growth. At 31 December volumes cleared for our four French member banks stood at €58.7 billion in notional, representing a €4.6 billion open interest.

During 2011 Charlie Longden was appointed as CEO of CDSClear. He will focus on the next phase of development as the service is broadened out to international participants.

The foundations for an international service have been laid and a multi-jurisdictional model built. In response to growing demand from clients for CDS clearing, even ahead of EU regulations, we are developing client focused solutions alongside our inter-bank offering.

Once regulatory approvals have been given, the service will be accessible in multiple jurisdictions, with a legal framework which is compatible with French, UK and US law.

During 2011 the technology and operating system have been successfully built and final testing is complete. This will enable a number of market leading features to be implemented. These include; full intraday clearing services, and upstream platform agnosticism, combined index, single name and client clearing later in the year.

OTC: ForexClear

ForexClear, led by the service CEO Gavin Wells, is ready to launch pending regulatory approval. Starting with FX Non Deliverable Forwards for members, the service will expand to give all market participants access by the middle of 2012, before adding other already developed FX products based upon Regulatory direction and user needs.

Whilst other FX products are mandated under Dodd Frank, in particular FX options, discussions around the model to be used by CCPs to settle within CLS are ongoing and not likely to finish until Q3 2012. Thus whilst LCH.Clearnet has developed clearing services for Options, FX Swaps and Forwards, it is unlikely that these will be approved until the settlement model agreed is implemented, sometime in early 2013.

In light of this, once NDFs are live for members and their clients, incremental development will focus on restriking membership and default processes in line with Swapclear, adding more NDF currencies and crosses, enriching the client model and extending access to LCH.Clearnet's risk capabilities.

The service has been designed with members and clients in all regions making best use of lessons learned in the other OTC businesses.

Commodities & Listed derivatives

Commodities & Listed derivatives clearing income increased to €105.6 million and total volumes increased by 11%, principally due to the NYSE and LME markets.

Commodities

Commodity volumes continue to be driven by growth in Asia. We have preserved our 70% market share in freight, through competitively pricing our service, in the face of intense competition.

Furthermore, we continued to invest in new and innovative products, launching coal options early in 2011, and are at the forefront of market developments; with STP from freight screens Baltex and ClearTrade which were introduced in 2011.

Interest in the OTC gold bullion service continues to grow and the launch of bullion as eligible collateral was a development welcomed by the market.

Fertilizer volumes grew sharply in the early part of the year. Although a dry-bulk commodity, much of the recent interest has been driven primarily from the US where implementation of Dodd Frank will require clearing of commodity swaps.

With HKMEx we are capitalising on mainland's China's appetite for trading opportunities. We launched a new silver contract and there is real engagement from the Chinese trading community.

Listed derivatives

During 2011 we negotiated a significant extension to the NYSE derivatives contract to June 2013 and began clearing for the London Stock Exchange's derivatives platform, Turquoise.

We have also laid the foundations for the business' future growth in derivatives. The successful expansion of our Synapse clearing platform's capabilities has delivered proprietary, scalable clearing technology. This will enable the Group to capitalise on the increasing interest from trading venues competing in listed derivatives.

Cash equities

Group wide volumes for equities grew by 23% year on year.

Clearing revenue increased to €44.0m from €40.1 million despite the tariff reductions implemented in October 2010 in London which introduced free clearing for average daily member volumes over 150,000 per day.

The Group has the ambition to be an efficient, scale aggregator of European equity clearing. The strategy of consolidation has been advanced by the introduction of interoperability for Europe's fast growing equity MTFs. We were the first clearing house to be ready to interoperate on Turquoise and have commenced clearing for Equiduct Italy, BATS and, since year end, Chi- X.

In early 2011 we launched Europe's only CFD clearing service, positioning LCH.Clearnet well in the context of European regulatory developments and the ambition of regulators to drive OTC products into clearing.

The contract with NYSE Euronext was extended during 2011 to the end of 2013 and we continue to discuss long term equity clearing solutions with NYSE Euronext.

Net investment income from Collateral and Liquidity Management (CaLM)

Net investment income is managed by the CaLM service, which was established during the year under the leadership of Andrew Howat, Head of CaLM.

Total cash and collateral income grew by 58% to €494.1 million (2010: €313.6 million), and the Group shared a greater proportion of this with its members who received €354.8 million, an increase of 79% on 2010.

Accordingly, realised net investment income increased by 21% to €139.3 million and was generated from an average cash and non-cash collateral portfolio of €73 billion

(2010: € 59 billion), a 23% increase on 2010. The position peaked at €90 billion in November and, at year end, was €83 billion .

The CaLM service was established which combined the various parts of the Treasury function across the Group in order to create an efficient, centralised collateral management service for our clients.

Prudent investment risk and liquidity management remain at the core of CaLM's strategy, in accordance with the conservative risk parameters set by the Board. These are designed to ensure LCH.Clearnet is well placed to manage a default, such as in the recent case of MF Global, through robust risk and operating procedures and high liquidity targets.

Furthermore, the Group is working with clients to establish the best ways in which the CaLM service can be improved. Potential developments may include;

- widening the range of eligible collateral,
- adding further options for client segregation,
- offering localised services and support in the US and Asia, as well as in Europe; and
- the implementation of a global, automated service for the calling and management of non-cash collateral though a network of CSDs and tri-party providers with the capacity to function in near real time around the world