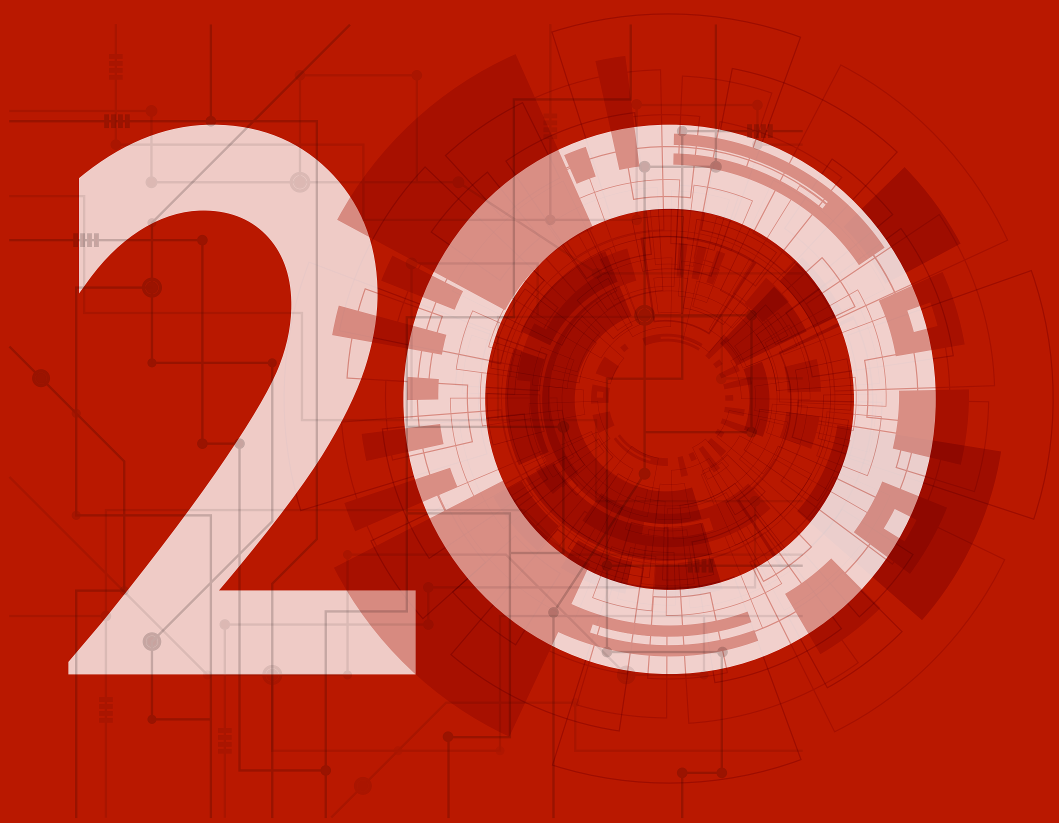
Euroclear UK & Ireland Limited

Directors' Report and Financial Statements for the year ended 31 December 2020



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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their Strategic Report for the year ended 31 December 2020.

Principal activities and future developments

Euroclear UK & Ireland Limited (the Company) is part of the Euroclear group, which is one of the world's pre-eminent and trusted providers of post-trade services. The Euroclear group's objectives are to:

- provide high levels of standardisation, automation and harmonisation within the post-trade industry
- support capital market participants' evolving needs.

These objectives aim to help reduce risk and processing costs for the group's clients, as well as supporting financial stability and economic development.

Key elements of the Euroclear group's strategy are to:

- maintain and improve its domestic and international Central Securities Depository (CSD) services
- broaden its service offering for funds products
- extend its asset servicing and collateral management services
- expand its business activities beyond Europe.

The Company's strategy, which is consistent with the strategy of the Euroclear group is to:

- provide robust and reliable CSD services to the markets
- offer expanded services to the funds market.

The setting, and continued oversight, of the strategic aims and objectives of the Company are a matter reserved for the Company's board of directors (the Board), and are set with a view to promoting the long-term sustainable success of the Company. The long-term success of the Company is an integral part of the Company's strategy, and is evidenced by the Company actively seeking to protect the long-term stability of the CREST system, and in turn, the interests of the Company and its stakeholders.

The Board believes that embedding a robust governance structure ensures the strategy is implemented efficiently and effectively.

The principal activities of the Company during the year were the operation and continuing development of the CREST system and the EMX message system.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

The CREST system:

- provides efficient, low-cost electronic settlement facilities for a wide range of corporate and government securities, including those traded on the London Stock Exchange and various multilateral trading platforms
- settles transactions in money market instruments, investment funds and a variety of international securities, and offers a range of asset servicing and optimisation facilities, including corporate action services.

The EMX message system provides electronic message order routing for funds, thereby automating the purchase, sale, valuation and settlement of unitised funds.

Key 2020 Events

2020 was an extraordinary year, with the impact of the COVID-19 global pandemic compounding the already uncertain geo-political environment as the UK formally withdrew from the European Union (the EU) on 31 January 2020 and entered a transition period for the remainder of the year, whilst negotiating a future trade agreement with the EU.

During the year the Company finalised its application to the Bank of England to operate under the Central Securities Depositories Regulation (CSDR), and on 7 December 2020 received its authorisation to operate under this regulatory regime. To achieve this, the Company implemented a number of actions intended to both structurally and operationally meet the requirements of CSDR, as well as provide on-going service enhancements to support the efficient operation of the markets it serves.

COVID-19 Global Pandemic

The first months of 2020 saw the emergence and world-wide spread of the COVID-19 Coronavirus which quickly evolved into a global pandemic. The Company, together with the wider Euroclear group, invoked remote home-working for the majority of functions from 16 March 2020 as part of its business continuity arrangements. At this time there was a sharp and sustained increase in financial market volatility, and hence an increase in settlement volumes, as markets reacted to the evolving pandemic. Whilst market-wide settlement efficiency initially suffered a short-term decline as the majority of financial market participants invoked remote working for their operations, the Company continued to deliver its services to the market without any disruption or decline in service levels.

As the scale and severity of the pandemic grew over the course of the year, the Company continued to operate remote working and this remains in place for the foreseeable future. The Company monitors employee sickness and broader employee wellbeing and, whilst there have been, and continue to be a small number of cases of COVID-19 sickness amongst employees, this has remained well within levels accommodated within normal resource planning.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

UK's withdrawal from the European Union (EU)

Following the 2016 referendum, the UK formally withdrew from the EU on 31 January 2020 and entered an agreed transition period for the remainder of the year whilst a longer-term trading agreement was negotiated between the UK and EU. The transition period ended on 31 December 2020 and an agreement covering future trading arrangements was announced on 24 December 2020. However, financial services are not included in the agreement, and negotiations covering such services continue. This means that a degree of uncertainty remains regarding the future provision of services between the UK and the EU.

Since the vote in 2016, the Company and Euroclear group have worked jointly to identify and manage potential impacts of the UK's withdrawal in different scenarios. The two biggest impacts for the Company of the UK's withdrawal are that it is precluded from continuing to act as the CSD for Ireland and will no longer have access to Euros as a settlement currency directly through the European Central Bank (see page 8). In November 2020, the European Commission determined that the legal and supervisory requirements for UK CSDs were equivalent to those in the EU. This determination is temporary and expires at the end of June 2021. Following this decision, the Company also received recognition as a third country CSD from the European Securities and Markets Authority (ESMA), thereby allowing the Company to continue to deliver Irish market settlement services to Ireland until the migration of settlement for the Irish market to Euroclear Bank in March. In order to support ongoing corporate actions the Company may, as allowed under the equivalence granted, continue to support a small number of Irish securities until June 2021.

The ongoing risks to the business of the Company as a result of the withdrawal are discussed on page 8. The Company remains confident that it is well positioned to address any challenges and opportunities that may arise.

Central Securities Depositories Regulation (CSDR)

CSDR, which became law in September 2014, introduced a complete review and standardisation of the regulation that applies to international CSDs ((i)CSD) within the EU, including standardising permitted CSD activities and settlement discipline procedures across Europe. At the expiry of the transition period on 31 December 2020 following the UK's withdrawal from the EU, CSDR was "onshored" and became a part of UK law (subject to limited amendment).

Compliance with its provisions is an ongoing priority for the Company. The Company completed the submission of its final filing to the Bank of England (the Bank) in July 2020. In August 2020, the Bank deemed the filing complete and issued the Company with its licence to operate under CSDR on 7 December 2020.

Settlement discipline measures under CSDR were scheduled to come into force in February 2021 but, due to the impact of the COVID-19 pandemic on the delivery of system changes by market participants, the implementation date across Europe was postponed by ESMA until February 2022. In July 2020, the UK government announced that it would not be implementing the proposed measures for the UK market. However, the EU settlement discipline regime will be applicable to securities transactions that settle via EU CSDs as part of the Company's international service offering. As a result, the Company is continuing with the implementation of system changes to comply with the new regime in 2022. For the UK domestic market, the existing settlement discipline measures will continue to apply, subject to proposed future market consultation, of which the Company will be a part, to determine any changes to existing measures to further promote settlement efficiency.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

New tariff structure

Following the comprehensive review of the Company's tariffs undertaken during 2019, a new tariff structure was implemented by the Company during the first half of 2020 which, in respect of the Company's core CSD services, aimed to:

- achieve the fair distribution of the Company's costs, including regulatory, operational resilience and cyber security related costs, across CREST system users
- rebalance revenues between fixed and variable sources
- enable the Company to meet its core objective of continuing to provide secure, efficient and resilient services to its clients.

Changes to the Company's tariff for its funds order routing services were also implemented during the first half of the year to reflect the evolution of the utilisation of this service.

Service enhancements in 2020

As part of the delivery of its service offering to customers, the Company regularly makes service enhancements to the underlying platform and systems, which during the year included:

- the launch of a shareholder voting and disclosure offering as part of the CREST International Service in September 2020, in order to comply with the requirements of the Shareholder Rights Directive 2 (SRD2)
- a number of technical changes to support future CSDR settlement discipline functionality in the CREST International Service
- changes to the CREST Courier and Sorting Service to centralise the service at the Company's London offices
- a series of technical and functional changes to support CREST requirements.

Corporate strategy review

During 2020, the Company started a strategic business review. It is expected that the core activities of the Company will remain the same following the review. The strategy will prioritise improved resilience of critical services whilst attempting to deliver modern end-to-end infrastructure solutions for the UK market. Resilience improvements from the strategy will focus on medium and long-term improvements; short-term remediation actions are managed separately. Feedback of clients and working with the right strategic infrastructure partners will be critical in both the construction and execution of this plan.

As well as maintaining our "licence to operate" it is essential to retain the confidence of the market as the CSD for UK assets. With this in mind the process will include a review of critical services and a number of existing products to assess whether they meet the evolving needs of our clients. We will include a review of competition, opportunity and threats, including the impact of new technologies on our own business and that of our clients.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Mindful of our need to ensure suitability and resilience of critical services, but in line with our core capabilities and responding to market needs, we will develop products that enable the UK securities market to grow, be more efficient, whilst actively enabling the reduction of risk. We will continue to promote effective securities issuance, protect underlying investors' assets and provide settlement services to our clients. To ensure client confidence the business will need to be underpinned by modern, adaptable and highly resilient operations, organisation and technology.

The objective is to provide a credible and realistic multi-year product, technology and financial plan. A key consideration for the final strategy is that it must be achievable given the scale, skillset and capacity available. With this in mind an organisational review is being conducted in parallel to ensure an optimal Target Operating Model and 'sourcing' to execute the strategy.

A Board strategy day was held in September 2020 to assess key themes. Aligned to that and subsequent discussions an interim strategic update, delivered in January 2021, set the scene on strategic direction and provided an update on progress towards delivering a full business strategy later in 2021.

The full business strategy will balance resilience, regulation and the needs of clients. We anticipate framing the strategy across 3 'pillars' as follows:

1. Resilience:
    a. IT: Working with an external 3rd party we will evaluate the IT estate in its totality to determine a course of action to improve resilience (e.g. tooling, complexity reduction etc.)
    b. Operations: Review relevant business operations processes and our operations people strategy
    c. Financial: Any investment roadmap will ensure that the Company remains financially resilient
2. Business Growth: Looking at the value chain from issuer to investor and determining where we can bring most value through any or a combination of, i) cost and process efficiency, ii) risk reduction and/or iii) liquidity optimisation
3. Fulfilment: ensuring we have the right people and system structures to support the strategy.

Following completion of the strategy, it is envisaged that material increased investment will be needed to secure resilience, longevity and prosperity of the business. The extent of this investment is still to be determined and it is anticipated that the duration of the investment will be over multiple years. The Company has built a model that will evaluate the impact of material investments such as components of this strategy, to be modelled prior to implementation and to be evaluated with the group and against our financial metrics prior to implementation.

Operational resilience

On Friday 11 September 2020 the CREST settlement system suffered an extended disruption to its service resulting in settlement being suspended, and, for the first time since the launch of CREST, Non-Standard CREST Closure (NSCC) procedures invoked at the end of the day. The disruption was caused by a defect in a technical component. Further disruption was experienced on the morning of Monday 14 September which was linked to the 11 September disruption. On 10 November 2020, a further unrelated CREST settlement issue occurred. In this case, the issue was resolved within the Company's Recovery Time Objective.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

The provision of robust and reliable CSD services is at the core of the Company's strategy, and the Company measures service resilience as its primary key performance indicator (see below). Following the September disruptions the Company launched an independent post-incident review, the scope of which was widened following the November disruption to include this. The output from this review is being used by the Company to inform its remediation actions and broader resilience focus.

Key performance indicators

There are a number of financial and non-financial key performance indicators that the Company uses to monitor its performance. The key financial performance indicator is profit before tax. The Company made a profit before tax of £27,420,504 (2019: £20,497,619). This is subject to a taxation charge of £4,975,455 (2019: £2,654,448). The drivers of this result are discussed on page 8.

The Company also measures financial performance against its capital requirements under the CSDR requirement. At the year end, the Company exceeded its minimum capital requirement under CSDR by 79% (2019: 55%).

The Company also monitors a wide variety of non-financial key performance indicators. The principal indicators relate to the availability of services and systems, where the Company sets demanding production stability objectives. As a result of the September and November disruptions, the Company did not meet either its service resilience or system availability objectives in respect of CREST system performance. Both objectives were met in respect of EMX system performance.

Key Performance Indicator (Unaudited)	Target	CREST system performance
Service resilience (completion of transactions within the business day)	100.00%	2020: 99.86% (2019: 100%) Euroclear UK & Ireland Limited settled 80.4 million transactions, with a value in excess of £360 trillion for the year.
System availability (ability for clients to interact continuously with the settlement system)	99.80%	2020: 99.52% (2019: 99.92%)

Key Performance Indicator (Unaudited)	Target	EMX System Performance
Service resilience (daily capability to forward all orders to the relevant counterparty)	100.00%	2020: 100% (2019: 100%) Euroclear UK & Ireland Limited processed 18.6 million messages, with a value in excess of £237 billion for the year.
System availability (available for message input for one or more participants)	99.80%	2020: 99.93% (2019: 99.84%)

As discussed on pages 12 and 13 below, the Company outsources a number of services to its parent company. The performance of the service provision is closely monitored using a broad range of Key Performance Indicators (KPIs) in line with the service delivery provisions in the service delivery plans (SDPs).

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

To achieve these targets, the Company needs to ensure that it has the necessary people, infrastructure and resources for current and future developments and to perform its key controls consistently and effectively.

Senior management of the Company regularly monitor and review comprehensive operational management information to manage the business in a way that achieves its key financial and non-financial objectives.

Principal risks and uncertainties facing the Company

The Company is principally exposed to operational risk, which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, and external events. Effective monitoring, appropriate reporting and comprehensive processes exist to ensure continuous availability of business-critical services.

The Company actively seeks to mitigate risks, and has in place a 3 lines of defence model, with allocation of responsibilities as follows:

- 1st line – Risk takers and control owners in business functions. 1st line is responsible for the ownership, responsibility and accountability for directly assessing, controlling and mitigating risks – both internal to the Company, and through outsourced providers.
- 2nd line – Compliance and Risk Management. 2nd line is responsible for advising and challenging the 1st line on their controls and performing regular monitoring of 1st line adherence with regulatory requirements.
- 3rd line – Internal Audit. 3rd line is responsible for providing independent assurance over 1st and 2nd line processes and governance – both internal to the Company, and in the oversight of third parties.

The 2nd line of defence has designed and embedded an Enterprise Risk Management Framework of which the biggest focus is operational risk. In 2021, the implementation of measures to improve service resilience following the incidents in 2020 will be the main priority for the Company. Other key areas of risk mitigation for 2021 will include a review of the Company's business and IT strategy in order to further improve operational resilience and cyber capability, the embedding of processes to ensure continued compliance with CSDR regulations, implementing a new Target Operating Model into the business and continuing to enhance the Company's admissions process in line with Anti-Money Laundering Directive 4 and Anti-Money Laundering Directive 5.

The Company maintains a Recovery, Restructuring and Wind-down (RRW) plan which assesses scenarios that could limit the ongoing operability of the Company, and analyses options available to the Company to recover from such a position. The RRW plan is reviewed and approved by the Board on at least an annual basis. The Company also has an ongoing Business Continuity programme to support the continuation of operations in the event of a local or regional-scale disaster. Crisis response capability is tested and maintained through the regular transfer of activity between the primary data centres and adequate training of staff. The integrity, confidentiality and availability of the Company's and its clients' data, and the continuous availability of its services, are a core objective. The Company has given significant attention to the increasing and changing threats from cyber risks and will continue to do so.

The Company has considered the risks associated with the COVID-19 pandemic and the resulting impact on the principal risks of the Company, as detailed below. The pandemic is not considered to have a significant impact on the principal risks (see page 2).

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

The Company has identified a number of direct risks and threats from the UK's withdrawal from the EU and is taking actions to mitigate these risks and ensure continuity of service to its clients and market participants. The primary risk to the Company arises as a consequence of ceasing to be able to settle Irish securities and/or Euros. Revenues from servicing the Irish market currently represent 3% of the Company's revenues. In March 2021, the Company, working with a fellow subsidiary of the Euroclear group, Euroclear Bank, successfully migrated the Irish securities settlement business to Euroclear Bank in order for the latter to provide issuer CSD services in respect of Irish corporate securities. The Company also entered into an agreement with the Bank of England to enable the Company to provide continued access to Euros as a CREST settlement currency.

The devaluation of Sterling following the decision to leave the EU had an adverse impact on the Company's cost base from 2017 onwards as the Company outsources a significant part of the services it requires to its parent company, Euroclear SA/NV, which is domiciled in Belgium. Whilst the outsourced services provided by the parent company are invoiced in GBP at a fixed rate agreed at the beginning of each financial year, providing short-term protection against exchange rate fluctuations, a material component of the Company's costs are Euro-based. The Company actively monitors the actual exchange rate and stress tests its cost base to determine the impact of exchange rate movements on its future profitability and capital adequacy.

The Company, as a provider of settlement services, has minimal exposure to price (market) risk and does not extend credit to third parties, other than in the normal invoicing cycle. An investment policy is followed for the investment of cash resources, requiring regulatory capital to be invested in highly rated GBP-denominated securities, with surplus and working capital placed on deposit with highly rated institutions. Cash flow and prudential cash requirements, including those necessary to support working and regulatory capital, are monitored regularly to ensure that sufficient funds remain available as required.

The capital adequacy of the Company is assessed using the CSDR requirement (see note 20). The regulatory requirement is compared against internally generated requirements taking into consideration the operational risk, business risk and credit risk of the Company. The overall approach assesses the likely adequacy of the Company's current and future capital levels in light of the evolution of its risk profile. It also assesses the potential impact of more severe market conditions. The Board reviews the Company's capital needs, capital adequacy and dividend policy within the context of its overall governance framework, taking account of the Company's business strategy, investment needs, risk appetite and a broad range of risk factors. The Board regularly reviews the Company's capital monitoring level against the CSDR capital requirement. There has been no change since year-end concerning the major financial risks faced by the Company (see note 26).

Financial performance

The Company performed well throughout 2020. Revenues have increased in the core CREST settlement services, primarily as a consequence of pandemic related market volatility and the implementation of tariff changes during the year. Although this has been partially offset by an increase in administrative expenses reflecting additional project investments.

The Company's profit and total comprehensive income for the year was £22,797,441 (2019 profit and total comprehensive income for the year: £18,001,702). The year-end financial position of the Company remained strong, with net assets of £157,440,847 (2019 net assets: £136,722,418).

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Dividends

No interim dividend was paid during the year (2019: £nil). At the date of signing, no final dividend has been proposed for the year ending 31 December 2020.

Section 172 Statement

The Directors of Euroclear UK & Ireland Limited are committed to performing their duties and responsibilities as officers of the Company with care, skill and diligence. When considering their duty defined by s.172 of the Companies Act 2006 to promote the success of the Company for the benefit of its members as a whole, the directors have regard (amongst other matters) to wider stakeholder engagement. It is the Board's belief that greater stakeholder engagement is key to aligning its strategic goals with the long-term success of the Company and further information on how the Board achieves this is set out below.

In 2020, the Board set the following five overarching corporate governance outcomes, which are underpinned by action plans and regular reporting:

1. **Independence:** To encourage challenge and promote objectivity;
2. **Accountability:** To report, explain and be answerable for the consequences of decisions;
3. **Transparency:** To allow stakeholders to understand why a decision has been made;
4. **Integrity:** To constitute the Governance link to culture and behaviour;
5. **Effective oversight:** To ensure decisions are implemented in line with expectations.

Following the findings of an independent Board Effectiveness Review performed in 2020, the Board has reaffirmed its commitment to the enhancement of stakeholder engagement in 2021, including the development of an annual stakeholder engagement plan.

Key stakeholders of the Company

In addition to the sole shareholder of the Company, the Board has regard to the following five key stakeholder groups, and their interests:

I. the Workforce

II. the Marketplace, including clients, service providers and suppliers

III. the Regulator

IV. the Environment

V. the Community

Our key stakeholders reflect the main groups stated in s.172. Plus, as a regulated entity, we regard our regulator as a key stakeholder.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

I. *the Workforce*

The Board considers effective and constructive engagement with the workforce to be an important part of its strategy for the long-term success of the business.

2020 has been a challenging year for staff, not least because of the requisite changes to working practices associated with the pandemic, but also due to the personal impact the pandemic has had on many staff members. The Company recognises the difficulties this has brought to staff and the group has provided workshops on coping with stress, arranged specialised coaching sessions on resilience, and delivered care packages to staff. The Board has ensured that staff well-being remained, and remains, paramount at such an uncertain time. By the provision of regular reporting by the HR team to the Board, and escalation of any key areas of concern with regard to well-being by management to the Board, staff have been, and continue to be, supported.

Mechanisms utilised throughout the year to engage with the workforce include, but are not limited to:

- surveys, such as the annual "Your Voice" staff-climate survey
- regular town hall meetings
- social media updates such as communication through the Company's intranet.

2020 saw the second year of the Company "Your Voice" survey. This survey, hosted by a third party facilitator, provides employees with a platform to provide detailed feedback on a range of topics, giving an in-depth view of the level of employee engagement. In November 2020, 85% of the Company's colleagues took part in the survey. The resulting overall engagement score was slightly below the benchmark although higher than November 2019 and with four key priorities identified for progression in 2021, being Employee engagement; Career Development; Workload; Reward. Action plans are being built to address these priority areas in 2021 and the Board will oversee progress.

The Chair of the Nominations Remuneration and Governance Committee (the NRGC) was appointed as the Designated NED for employee engagement in February 2020 (in line with recommendations of the Corporate Governance Code) and periodically attends meetings of the UK Works Council. 2021 will see the continued embedding of Board engagement with the workforce, as agreed by the Board in 2020, including participation in town hall meetings.

Diversity and inclusion in the workforce

The Company is committed to creating an organisational culture where all employees feel valued, respected, supported and fully engaged to contribute to the long-term success of the Company. Euroclear UK & Ireland Limited is fully aligned with the Euroclear mission for diversity and inclusion by promoting equality of opportunity for all people regardless of gender, ethnicity, sexual orientation, religion or disability and whilst removing any direct or indirect forms of discrimination. The Board believes that diverse companies perform better and that diversity and inclusion is a moral imperative.

The Company continues to regard gender diversity as an important attention area and the Board monitored gender pay gap information as well as gender representation at all levels of the organisation, including the Board, throughout the year. This is discussed further below on page 17.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

In addition, the Company (and the wider Euroclear group) has increasingly broadened its areas of diversity focus to include ethnic and cultural diversity. In 2020, a Diversity & Inclusion Council was established in the UK under the executive sponsorship of the Euroclear UK & Ireland Limited CEO and comprising representatives of both the Company and the UK branch of Euroclear SA/NV. A specialist diversity consultancy was appointed to support the establishment of the Council. The Council will take the lead in piloting programmes and initiatives for the UK and play a key role in feeding into D&I initiatives at group level.

Culture in the workplace

The Company believes that aligning culture, governance, company purpose and strategy as part of a wider governance framework assists in achieving the long-term objectives, and success, of the Company. Accountability and transparency are two key pillars of a robust corporate governance framework. Together with efficient and effective practices, the right culture underpins the Company's corporate governance framework which will, in turn, support the Company in achieving its strategic objectives of providing robust and reliable CSD services and offering expanded services to the funds market.

The Company's culture is multi-faceted and is underpinned by the group's REACH values of Respect, Effectiveness, Accountability, Client First and Helpful. Whilst continuing to encourage a diverse and inclusive working environment, the Company has, throughout 2020, continued to focus on driving forward a culture of transparency and accountability to promote strong corporate governance both at Board level and throughout the organisation. The Company strives to set the tone from the top and embraces a culture of accountability by implementing Statements of Responsibilities for/at Senior Management level to voluntarily align with the principles of the Senior Managers and Certification Regime. Reporting practices have been amended to ensure all senior management can be held to account for practices within their remit; and the linking of accountability and transparency to employee objectives has been introduced to demonstrate to employees that taking responsibility in their working practices fosters reward, thus incentivising the workforce to engage with the desired culture.

Further to the results of the independent Board Effectiveness Review carried out in 2020, recommendations to consider further enhancements to the Company's culture were accepted by the Board for progression in 2021, including a review of the culture needed to support the Company's purpose and longer-term success.

II. *the Marketplace, including clients, service providers and suppliers*

Clients

Ongoing engagement with clients as key Euroclear UK & Ireland Limited stakeholders remains intrinsic to the Company's strategy to provide robust and reliable CSD services. During 2020 a number of service enhancements to the underlying platform and systems were undertaken, as described on page 4.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Client engagement takes place at multiple levels:

- bilateral engagement as part of the ongoing client relationship to understand each client’s needs and expectations of the Company
- through committees such as the UK and Irish User Committees and Client Advisory Group
- Euroclear UK & Ireland Limited representation on a number of market groups and forums, such as the Stock Events Working Party and the Transfer Agents (TA) Forum.

The User Committees were established pursuant to CSDR to provide users of the securities settlement system operated by the Company with a forum to:

(i) provide advice (which is independent from any direct influence by the CSD management) to the CSD Board on key arrangements that impact the CSD’s users

(ii) provide non-binding opinions to the CSD Board on pricing structure of the CSD and

(iii) make requests for implementation of DvP settlement through links.

The User Committees comprise representatives from the Company’s various market constituencies and support the Company in understanding the views and expectations of its client segments. An independent Board director is a standing attendee at the Committee meetings and the Board receives a report from the User Committee Chair following each meeting. Each Committee met five times in 2020 and key areas of focus were the proposed Euroclear UK & Ireland Limited’s tariff changes, the migration of Irish securities settlement to Euroclear Bank and the September and November service disruptions discussed on page 5 to 6. The Company also engaged closely with clients on a bilateral basis to discuss these matters.

In Q4 2020, a Client Advisory Group was set up to act as a sounding board for, and provide input into, the development of the Company’s Strategy, and this Group will remain an important engagement forum in 2021.

To monitor client satisfaction with the service, an annual client satisfaction survey is conducted. For 2020, the survey indicated a continuing trend of strong customer satisfaction with an overall client satisfaction score of 83.2% (an increase of 0.1% compared to 2019) and an increase in the Net Promoter Score by 4.5 points to 45.5.

Service Providers

The Company works closely with a number of service providers to deliver the CREST service, including the Settlement Banks, Network Providers and Registrars. In addition, and as noted elsewhere in this report, the Company outsources a number of services to its parent company, Euroclear SA/NV (including its corporate responsibility programme, as described in sub-section IV – the Environment below), as well as to a number of other third parties.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

The Company engages with both its outsourced and non-outsourced service providers on an ongoing basis and monitors their performance. Regular service dialogue meetings take place with the service providers at which service performance, issues and escalations are discussed. This open and continuous dialogue supports the maintenance of an effective and constructive engagement between the Company and its service providers, with the Board receiving a quarterly update of any risks associated with the Company's critical service providers, as well as a general review of their performance against a pre-agreed set of indicators.

The setting and approval of its outsourcing policy and overseeing the consistent implementation thereof, are a matter reserved for the Board. Where Euroclear SA/NV is the Company's service provider, SDPs are agreed and subsequently reviewed on an annual basis. The SDPs determine the level of services to be received, and the performance levels expected, and are monitored by the use of KPIs.

The Company is a member of the Euroclear group Outsourcing Committee – an advisory committee created by the Group Risk Committee to develop, and monitor compliance with, the Euroclear group outsourcing framework and the critical service providers framework. The Chief Operating Officer (or delegate) is the Company's current representative at the Outsourcing Committee. Any matters requiring further consideration by the Company, will be escalated by the Chief Operating Officer through the established governance processes.

Know and trust your suppliers

The Company, as part of the Euroclear group, adheres to the group's Supplier Code of Business Conduct, published on its website, which outlines the behaviours expected from its suppliers. The group continue to strengthen the environmental, social and governance assessment of its suppliers. The Euroclear group's modern slavery and human trafficking statement is published annually on its website.

Risk-aware culture and staff awareness

In 2020, the Company participated in the Euroclear group's sustained risk awareness programme. E-learning modules covered sanctions, fraud prevention, modern slavery, anti-money laundering and conflicts of interest, with 99% participation overall in the group. Awareness of new tax frameworks and new policies for anti-bribery and corruption were supported by targeted 'face-to-face' training in the first quarter of 2020.

Further communication campaigns were rolled out to strengthen our corporate culture of integrity and compliance across the group – on data protection (GDPR), Speak Up, the role of the compliance officer, fraud, and anti-bribery and corruption.

More generally, all Euroclear UK & Ireland Limited staff and contractors follow a series of regular training sessions and the Company has adopted a 'Speak Up' policy to enable staff to raise concerns over any potentially unethical behaviour. In order to encourage staff to report any potential wrong doing or area for concern the policy includes both internal channels of reporting and an external ethics hotline run by an independent third party, 'Safecall'.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

III. *The Regulator*

The Company is supervised by the Bank and forms part of the UK financial market infrastructure. The Bank undertakes an annual assessment of the Company and will on, the basis of its findings from the review, set out any actions that it expects the Company to take as a result and its supervisory work plan for the next 12 months. The Bank is a key stakeholder given its financial stability objective and the Company's role as critical financial market infrastructure and accordingly there is close engagement with the Bank by the Company at all levels from the Board Chair downwards. The relationship with the Bank is coordinatated and supported by the Company Regulatory Relationship Management team. Throughout 2020, members of the Board and senior management engaged with the Bank focusing on matters that are:

- critical to the Company's business, including, in particular, the Company's CSDR licence application (as discussed on page 2 of this report)
- have the potential to have a critical impact on the wider market.

From time to time, the Company also participates in regulatory consultations on proposed future financial market developments.

IV. *the Environment*

The Company, along with the rest of the Euroclear group, takes its responsibility for helping to create a more just and equitable world seriously. The group's Environmental, Social and Corporate Governance (ESG) Programme is run in full alignment with its business strategy and is divided into four streams. For more details on each of these streams, please refer to the group's sustainability report on www.euroclear.com/our responsibility, prepared in accordance with the Global Reporting Initiative Standards (Core). The 2020 report will be published in May 2021.

The Euroclear group has been carbon neutral to PAS2060 standards for nine years. The group is committed to science-based targets for our emissions reduction and currently has the goal to reduce our emissions by 36% by 2024, based on our 2014 baseline. By the end of 2020, we had reduced our carbon emissions by 32%. Further information on the Company's Carbon & Energy Reporting can be found on page 20.

In 2020, the group Environment partner, Ecoact carried out a comprehensive study to propose an alignment with the new climate change targets, which have been reduced from a 2 degree Celsius warming scenario to a 1.5 degree Celsius scenario. The Euroclear group is now carefully considering how to apply this analysis and looking to redefine the targets in 2021.

In addition, the group has engaged in a multi-year project to improve the risk frameworks and relating disclosures with the evolving regulatory requirements on environmental risks.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

V. *the Community*

2020 has been a difficult one for those in our communities who are most vulnerable. Early in the year, the Euroclear group donated EUR 1 million to a range of organisations on the front line of the battle against the pandemic. The group also diverted some of the funds which are annually donated to Street Child to its Covid-19 emergency fund, which supports children in developing countries who have been most impacted by the lockdown and resulting lack of education.

One of the highlights of 2020 was the launch of the Euroclear group's new corporate volunteering programme, to which the Company is a party, and the announcement of eight hours a year in company time per employee which can be dedicated to volunteering activities. Despite the fact that all the opportunities continue to be virtual, the Company has been able to offer a wide range of events.

In 2020, the Euroclear group also tightened the governance around charitable giving and the partnerships with NGOs, which ensures that the support goes where it is most needed and that all parties are protected against fraud or any other form of wrong-doing.

In the UK, the local Community Relations Committee (CRC) encourages charitable donations and community involvement within the Company and other UK based operations of the Euroclear group. The CRC operates pro-active policies and supports employees in donating and raising funds, including support to St Mungos. All donations in the UK, as determined by this committee, are paid through Euroclear SA/NV (total UK donation for 2020: £128,303, 2019: £76,337).

Approved by the Board

MICHAEL CARTY
Chief Executive Officer
13 April 2021

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their report and the audited financial statements of Euroclear UK & Ireland Limited for the year ended 31 December 2020.

In accordance with section 414C(11) of the Act, disclosures in relation to dividends and the future developments of Euroclear UK & Ireland Limited are presented in the Strategic Report.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Members	Appointed/ Resigned	Board	Audit Committee	Risk Committee	Nominations, Remuneration & Governance Committees
Robert Hingley (Independent Chairman)		• (chair)		•	•
Michael Carty (CEO)	01/10/2020 (appointed)	•			
Chris Elms (Interim CEO)	01/10/2020 (resigned)	•			
Tom Challenor (Independent Director)		•	• (chair)		•
Sue Concannon (Independent Director)	31/03/2021 (resigned)	•	•		• (chair)
Philippe Tromp (Independent Director)		•	•	• (chair)	
Peter Sucaet (Non-Executive Director)	24/02/2021 (resigned)	•		•	•
Yves Dupuy (Non-Executive Director)	11/12/2020 (resigned)	•			
Kirsten English (Independent Director)	25/03/2021 (appointed)	•	•		• (chair)

Jennifer Parker was the Company Secretary throughout the year.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

The Directors attended the following number of meetings during the year.

Members	2020 MEETING ATTENDANCE			
	Board (19)*	**Audit Committee (6)**	**Risk Committee (8)**	**Nominations, Remuneration & Governance Committees (14)**
Robert Hingley (Independent Chairman)	19	–	8	14
Michael Carty (CEO)	4	–	–	–
Chris Elms (Interim CEO)	15	–	–	–
Tom Challenor (Independent Director)	19	6	–	14
Sue Concannon (Independent Director)	19	6	–	14
Philippe Tromp (Independent Director)	16	6	8	–
Peter Sucaet (Non-Executive Director)	17	–	8	12
Yves Dupuy (Non-Executive Director)	7	–	–	–

* figures in brackets represent the total number of meetings held in the year

Diversity

The Company supports diversity both in the boardroom and company-wide. The Board defined, in 2015, a target of achieving (and maintaining) a minimum of one third representation of the under-represented gender within a four-year period. This was ratified by the non-executive directors of the Company in February 2017. In 2019, a decision was taken to extend the period to February 2022 to reflect Directors' retirement by rotation on a 3-year basis and noting that two of the current independent non-executive Directors will each have completed at least 9 years of service as a Director of the Company by that date. The Board and Board Committee Composition Policy (the BBCCP) was further revised in December 2020 to follow the recommendations made in the Parker Review that FTSE 350 companies should set a target of having at least one director of colour on their Board by 2024. Although the Company is not itself a FTSE 350 company, the adoption of this target demonstrates the Company's commitment to grow and support a diverse workforce at all levels of the organisation.

As at year end, there is a 16.7% representation of women on the Board, which is made up of 6 directors, 1 of whom is female. The Company will continue to work towards the gender and ethnicity targets set in the BBCCP, taking into account the benefits of diversity of gender, social and ethnic backgrounds and personal attributes, alongside the need to secure the most appropriate skill set, experience and expertise.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Board Advisory Committees

There are three Board Committees:

- the Nominations, Remuneration and Governance Committee
- the Audit Committee
- the Risk Committee.

In line with the requirements of CSDR, the Committees are advisory.

Nominations, Remuneration and Governance Committee

The NRGC is an advisory committee of the Board, established to assist the Board in fulfilling its oversight responsibilities in relation to the nomination and remuneration of Board and Management Committee members, defining and overseeing the implementation of the Company's remuneration policy, Board and Committee composition, performance and succession planning as well as corporate governance matters as they apply to the Company. The NRGC oversaw the following engagements throughout the course of 2020:

- appointment of Michael Carty, CEO
- appointment of two Risk Committee Advisers in the areas of Cyber and Technology
- identifying a replacement for Sue Concannon as an iNED

During 2020, the NRGC has instructed, and reviewed the findings of, various governance assessments to continually challenge the adequacy of governance standards fostered at Board level. Assessments for the period included:

- a Board Effectiveness Review performed by an external facilitator
- independence assessments of two independent non-executive directors being proposed for re-appointment in 2020
- annual Board Skills assessment, inclusive of both self and peer assessment and a gap analysis, which provided direction for the Directors' training programme and Succession Planning.

The NRGC reviewed all policies within its remit during 2020, including the BBCCP and Remuneration Policy.

Remuneration matters considered by the NRGC during the year included:

- considered and recommended the 2019 compensation awards and remuneration for 2020 for all Company staff, including the executive management team and control functions.

Throughout 2020 the NRGC was composed of 4 Non-Executive Directors, 3 of whom are considered to be Independent, one of whom is the Chair (see page 17).

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Audit Committee

The Audit Committee is an advisory committee of the Board established to assist the Board in fulfilling its financial reporting, audit, compliance, and ethics oversight responsibilities.

During 2020, whilst ensuring all of the aforementioned responsibilities were met, the Audit Committee has continued to apply focus to a number of key areas, including compliance oversight.

By virtue of the Company being a wholly owned subsidiary, certain best practice guidelines relating to the external auditor do not apply to the Company as they are led at group level. These relate to the conduct of any tender process; recommendations to the Board about the external auditor's appointment, reappointment and removal; approval of the external auditor's remuneration and terms of engagement.

The Audit Chair is, however, closely involved in the tender process, and the Audit Committee remains responsible for formally recommending any change of auditor to the Board and for the approval of the external auditor's fees in relation to the Company.

The Audit Committee reviews the performance of the external auditors on an annual basis.

The Euroclear group policy prohibits the external auditor from providing non-audit services.

The Audit Committee is composed of 3 Non-Executive Directors, all of whom are considered to be Independent, one of whom is the Chair (see page 17).

Risk Committee

The Company's Risk Committee is an advisory committee of the Board, established to assist the Board in fulfilling its risk oversight responsibilities. During 2020, whilst ensuring all defined responsibilities were met, the Risk Committee has increased focus on a number of key areas, including outsourcing and cyber and technology oversight. In this regard, two advisers were appointed to the Risk Committee during 2020 to provide direction to the Committee when considering how best to mitigate cyber and technology risks. The step to appoint advisers was taken following the identification of a gap in the skill set of the Risk Committee members in both Cyber and Technology.

Throughout 2020, the Risk Committee has committed significant attention to the oversight and monitoring of the following key areas which could pose a risk to the strategic objectives of the business of the Company:

- Business Strategy
- Acquisition of CSDR License
- Covid-19 Pandemic
- Brexit and related Strategy
- Operational Resilience
- Cyber and Technology
- Outsourcing

The Risk Committee is composed of 3 Non-Executive Directors, 2 of whom are considered to be Independent, one of whom is the Chair (see page 17).

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Carbon and Energy Reporting

Climate change is now regarded as one of the most serious global challenges to be addressed and the Company, as part of the Euroclear group, aims to play its part in ensuring that our planet is a place where future generations can thrive (see page 14).

Within the UK we play our part in achieving the group targets to reduce our footprint, prior to 2020 these savings have been made through portfolio management, environmental awareness initiatives, like our Employee Charter, and IT energy saving improvements.

2020 has been a strange year, with large scale working from home and so there has been very little commuting or business travel. The Company has learnt that it is possible to work productively without commuting every day to the office and intend to take the lessons learned from this difficult year forward. The Company has launched a new initiative, Flex-E, to look at how we can incorporate best practices into a new way of working – one that is kinder to our environment.

The disclosures required under the Companies Act 2006 are included below for the year ending 31 December 2020.

	Scope 1		Scope 2		Scope 3	
	2020	2019	2020	2019	2020	2019
Annual Energy Consumption in the UK (kWh)	165,464	128,469	390,458	529,607	N/A	N/A
Energy Consumption in the UK per FTE	1,164	969	2,746	3,994	N/A	N/A
Annual GHG Emissions in the UK (tCO_2e)	33	24	91	184	119	N/A
GHG Emissions in the UK per FTE	0.2	0.2	0.6	1.4	0.8	N/A

Scope 1 emissions arise from activities relating to building management, for example, natural gas for space and hot water heating or diesel for back-up power generation. Scope 2 emissions arise from purchased electricity at UK offices and data centres. Scope 3 emissions arise from waste management, business travel and employee commuting. Emissions and energy consumption figures are calculated using ISO 14064-1:2018. Where UK specific data is not available, full time equivalent staff (FTE) has been used as to allocate total group cost to the UK and the Company.

The Company uses FTE to measure its carbon intensity.

Indemnity and insurance of directors

As permitted by the Company's articles of association, the directors of the Company have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Act. The indemnity has been in place throughout the year and is in force at the date of the Directors' Report. The Company maintains insurance for directors in respect of their duties as directors of the Company.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that Euroclear UK & Ireland Limited has adequate resources to continue to operate for the foreseeable future. The assessment includes the future profitability of the Company, the principal risks and uncertainties facing the Company and the mitigation of these risks (see page 7 to 8) and the maintenance of capital requirements under CSDR capital requirement (see note 20).

The assessment also includes the current expectations of required spend on resilience and that required to ensure suitability of the products & services as outlined in the strategy review section. It is not expected that investment decisions in relation to the strategy will impact the Company status as a 'going concern' for the foreseeable future.

Following the COVID-19 pandemic and the resulting market volatility (see page 2) and the service disruption (see page 5 to 6), the assessment on future profits and capital base has been flexed under various market stresses and additional assessments made on operational resilience. Following these assessments, the directors continue to adopt the 'going concern' basis in preparing the financial statements.

Political donations

The Company made no political donations during the year (2019: £nil).

Financial instruments

The exposure of The Company to price risk, credit risk, liquidity risk and cash flow risk are discussed in note 26 on pages 55 to 58 of the financial statements.

External Advisers

During the reporting year the following external advisers were engaged by the Company:

- Duff & Phelps Limited
- Spencer Stuart & Associates Limited

The external advisers do not have any other connection to the Company.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and the International Financial Reporting Standards as issued by the IASB have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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. The directors 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditor

In accordance with the provisions of Section 418 of the Companies Act 2006, Directors' Reports shall include a statement, in the case of each director in office at the date the Directors' Report is approved, that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he/she have taken all the 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 auditor is aware of that information.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Independent auditor

Deloitte LLP acted as Euroclear UK & Ireland Limited's auditors during the year.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the next General Meeting.

Approved by the Board

MICHAEL CARTY
Chief Executive Officer
13 April 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EUROCLEAR UK & IRELAND LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Euroclear UK & Ireland Limited (the Company):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the accounting policies; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EUROCLEAR UK & IRELAND LIMITED (continued)

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EUROCLEAR UK & IRELAND LIMITED (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, in-house legal counsel and those charged with governance about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements, including the UK Companies Act;
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team, including relevant internal specialists such as tax and IT specialists, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EUROCLEAR UK & IRELAND LIMITED (continued)

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with HRMC and the Bank of England.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EUROCLEAR UK & IRELAND LIMITED (continued)

Use of our report

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.

Fiona Walker, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
13 April 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(£)	Note	2020	2019
Net fee income		**118,711,071**	**101,729,658**
Fee income		133,103,603	112,325,641
Fee expense		(14,392,532)	(10,595,983)
Administrative expenses	4	**(91,478,112)**	**(82,442,506)**
Other (losses)/gains	6	**222,356**	**318,309**
Net interest income	5	**499,272**	**981,406**
Interest income		818,129	987,755
Interest expense		(318,857)	(6,349)
Impairment losses on financial assets	26	**(534,083)**	**(89,248)**
Profit before tax		**27,420,504**	**20,497,619**
Taxation	7	**(4,975,455)**	**(2,654,448)**
Profit for the year		**22,445,049**	**17,843,171**
Changes in other comprehensive income			
Recyclable subsequently to profit/(loss)			
Changes in the fair value of debt instruments	18	435,642	157,959
Taxation relating to these items	18	(83,250)	572
Other comprehensive income for the year		**22,797,441**	**18,001,702**
Total comprehensive income for the year		**22,797,441**	**18,001,702**

(i) The profit and total comprehensive income for the year is all attributable to continuing operations.

(ii) The profit and total comprehensive income for the year is attributable to the owners of the parent company.

The notes on pages 33 to 58 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

(£)	Note	2020	2019
Assets			
Non-current assets			
Intangible assets	8	6,423	16,257
Property, plant and equipment	9	225,661	170,220
Investments in subsidiary undertakings	10	7,010	7,010
Financial assets at FVOCI	11	88,378,581	87,092,190
Deferred tax assets	12	-	71,990
Total non-current assets		**88,617,675**	**87,357,667**
Current assets			
Trade and other receivables	13	13,272,008	10,312,569
Current tax assets	7	1,491,407	4,257,409
Cash and cash equivalents	14	54,059,757	34,794,773
Total current assets		**68,823,172**	**49,364,751**
Total assets		**157,440,847**	**136,722,418**
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	6,015,100	6,015,100
Share premium		6,015,000	6,015,000
Other reserves	18	539,440	187,048
Retained earnings		129,880,240	107,435,191
Total equity		**142,449,780**	**119,652,339**
Liabilities			
Current liabilities			
Trade and other payables	15	14,913,025	16,670,079
Deferred tax liabilities	12	78,042	-
Provision for other liabilities and charges	16	-	400,000
Total current liabilities		**14,991,067**	**17,070,079**
Total equity and liabilities		**157,440,847**	**136,722,418**

The notes on pages 33 to 58 form an integral part of the financial statements.

The financial statements on pages 29 to 58 were approved by the Board of Directors on 9 April 2021 and authorised for issue on that date.

Approved by the Board:

MICHAEL CARTY

Chief Executive Officer

13 April 2021

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(£)	Note	Share Capital	Share premium	Other reserves	Retained earnings	Total equity
At 1 January 2020		**6,015,100**	**6,015,000**	**187,048**	**107,435,191**	**119,652,339**
Profit		-	-	-	22,445,049	22,445,049
Other comprehensive income	18	-	-	352,392	-	352,392
Total comprehensive income		**-**	**-**	**352,392**	**22,445,049**	**22,797,441**
At 31 December 2020		**6,015,100**	**6,015,000**	**539,440**	**129,880,240**	**142,449,780**

(£)	Note	Share Capital	Share premium	Other reserves	Retained earnings	Total equity
At 1 January 2019		**6,015,100**	**6,015,000**	**28,517**	**96,569,536**	**108,628,153**
Profit		-	-	-	17,843,171	17,843,171
Other comprehensive income		-	-	158,531	-	158,531
Total comprehensive income		**-**	**-**	**158,531**	**17,843,171**	**18,001,702**
Dividend (£0.420 per ordinary share)	19	-	-	-	(6,977,516)	(6,977,516)
At 31 December 2019		**6,015,100**	**6,015,000**	**187,048**	**107,435,191**	**119,652,339**

The total equity is attributable to the owners of the parent company.

The notes on pages 33 to 58 form part of the financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

(£)	Note	2020	2019
Profit before tax		**27,420,504**	**20,497,619**
Adjustments for:			
Amortisation charge	4	9,834	12,959
Depreciation charge	4	54,359	57,455
Interest income	5	(818,129)	(987,755)
Interest expense	5	318,857	6,349
Impairment	26	35,867	(894)
Unrealised loss on non-current assets	11(a)	62	59
Changes in working capital:			
Trade and other receivables		(2,960,465)	(673,323)
Trade and other payables		(2,929,716)	448,131
Cash generated from operating activities		**21,131,173**	**19,360,600**
Interest received		54,573	54,599
Interest paid		(319,455)	(5,869)
Tax paid		(1,369,411)	(3,335,422)
Net cash generated from operating activities		**19,496,880**	**16,073,908**
Cash flows generated (used in)/from investment activities			
Loans and receivables			
Purchase of debt securities at FVOCI	11(b)	(46,263,918)	(31,615,108)
Redemptions and disposals of debt securities at FVOCI		46,141,822	28,058,522
Purchase of property, plant and equipment	9	(109,800)	(33,509)
Net cash generated (used in)/from investing activities		**(231,896)**	**(3,590,095)**
Net cash used in financing activities			
Ordinary dividends paid	19	-	(6,977,516)
Net cash used in financing activities		**-**	**(6,977,516)**
Net decrease in cash and cash equivalents		**19,264,984**	**5,506,297**
Cash and cash equivalents at beginning of the year		34,794,773	29,288,476
Cash and cash equivalents at the end of the year		**54,059,757**	**34,794,773**

The notes on pages 33 to 58 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. General Information

The principal activities of Euroclear UK & Ireland Limited are the operation and continuing development of the CREST settlement system and the EMX message system.

Euroclear UK & Ireland Limited is a private company, limited by shares, and is domiciled and incorporated in England and Wales. The address of its registered office is 33 Cannon Street, London EC4M 5SB.

2. Accounting policies

(a) Basis of preparation

The financial statements of Euroclear UK & Ireland Limited have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the International Financial Reporting Standards (IFRSs) as issued by the IASB.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments.

The preparation of financial statements in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB requires the use of judgements, 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 year. The estimates and associated assumptions are based on historical experience. Critical accounting estimates and judgements are discussed further in note 3.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about Euroclear UK & Ireland Limited as an individual undertaking and not with regard to its group.

In preparing the financial statements for the current year, consideration was given to new IFRSs, both those that are effective at the year end and those that have been issued but are not effective at the year end, as well as amendments to IFRS and IFRIC IC interpretations. The adoption of the following standards, IFRIC and amendments that became effective on 1 January 2020 had no impact on the entity's financial statements:

- amendments to IFRS 3: Definition of a business
- amendments to IAS 1 and IAS 8: Definition of Material
- amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform
- amendments to References to the Conceptual Framework in IFRS Standards

The adoption of the following standards, IFRIC and amendments that became effective on 1 June 2020 had no impact on the entity's financial statements:

- amendments to IFRS 16: Covid-19 Related Rent Concessions

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Accounting policies (continued)

(a) Basis of preparation (continued)

The following amendments to standards will become effective on 1 January 2021:

- IFRS 17: Insurance Contracts
- amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16: Interest Rate Benchmark Reform – Phase 2.

The directors do not expect that the adoption of the Standards listed above and all other IFRSs not yet adopted will have a material impact on the entity's financial statements.

After making enquiries, the directors have formed a judgement that there is a reasonable expectation that Euroclear UK & Ireland Limited has adequate resources to continue to operate for the foreseeable future (see page 21). For this reason, the directors continue to adopt the 'going concern' basis in preparing the financial statements.

The principal accounting policies applied in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented.

(b) Foreign currencies

Euroclear UK & Ireland Limited uses GBP as both its functional and presentational currency.

Monetary assets and liabilities denominated in foreign currencies are translated into GBP at the rate of exchange ruling at the end of the financial year. Transactions in foreign exchange are translated at foreign exchange rates present on the date of the transaction.

(c) Fee income and expense

Fee and commission income and expense which respectively represent a return and cost for services rendered are recognised in the income statement at the point in time when the related service is performed and the resulting performance obligation is met. Fee expense is directly attributable to revenue earned and recognised at the point in time when the related service is performed.

Fee income comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of Euroclear UK & Ireland Limited's activities. All revenue arises in the United Kingdom and Republic of Ireland and is shown net of Value Added Tax.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Accounting policies (continued)

(c) Fee income and expense (continued)

Fee income represents a return for services rendered (e.g. settlement, fund order routing, asset maintenance) and is recognised when the related service is performed. Annual charges are recognised on a straight-line basis over the period to which they relate. Fine income arising from the settlement discipline regime administered on behalf of the market is recognised when fines are levied.

Fee expense comprises the fair value of the consideration paid or payable for the cost for services rendered. Fee expense relates to network commission fees, for example custody fees and settlement fees on international securities. Fee expense is directly attributable to revenue earned and recognised when the related service is performed.

(d) Interest on monies held in trust

Interest income earned on balances related to the collection of Stamp Duty Reserve Tax on behalf of HM Revenue & Customs and Stamp Duty on behalf of the Irish Revenue Commissioners is recognised when receivable.

(e) Financial instruments

Classification and measurement. On initial recognition, a financial asset is classified as: measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVPL). The classification results from a two-step approach: The “characteristics” test will check whether the cash flows can be considered as solely payments of principle and interest (SPPI) and the business model for managing the asset.

A financial asset is classified and measured at amortised cost if it is not designated as FVPL, and if it meets both of the following conditions: it is held for collection of contractual cash flows (held to collect) and its contractual terms give rise to cash flows that represent SPPI. A financial asset classified and measured at amortised cost is recognised in the balance sheet on the settlement date at fair value plus any directly related transaction costs. It is subsequently measured at amortised cost using the effective interest method less any loss allowances.

A financial asset is classified and measured at FVOCI if it is not designated as FVPL, and if it meets both of the following conditions: it is held for collection of contractual cash flows and for selling the assets, and its cash flows represent SPPI. A financial asset classified and measured at FVOCI is recognised in the balance sheet on settlement date at fair value. Gains or losses arising from changes in the fair value are recognised directly in equity, until the asset is either sold or matures at which time the cumulative gain or loss previously recognised in equity is released to the income statement. Interest revenues are recognised using the effective yield method.

The Company may irrevocably elect to designate an equity instrument at FVOCI, if it is not held for trading. This election is made on an investment by investment basis. In this case dividends are recognised in profit and loss, but gains and losses are not recycled to profit and loss on derecognition and no impairment is recognised.

All other financial assets are measured at FVPL. The assets are initially recognised and subsequently measured at fair value. The movements in fair value are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Accounting policies (continued)

(e) Financial instruments (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Company measures the fair value of an instrument as the published price at the balance sheet date.

Business model assessment. A business model refers to how the Company manages its financial assets in order to generate cash flows. It is determined on a level that reflects how financial assets are managed to achieve a particular business objective. The Company's objective can be:

- solely to collect the contractual cash flows from the assets (held to collect)
- to collect both the contractual cash flows and cash flows arising from the sale of the assets (held to collect and sell)
- neither of the above, i.e. financial assets held for trading purposes, and the financial assets are classified as other business model.

Factors considered by the Company in determining the business model for a group of assets include objectives for the portfolios, how the asset's performance and risks are evaluated, managed and reported to management, and past experience.

Assessment of contractual cash flows as SPPI. The Company assesses whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Reclassifications. Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

(f) Impairment of financial assets

FVOCI financial assets are recognised in the balance sheet on settlement date at fair value. Gains or losses arising from changes in the fair value of such assets are recognised directly in equity, until the asset is either sold or becomes impaired, at which time the cumulative gain or loss previously recognised in equity is released to the income statement.

The Company recognises loss allowances on debt instruments measured at amortised cost and at FVOCI. No impairment loss is recognised on equity instruments.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Accounting policies (continued)

(f) Impairment of financial assets (continued)

IFRS 9 requires the recognition of 12 month expected credit losses if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3). Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure of the default. ECLs on financial assets are individually assessed.

The impairment requirements are complex and require management judgements, estimates and assumptions that are detailed in note 3.

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower
- a breach of contract, such as default or past due event
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties.

For trade receivables with no significant financing component, a simplified approach requiring the recognition of lifetime ECLs at all times applies. The expected credit losses on these assets are collectively assessed and estimated using a provision matrix based on the Company's and the Euroclear group's historical credit loss experience. Macro-economic factors are not considered as historical observations show that they are irrelevant. Expected credit losses are based on the age of the receivables. If all or part of a client's receivable is confirmed as being irrecoverable, the value of that receivable will be reduced accordingly.

The Company writes off financial assets, in whole or part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

The aggregate of provision made (less amounts released and recoveries of bad debts previously written off) is charged against operating profit in the profit and loss account.

(g) Administrative expenditure

Items of expenditure other than network fees are included in administrative expenses. Costs are recognised in the reporting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Accounting policies (continued)

(h) Intangible assets

Acquired computer software is capitalised on the basis of the cost incurred to acquire and to bring to use the specific software. These costs are amortised over the assets' estimated useful lives (normally estimated to be between three and five years).

The cost of internally developed intangible assets is capitalised only where these costs are separately identifiable and where the development project is expected to generate future economic benefit to the Company. The cost of these assets are amortised on a straight-line basis over the life of the system estimated at a period of 10 years.

Costs associated with maintaining or upgrading computer software programs are recognised as an expense as incurred.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated using the straight-line method of cost less estimated residual value in equal annual instalments over the expected useful economic life of the assets. The periods generally applicable are:

Furniture and fixtures	Over 7 years
Office equipment, including personal computers	Over 2 to 5 years
Communications equipment	Over 2 to 5 years

(j) Investments in subsidiary undertakings

All of the subsidiary undertakings are non-trading and the Company's investment in them is not material. The investments are accounted for in Euroclear UK & Ireland Limited at cost.

(k) Pensions

Euroclear UK & Ireland Limited operates a Company Personal Pension scheme for employees. This is a defined contribution scheme, and the costs of the scheme are charged to the income statement as incurred.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances including: cash on hand; deposits held on call with banks.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

2. Accounting policies (continued)

(m) Provisions

Provisions are recognised where:

- there is a present obligation arising from a past event
- there is a probable outflow of resources and
- the outflow can be estimated reliably.

Provisions for litigation are recorded when there are strong indications that costs will be incurred to settle the legal cases concerned and a reliable estimate can be made.

Contingent liabilities are possible obligations whose existence depends on the outcome of one or more uncertain future events not wholly under the control of the group. For those present obligations where the outflows or resources are uncertain, or in the rare cases where these outflows cannot be measured reliably, this will give rise to a contingent liability. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

(n) Taxation

Corporation tax payable is provided at the current corporation tax rate on the profits arising in the year.

Deferred tax is provided in full on a non-discounted basis, using the liability method, on temporary differences arising between the tax bases of asset and liabilities at the anticipated rate of recovery and their carrying amount in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which the temporary differences can be used.

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

Deferred tax related to a transaction or event which is charged or credited directly to equity (e.g. fair value re-measurement of FVOCI) is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

(o) Dividends

Dividends on ordinary shares are recognised in equity and as a liability in the period in which they are approved by the Company's shareholders.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates are considered to be important to understand the Company's financial condition, since they require management to make complex and subjective judgements, some of which may relate to matters that are inherently uncertain. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment of financial assets

The impairment requirements require management judgements, estimates and assumptions including the following:

Determining a significant increase in credit risk since initial recognition

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Euroclear group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Euroclear group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

IFRS 9 requires the recognition of 12 month expected credit losses if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3). The Euroclear group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Euroclear group has reasonable and supportable information that demonstrates otherwise.

The Euroclear group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial asset is considered to have low credit risk when it has an internal or external credit rating of investment grade. For all exposures considered as low risk and classified in Stage 1, Credit Management will verify that the exemption is relevant through management judgement. In case it considers that the exposure should still be classified in Stage 2, even if it is eligible to the low risk exemption, Credit Management will override the stage.

Forward-looking information

The Company is mainly exposed to highly rated financial institutions. Credit losses are not sensitive to small variations of macro-economic conditions. Expected credit losses are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Three scenarios are modelled to ensure an unbiased representative sample of the complete distribution when determining the expected loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3. Critical accounting estimates and judgements (continued)

Definition of default

IFRS 9 does not give explicit definition of default, but clearly states that it must be consistent with the one used for internal credit risk management purposes, with the rebuttable presumption that a 90 days past due is a default criteria. This definition is used when assessing whether the credit risk on a financial instrument has increased significantly.

(a) Impairment of financial assets (continued)

Expected life

In order to assess the lifetime of the instrument and on which time horizon probability of default must be calculated, a maturity assessment is required. The maturity is the maximum contractual period over which the entity is exposed to risk, that should take into account the ability to demand repayment and any possible extensions. When determining the period over which an entity is expected to be exposed to credit risk the Euroclear group uses historical information and experience, and notably the period over which the entity was exposed on similar financial instruments. The period of exposure has been set to the contractual maturity of the financial asset where known and based on historical data for open-ended financial assets.

Discounting

Expected credit losses are discounted at the effective interest rate determined at initial recognition or an approximation thereof.

Calculation methodology

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. The exposure at default for financial assets is represented by the assets' gross carrying amount at the reporting date.

Simplified approach for trade receivables

For trade receivables, estimates of ECL are based on the historical loss experience observed by the Company and the Euroclear group and split over various time buckets as detailed in note 26.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

4. Administrative expenses

(£)	Note	2020	2019
Staff costs			
- Wages and salaries		11,172,679	9,521,967
- Social security costs		1,418,521	1,311,413
- Other pension costs		971,853	877,919
- Other staff costs		1,270,063	1,159,742
Depreciation	9	54,359	57,455
Amortisation	8	9,834	12,959
Legal and professional		3,177,234	3,307,294
Services provided by parent company	24	63,175,666	55,849,667
Independent auditor's remuneration		371,722	347,050
Irrecoverable VAT		4,141,392	3,911,541
Provisions	16	-	400,000
Other costs		5,714,789	5,685,499
Total		91,478,112	82,442,506

Other costs represent occupancy, communications and other miscellaneous costs.

The auditor's remuneration for Euroclear UK & Ireland Limited and its subsidiary undertakings was:

(£)	2020	2019
Fees payable to the Company's independent auditor for the audit of the Company's annual financial statements	166,262	156,050
Fees payable to the Company's independent auditor and its associated for the other services:		
Other audit-related: ISAE 3402 audit	205,460	191,000
Total	371,722	347,050

The number of employees including directors employed by Euroclear UK & Ireland Limited was as follows:

Number	2020	2019
Total – monthly average for the year	138	121
Total – at 31 December	146	125

The cost of contributions to the Company Personal Pension scheme in the year was £971,853 (2019: £877,919). There were no outstanding or prepaid contributions at either 31 December 2020 or 31 December 2019. The scheme is classified as a defined contribution scheme.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

5. Net interest income

(£)	2020	2019
Interest income on financial instruments		
- cash and cash equivalents at amortised cost	53,547	95,841
- financial assets at FVOCI	764,582	891,914
Total interest income	**818,129**	**987,755**
Interest expense on financial instruments		
- cash and cash equivalents at amortised cost	(318,857)	(6,349)
Total interest expense	**(318,857)**	**(6,349)**
Net interest income	499,272	981,406

6. Other gains/(losses)

(£)		2020	2019
Foreign exchange losses		(25,238)	(186,106)
Interest on monies held in trust	25	201,607	504,415
Gain/(loss) on sale financial assets at FVOCI	11	45,987	-
Total		222,356	318,309

Interest is earned on balances related to the collection of Stamp Duty Reserve Tax on behalf of HM Revenue & Customs and Stamp Duty on behalf of the Irish Revenue Commissioners, see note 25.

7. Taxation

(£)	Note	2020	2019
UK Corporation Tax			
Current tax on income for the year		5,209,478	3,968,050
Adjustments in respect of prior years		(107,489)	(8,848)
Group loss relief		(193,315)	(1,237,828)
Total Current Tax		4,908,674	2,721,374
Deferred Tax	12		
Origination/Reversal of timing differences		3,023	(55,347)
Adjustments in respect of prior years		68,186	(10,316)
Remeasurement due to change in tax rate		(4,428)	(1,263)
Total Deferred Tax		66,781	(66,926)
Tax expense		4,975,455	2,654,448

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

7. Taxation (continued)

The tax on Euroclear UK & Ireland Limited's profit before tax differs from the theoretical amount that would arise using the average tax rate applicable to profit of the Company as follows:

(£)	2020	2019
Profit before tax	27,420,504	20,497,618
UK Corporation Tax at 19.00% (2019: 19.00%)	5,209,896	3,894,548
Expenses not deductible for tax purposes	(9,006)	9,709
Adjustment in respect of prior years	(225,434)	(1,249,809)
Tax charge	4,975,456	2,654,448

The tax expense for the year comprises current and deferred tax.

The current tax charge is calculated on the basis of the UK tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

8. Intangible assets

(£)	Internally developed software	Purchase software	Total
Cost			
At 1 January 2020	24,723,803	52,119	**24,775,922**
Additions	-	-	**-**
Disposals	-	(2,945)	**(2,945)**
At 31 December 2020	24,723,803	49,174	**24,772,977**
Accumulated amortisation			
At 1 January 2020	24,723,803	35,862	**24,759,665**
Additions	-	9,834	**9,834**
Disposals	-	(2,945)	**(2,945)**
At 31 December 2020	24,723,803	42,751	**24,766,554**
Net book value at 31 December 2020	-	6,423	**6,423**
Net book value at 31 December 2019	-	16,257	16,257

Internally developed software consisted entirely of the CREST system which has been fully amortised and continues to be in use. Purchased software no longer in use has been disposed of in the year.

9. Property, plant and equipment

(£)	Furniture and fixtures	Communication equipment	Total
Cost			
At 1 January 2020	69,115	495,618	**564,733**
Additions	-	109,800	**109,800**
At 31 December 2020	69,115	605,418	**674,533**
Accumulated depreciation			
At 1 January 2020	69,115	325,398	**394,513**
Additions	-	54,359	**54,359**
At 31 December 2020	69,115	379,757	**448,872**
Net book value at 31 December 2020	-	225,661	**225,661**
Net book value at 31 December 2019	-	170,220	**170,220**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

10. Investments in subsidiary undertakings

(£)	**2020**	**2019**
Investments in subsidiary undertakings	7,010	7,010

Subsidiary undertakings		**Cost of Investments**	
(£)	**Ownership of Equity Shares***	**2020**	**2019**
In the name of Euroclear UK & Ireland Limited			
CREST Stamp Nominee (No.1) Limited	100%	2	2
CREST Stamp Nominee (No.2) Limited	100%	2	2
Trinity Nominees Limited	100%	2	2
CREST Depository Limited	100%	7,000	7,000
CRESTCo Limited	100%	2	2
CREST USD Nominee Limited	100%	2	2
In the name of CREST Depository Limited			
CREST International Nominees Limited	100%	2	2
CREST Client Tax Nominee (No.1) Limited	100%	2	2
CIN (Belgium) Limited	100%	2	2

*All subsidiary shareholdings are holdings of ordinary shares.

The principal activity of CREST Stamp Nominee (No.1) Limited is the holding of UK Stamp Duty Reserve Tax payments collected on behalf of HM Revenue & Customs.

The principal activity of CREST Stamp Nominee (No.2) Limited is the holding of Irish Stamp Duty collected on behalf of the Irish Revenue Commissioners.

The principal activities of CREST Depository Limited, CREST International Nominees Limited, CIN (Belgium) Limited and CREST USD Nominee Limited are in connection with the provision of the CREST custody service for international securities.

Trinity Nominees Limited, CREST Client Tax Nominee (No.1) Limited and CRESTCo Limited did not trade during the year.

All the subsidiary companies operate and are incorporated in England and Wales. The registered office of all the subsidiary companies is 33 Cannon Street, London EC4M 5SB.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

11. Financial assets at FVOCI

Financial assets at FVOCI comprise unlisted equity shares and debt securities. Unlisted equity shares are not held for trading and the Company has irrevocably elected to recognise them as FVOCI. Debt securities are held for contractual cash flows and for selling the financial assets. The related cash flow represents SPPI and fulfil the recognition requirements of FVOCI.

Fair value of financial instruments

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: Inputs that are quoted market price in active markets for the same instruments. A market is regarded as active if quoted prices are readily and regularly available (exchange, dealer, broker, pricing service or regulatory agency) and if these prices represent actual and regularly occurring market transactions on an arm's length basis.

- Level 2: The fair value of these instruments is determined by using the quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted prices in active markets for similar instruments, quoted prices for similar instruments in markets that are less active, or other valuation techniques. The valuation techniques maximise the use of observable market data where it is available. If all significant inputs that are required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(a) Unlisted equity shares

(£)	**2020**	**2019**
At 1 January	1,894	1,953
Foreign exchange	(62)	(59)
At 31 December	1,832	1,894

The financial assets at FVOCI represent a holding of 25 preferred shares at $100 par value (2019: 25 preferred shares at $100 par value) in the Depository Trust and Clearing Corporation (DTCC), an unlisted entity, which is required to support membership of the DTCC system. These shares are held in a nominee capacity via CIN (Belgium) Limited. The investment is designated in US dollars. Fair value is assessed on the par value of the shares as there is no observable market data available for this financial asset (level 3). All fair value adjustments are recognised in OCI.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

11. Financial assets at FVOCI (continued)

(b) Debt securities

(£)	2020	2019
At 1 January	87,090,296	82,443,800
Additions	46,263,918	31,615,108
Redemptions and disposals	(45,065,884)	(26,700,000)
Gains/losses from changes in fair value		
- gains/(losses) on held securities	399,775	197,996
- gains/(losses) on redeemed or sold securities	45,987	-
Amortisation of discounts and (premiums)	(307,844)	(313,573)
Net change in accrued interest	(49,499)	(153,035)
At 31 December	88,376,749	87,090,296

All debt securities (level 1) are listed and have fixed coupons. Further information on the valuation techniques used for the assessment of impairment and risk exposure can be found in notes 3 and 26 respectively.

On disposal any remaining balance in FVOCI reserve is recycled to profit and loss. There were no gains or losses recycled to the profit and loss in the year.

12. Deferred tax assets/(liabilities)

The gross movement on the deferred tax account is as follows:

(£)	2020	2019
At 1 January	71,990	43,636
Income statement charge		
- property, plant and equipment	(5,065)	(10,735)
- loss allowances for financial assets	-	(8)
- provisions	(68,824)	68,000
- gains on FVOCI held securities	(75,957)	(39,219)
- adjustment in respect of prior years	(186)	10,316
At 31 December	(78,042)	71,990

A deferred tax liability has been recognised at 31 December 2020 on temporary timing difference arising between the tax basis of accounting for assets and liabilities and their carrying values in the Financial Statements. The asset will be recovered against the expected future profits of the Company. The deferred tax asset recoverable within 12 months is £15,380 (2019: £55,571).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

13. Trade and other receivables

(£)	Note	2020	2019
Trade receivables	26	1,286,283	456,770
Amounts owed by group undertakings	24	23,303	3,623
Other debtors and prepayments		433,336	419,371
Accrued income		11,529,086	9,432,805
Total		13,272,008	10,312,569

Trade receivables and amounts owed by group undertakings are categorised as loans and advances and are short-term, hence their carrying value is a reasonable approximation of their fair value. Loans and advances are classified and measured at amortised cost, further information on impairment can be found in note 3. Information on risk exposure can be found in note 26.

Accrued income represents revenue earned in 2020 but not received as at year end.

14. Cash and cash equivalents

(£)	2020	2019
Cash at bank and in hand	54,059,757	34,794,773
Total	54,059,757	34,794,773

15. Trade and other payables

(£)	Note	2020	2019
Trade creditors		254,958	247,148
Amounts owed to group undertakings	24	7,324,485	9,750,211
Other creditors		1,228,950	282,403
Tax and social security		1,252,431	1,282,026
Employee benefits		2,116,423	1,765,309
Accruals and deferred income		2,735,778	3,342,982
Total		14,913,025	16,670,079

All amounts owed to group undertakings are due on receipt of invoice.

All current trade and other payables are unsecured and are due within six months. The carrying value is considered a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

16. Provisions for other liabilities and charges

(£)	Note	2020	2019
At 1 January 2020		400,000	-
Provision made in the year	4	-	400,000
Provision used in the year		(400,000)	-
At 31 December 2020		-	400,000

The provision relates to end of contract costs associated with outsourced services that were terminated during the year.

17. Share Capital

(£)	2020	2019
Authorised, allotted and fully paid share capital		
24,060,400 (2019: 24,060,400) Ordinary Shares of 25p each	6,015,100	6,015,100
Total	6,015,100	6,015,100

18. Other reserves

FVOCI revaluation reserve comprises adjustments arising from the adoption of IFRS 9 as at 1 January 2018 and the changes in fair value of financial assets classified at FVOCI.

(£)	Note	2020	2019
At 1 January 2020		187,048	28,517
Fair value adjustments	11	399,775	197,996
ECL on FVOCI assets		35,867	(894)
Deferred tax on ECL		(7,293)	648
Deferred tax on fair value adjustments		(75,957)	(39,219)
At 31 December 2020		539,440	187,048

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

19. Dividends

(£)	2020	2019
Equity – Ordinary		
Final paid in respect of 2020: £nil (final paid in respect of 2019: £0.290) per 25p share	-	6,977,516
Total	-	6,977,516

At the date of signing no final dividend has been proposed for the year ending 31 December 2020.

20. Management of capital

The Company considers the following to be elements of its capital:

- Paid up share capital
- Share premium reserve
- Retained earnings

The Company is required by the CSDR to retain financial resources (i.e. liquid financial assets and net capital) sufficient for the proper performance of its regulated activities. The Bank of England monitors compliance with this based upon the CSDR minimum capital requirement, which is calculated on level of operating expenditure and risk-adjusted assets.

The above requirement has been met consistently throughout the year.

It is the policy of Euroclear UK & Ireland Limited to maintain high levels of liquidity. Capital is held in the form of cash deposits (note 14) and debt securities (note 11).

21. Contingent liabilities

As part of the corporate restructuring arrangements effected in 2005, the property leases held by Euroclear UK & Ireland Limited were novated to Euroclear SA/NV. In 2012, there was a partial surrender and extension of the lease of the premises at 33 Cannon Street Under the terms of the lease the landlord requested that Euroclear UK & Ireland Limited guarantee the rent, currently £2,409,411 per annum (2019: £2,409,411) until the end of the lease in 2026. The total contingent liability is £12,448,624 (2019: £14,858,035).

22. Future commitments

Euroclear UK & Ireland Limited has future commitments of £17,489,370 (2019: £14,616,744) that correspond to the development costs related to infrastructure and innovation projects currently under development or already launched that Euroclear SA/NV, as owner, will charge out in future years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

23. Ultimate parent company

Euroclear UK & Ireland Limited is a wholly owned subsidiary of Euroclear SA/NV, which is incorporated in Belgium.

The largest group in which the results of Euroclear UK & Ireland Limited and its subsidiaries are consolidated is that of Euroclear Holding SA/NV. The smallest group in which the results of Euroclear UK & Ireland Limited and its subsidiaries are consolidated is that of Euroclear SA/NV.

The registered office of Euroclear Holding SA/NV and Euroclear SA/NV is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium. Copies of the Euroclear Holding SA/NV group financial statements and the Euroclear SA/NV financial statements can be obtained from this address.

24. Related party transactions

Euroclear UK & Ireland Limited has entered into various agreements with group entities for the provision of services. These are priced on an arm's length basis in accordance with the group's intercompany transaction policy.

Services provided by the parent are invoiced monthly and settled by way of a monthly prepayment. At the end of the year, a final adjustment for each invoice is prepared.

Other services are either invoiced subsequent to the service being provided, or on a quarterly or annual basis if the service is on-going. All invoicing is in accordance with agreed arrangements for that particular service. None of the intercompany charges are secured.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

24. Related party transactions (continued)

The following transactions have been made with related parties during the year:

Related Party (£)	**Services provided (by)/to the group**	**2020 (Revenue)**	2019 (Revenue)	**2020 Charge**	2019 Charge
Parent	IT Services	**-**	-	**40,977,808**	34,387,865
	Commercial, Product Management & Strategy	**-**	-	**6,026,210**	6,808,902
	Support Services	-	-	**16,171,648**	14,652,900
	Royalty Payment	-	-	**428,574**	386,004
	Dividend Paid	**-**	-	**-**	6,977,516
Fellow subsidiary	Commercial, Product Management & Strategy	**(1,190,131)**	(1,061,780)	**10,175,545**	7,257,901
	Support Services	**-**	-	**-**	-
	Royalty Payment	**-**	-	**-**	-
Other	Other	**-**	-	**-**	-

Related Party (£)	**2020 Receivable**	2019 Receivable	**2020 (Payable)**	2019 (Payable)
Parent	-	-	**(5,479,655)**	(4,168,016)
Fellow subsidiaries	**23,303**	3,623	**(1,071,569)**	(630,883)
Other	-	-	**(773,261)**	(4,951,312)

KEY:

Parent: Euroclear SA/NV

Fellow subsidiaries: Euroclear Bank SA/NV, Euroclear Nederland, Euroclear France and Euroclear Sweden AB

Other: Euroclear Investments SA, Euroclear Global Collateral Limited

Other payables of £773,261 (2019: £4,951,312) relates to corporation tax consortium relief reclaimed by the Company and payable to Euroclear Global Collateral Limited.

Key management personnel remuneration and other compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity or of the parent of the entity.

The Board considers key management personnel to comprise the officers of Euroclear UK & Ireland Limited and the group as well as voting members of Euroclear UK & Ireland Limited's Management Committee. The following information is presented only in respect of those members of key management personnel who have rendered services to Euroclear UK & Ireland Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

24. Related party transactions (continued)

(£)	2020	2019
Short-term employee benefits	1,684,790	2,836,577
Post-employment benefits	54,172	99,404
Other long-term benefits	49,324	72,000
Total remuneration and compensation	1,788,286	3,007,981

Directors' emoluments

The following information is presented only in respect of the directors of Euroclear UK & Ireland Limited.

(£)	2020	2019
Aggregate remuneration	932,475	1,104,856
Short-term employee benefits	83,303	808
Post-employment benefits	18,589	2,857
Long-term benefits	41,990	17,143
Total remuneration and compensation	1,076,357	1,125,664
The emoluments of the highest paid director:		
Aggregate remuneration	231,459	392,565
Short-term employee benefits	718	-
Post-employment benefits	7,500	-
Long-term benefits	33,000	-
Total remuneration and compensation	272,677	392,565

At 31 December 2020, the number of directors and independent directors was 6 (2019: 7). During the year, 1 director did not receive any remuneration from Euroclear UK & Ireland Limited (2019: 1). The emoluments of this director is paid by the parent company which makes no recharge to Euroclear UK & Ireland Limited. Accordingly, the above details include no emoluments in respect of this director.

The number of directors and non-executive directors who participate in the defined contribution pension scheme is 1 (2019: 1). The highest paid director has not exercised any share options or received any shares under a long-term incentive scheme for the year ending 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

25. Monies held in trust

Two of the subsidiary companies of Euroclear UK & Ireland Limited hold monies in trust as disclosed below. The monies are held in trust and as such are not included on the statement of financial positions of Euroclear UK & Ireland Limited.

(£)		2020	2019
Subsidiary:	Held in trust for:		
CREST Stamp Nominee (No.1) Limited	HM Revenue and Customs	141,458,231	131,216,960
CREST Stamp Nominee (No.2) Limited	Office of the Revenue Commissioners	5,377,655	3,389,653

26. Financial risk management

The Company's activities expose it to a variety of financial risks (including currency risk, cash flow interest rate risk and credit risk). The Company manages these risks through various control mechanisms.

Overall responsibility for risk management rests with the Board of Euroclear UK & Ireland Limited. Day to day responsibility is delegated to the Management Committee.

Additional information on Euroclear UK & Ireland Limited's financial risk management policies has been included in the Directors' Report.

(a) Management of market risk

Market risk is the uncertainty on future earnings and on the value of assets and liabilities (on or off the statement of financial position) due to changes in interest rates and foreign exchange rates. Market risk comprises currency risk, interest rate risk and other price risk.

(i) Currency risk

The Euroclear group operating model is designed to facilitate the supply of services between entities in different locations, including to Euroclear UK & Ireland Limited from various European countries. Foreign exchange risk arises from the supply of services where the underlying cost has been accounted for in Euro. Related party transactions are invoiced in GBP at a fixed rate agreed at the beginning of the year. This mitigates a significant proportion of the Company's short-term exposure to foreign exchange risk arising from currency exposures.

A consistent approach has been applied to the management of foreign currency transactions. A group view is taken in relation to the requirement for hedging exchange rate exposure, given the bi-directional flows of recharge arrangements.

The Company does not actively hedge against currency exposures. The Company has no significant investments in foreign operations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

26. Financial risk management (continued)

(ii) Interest rate risk

Interest rate risk arises on interest-bearing assets (e.g. loans, deposits placed and receivables) and borrowings.

The Company's exposure to interest rate risk in relation to interest expense is minimal, as Euroclear UK & Ireland Limited does not maintain overdrafts or loans.

The average rate of interest received in the year was 0.13% (2019: 0.29%). If the average interest rate in the year had been 1.13% (2019: 1.29%), the resulting effect would be an increase in revenue of £1.6 million (2019: £1.7 million). This would have increased profit before tax for the year by 6% (2019: 8%).

(iii) Price risk

The Company has minimal exposure to price risk. The profile of financial assets held (see note 11) are not subject to significant fluctuations in market price.

(b) Management of credit risk

Credit risk is the risk that Euroclear UK & Ireland Limited is exposed to loss if another party fails to perform its financial obligations to the Company. Credit risk arises from cash and cash equivalents, contractual cash flows of debt securities classified as FVOCI and trade receivables. The credit risk exposure is minimised as:

- strict investment policy on debt securities limiting, among others, the allowed counterparties, types of instruments, concentration, currency and maturity;
- the majority of customers are regulated entities: more than 70% (by value of fees) are entities subject to capital adequacy requirements; and
- customers largely settle amounts by monthly direct debit.

Exposure to credit risk is monitored on an on-going basis through regular review of customers' outstanding balances and investment portfolio performance. Exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. At the end of the year, there were no significant concentrations of credit risk.

Impairment provisions on financial assets are provided in accordance with IFRS 9.

Debt securities are considered to have a low credit risk (stage 1) and requires the recognition of 12 month expected credit losses. Fair value on debt securities is based on inputs that are quoted market prices in active markets (level 1). A market is regarded as active if quoted prices are readily available and if these prices represent actual and regularly occurring market transactions on an arm's length basis. The loss allowance for debt securities is recognised in OCI and is offset by the fair value movement otherwise recognised in OCI (see note 11).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

26. Financial risk management (continued)

(b) Management of credit risk (continued)

The impairment of trade receivables is applied using the simplified approach, requiring the recognition of lifetime ECLs at all times. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's and the Euroclear group's historical credit loss experience. Expected credit losses are based on the age of the receivables. The below table provides the impairment profile of trade receivables. Included in the below is £935,583 of impairment relating to customers in administration that have an impairment rate of 100% applied.

(£)	Expected loss rate	31 December 2020	31 December 2019
Carrying amount			
Current	0.01%	376,442	8,670
Less than 30 days	0.50%	190,303	112,904
30 to 60 days	1.00%	317,408	68,022
60 to 90 days	5.00%	303,664	8,690
90 to 360 days	15.00%	338,531	263,937
Over 360 days	40.00%	814,456	558,040
Total Carrying amount		2,340,804	1,020,263
Impairment			
Current	0.01%	38	-
Less than 30 days	0.50%	1,561	2,313
30 to 60 days	1.00%	74,110	1,933
60 to 90 days	5.00%	79,367	1,827
90 to 360 days	15.00%	196,655	104,090
Over 360 days	40.00%	702,790	453,330
Total Impairment		1,054,521	563,493

The application of ECL approaches outlined above to the financial assets resulted in the following impairment (gains)/losses being recognised in profit and loss during the year:

(£)	2020	2019
12 month expected credit loss		
Impairment gains/(losses) on cash and cash equivalents	871	(4,026)
Impairment gains/(losses) on financial assets at FVOCI	35,867	(894)
Total 12 month expected credit loss	36,738	(4,920)
Lifetime expected credit loss		
Impairment gains/(losses) on trade receivables	497,345	94,168
Total lifetime expected credit loss	497,345	94,168
Total impairment losses on financial assets	534,083	89,248

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

26. Financial risk management (continued)

(b) Management of credit risk (continued)

The maximum exposure to credit risk at the reporting date is the same as the carrying amount of each class of financial asset.

(£)	2020	2019
Maximum exposure to credit risk by class of asset		
Cash and cash equivalents	54,059,757	34,794,773
Financial assets at FVOCI	88,376,749	87,090,296
Trade Receivables	1,286,283	456,770

(c) Management of liquidity risk

Liquidity risk is the risk that Euroclear UK & Ireland Limited, though solvent, does not have sufficient financial resources available to enable it to meet its obligations as they fall due.

Responsibility for Euroclear UK & Ireland Limited's liquidity has been delegated by the Board to the Management Committee. Cash reserves are managed to ensure that the Company is able to meet its financial obligations at all times. Euroclear UK & Ireland Limited holds most of its liquid assets in the form of debt securities or cash or cash equivalents, which give rise to little or no liquidity risk.

In addition, the CSDR minimum capital requirement states that sufficient liquid financial assets are retained. Monthly reports are filed with the Bank of England to evidence that the requirement is met, see note 20.