Euroclear UK & International Limited

(Formerly Euroclear UK & Ireland Limited)

Directors' Report and Financial Statements for the year ended 31 December 2021

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their Strategic Report for the year ended 31 December 2021.

Principal activities and future developments

Euroclear UK & International Limited (the Company) is part of the Euroclear group (the 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:

- improve operational and financial resilience and increase its engagement with the UK market, ensuring market stability
- develop service for the betterment of UK capital 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, improved resilience and continuing development of the CREST system and the EMX message system.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (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 and valuation of unitised funds.

Key 2021 Events

COVID-19 Global Pandemic

The previous year 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 homeworking for the majority of functions 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 in 2020 as the majority of financial market participants invoked remote working for their operations, the Company continued throughout 2021 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 remained largely in place for much of 2021. The Company monitors both employee sickness and the broader impact on employee wellbeing (see page 9). 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.

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 were that it was precluded from continuing to act as the CSD for Ireland and no longer had access to Euros as a settlement currency directly through the European Central Bank. In November 2020, the European Commission determined that the legal and supervisory requirements for UK CSDs were equivalent to those in the

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

EU. This determination was temporary and expired at the end of June 2021. 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.

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 Central Securities Depositories ((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 European Securities and Markets Authority (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 is applicable to securities transactions that settle via EU CSDs as part of the Company's international service offering. As a result, the Company continued with the implementation of system changes to comply with the new regime in 2022. For the UK domestic market, the existing settlement discipline measures continued 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.

Service enhancements in 2021

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:

- introduction of new euro central bank money settlement model operated via a direct link to Target 2
- Implementation of a new 'enquiry only' facility, enabling EUI to allow participants to access CREST for enquiry purposes upon resolution of a significant system outage, before the system resumes settlement
- enhancements to the Term Delivery By Value (DBV) service

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Corporate strategy review

During 2021, the Company undertook a far reaching strategic business review based around 4 pillars:

- Resilience
- Regulatory
- Business Growth
- Fulfilment

It is expected that the core activities of the Company will remain, and will facilitate a broadening of service offerings. The strategy will prioritise improved resilience of critical services with the aim of delivering 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 the "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. This will include a review of competition, opportunities and threats, including the impact of new technologies on our own business and that of our clients.

Mindful of the need to ensure suitability and resilience of critical services, but in line with our core capabilities and responding to market needs, the Company will develop products that enable the UK securities market to grow, be more efficient, whilst actively enabling the reduction of risk. The Company 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.

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 were 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.

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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 non-financial performance indicator (see below). Following the September 2020 disruptions, the Company launched several reviews, including an external independent post-incident review. The output from these reviews is being used by the Company to inform its remediation actions and broader resilience focus. A high priority remediation programme was established to oversee the implementation of remediation actions.

Pursuant to section 191(1) of the Banking Act 2009 the Bank of England directed the Company to implement, with some exclusions, the findings of the external review, which the Company completed, by 4 March 2022 deadline. An S166 notice was issued in parallel to assess the Company's remediation plan and implementation of the external report's recommendations. The S166 report is due to be published on or before 1 April 2022.

Key performance indicators

There are a number of financial and non-financial key performance indicators (KPIs) 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 £29,998,025 (2020: £27,420,504). This is subject to a taxation charge of £5,655,843 (2020: £4,975,455). 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 89% (2020: 79%).

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.

Key Performance Indicator (Unaudited)	Target	CREST system performance
Service resilience (completion of transactions within the business day)	100.00%	2021: 99.59% (2020: 99.86%) Euroclear UK & International Limited settled 82.0 million transactions, with a value in excess of £350 trillion for the year.
System availability (ability for clients to interact continuously with the settlement system)	99.80%	2021: 99.88% (2020: 99.52%)

Key Performance Indicator (Unaudited)	Target	EMX System Performance
Service resilience (daily capability to forward all orders to the relevant counterparty)	100.00%	2021: 100% (2020: 100%) Euroclear UK & International Limited processed 15.8 million messages, with a value in excess of £230 billion for the year.
System availability (available for message input for one or more participants)	99.80%	2021:99.97% (2020: 99.93%)

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In terms of CREST service resilience, the Company reported an end of year performance metric of 99.59%, which is slightly below the 100% target. This was due to a latent software defect that prevented the settlement of a single Term DBV instruction on 19 October 2021. CREST Service availability, a reflection of clients' ability to interact with the CREST system was reported at 99.88%, ahead of the 99.80% target. The Company met its service resilience and system availability objectives in respect of EMX Message System.

As discussed on page 12 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 KPIs in line with the service delivery provisions in the service delivery plans (SDPs).

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, or 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, management 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 2022, the implementation of additional measures to improve service resilience following the incidents in 2020 will continue to be a priority for the Company. Other key areas of risk mitigation for 2022 will include oversight of the Company's implementation of the business and IT strategy in order to further improve operational resilience and cyber capability as well as the embedding of processes to ensure continued compliance with CSDR regulations.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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, is 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 continues to manage 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).

The devaluation of Sterling against the EURO 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 Russian invasion into Ukraine has caused widespread humanitarian suffering as well as impacted Financial Services. There are 3 resulting areas of risk the Company faces as an organisation in 2022, namely Process, Security and indirectly People. Staff wellbeing is our priority and the HR team has been communicating with staff and providing support and guidance for anyone affected by the events. The numerous executive orders and measures cascaded down from US,UK, EU authorities have far reaching effects and the Company has processes in place to identify, assess and implement specific Sanctions where relevant. The greatest risk to the Company as financial market infrastructure (FMI) sits within potential cyber attacks, be that a direct attack on our own IT infrastructure or via a 3rd party. The Company's Chief Information Security Officer continues to work with our IT teams as well as our service provider to ensure necessary measures to protect our security and mitigate risk, are being taken.

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.

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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 2021. Revenues have increased in the core CREST services, primarily as a consequence of full year impact of tariff changes implemented in the prior year and as a result of increased settlement discipline penalties. This has been offset by an increase in administrative expenses reflecting additional investments to address the 2020 incidents and progress the strategy review.

The Company's profit and total comprehensive income for the year was £23,499,428 (2020 profit and total comprehensive income for the year: £22,797,441). The year-end financial position of the Company remained strong, with net assets of £165,949,209 (2020 net assets: £142,449,780).

Dividends

No interim dividend was paid during the year (2020: £nil). At the date of signing, no final dividend has been proposed for the year ending 31 December 2021. The Company's assessment of a final dividend for 2021 will be finalised during 2022 in line with the regulatory process, see note 19.

Section 172 Statement - Promoting the Success of the Company

The Directors of Euroclear UK & International 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.

The Board has maintained its focus on 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.

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During 2021, the Board retained its focus on these core governance outcomes and has further enhanced its stakeholder engagement, including the development of an annual stakeholder engagement plan, and its monitoring and oversight of the Company's culture.

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.

I. *the Workforce*

The Board considers effective and constructive engagement with its employees to be a key part of its business and organisational strategy which is necessary for the long-term success of the business.

2021 has been a challenging year for our people, due to the changes to working practices associated with the pandemic. The Company recognises this and as part of the Group has implemented its We Care programme which, amongst other things, provided webinars and workshops on a wide range of well-being related topics aimed at individuals and people managers such as coping with stress, building connection and boosting resilience. The Group also commenced the roll out of "Flex-E" – a new hybrid working model which allows teams and individuals to choose their work location (the office or home working) depending on the nature of their activities and business or team needs. This new way of working is very much a "bottom up" initiative that seeks to offer increased flexibility, based on inclusion, trust and individual accountability. 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:

- annual "Your Voice" engagement survey
- regular "How are you" pulse surveys
- regular all-staff town hall meetings
- communication through the Company's intranet.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

2021 saw the third year of the Company's annual employee engagement survey which is called "Your Voice". This survey, hosted by Peakon, a third-party facilitator, provides employees with a platform to provide detailed feedback on a range of topics, providing management with an in-depth view of the level of employee engagement. In November 2021, 84% of EUI's employees took part in the survey. The resulting overall engagement score was slightly below Peakon's benchmark[1] although this score is consistently trending upwards and is higher than that in November 2020. A number of key priorities around the broad topic of employee engagement have been identified for progression in 2022. These are Flexibility, Accomplishment, Recognition and Meaningful work. We will also be working to improve the office environment and tools as part of our Flex E programme. Action plans are being developed to address these priority areas in 2022 and the Board will oversee progress.

The Chair of the Nominations Remuneration and Governance Committee (the NRGC), as the Designated NED for employee engagement periodically attended meetings of the UK National Works Council (NWC), the NWC is a forum where employees and management share information and consult over certain matters. 2022 will see the continued embedding of Board engagement with the workforce, as agreed by the Board including participation in town hall meetings.

Diversity and inclusion (D&I) in the workforce

The Company is committed to creating a healthy inclusive organisational culture where all employees feel valued, respected, supported and able to meet their full potential at work. Creating an inclusive culture is seen as a pre-requisite to employee engagement which contributes to the long-term success of the Company. The Company 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. 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 data 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.

In addition, the Company (and the wider Euroclear group) has increasingly broadened its areas of diversity focus to include all dimensions of diversity. In 2021, a D&I Council was established in the UK under the executive sponsorship of the Euroclear UK & International 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 and continues to support the Council on a number of key diversity and inclusion initiatives. The Council is taking the lead on piloting programmes and initiatives for the UK. The Council works closely with the Diversity and Inclusion team at Group level and a number of the UK Council members sit on Group D&I networks. The Council has formed three employee networks in the UK, these are Ethnicity and Culture, Proud and Inclusion which are all led by D&I Council members. In 2021, the Networks planned and delivered several initiatives including taking part in the National Inclusion Week in September which brought employees together to celebrate Inclusion. At the time of writing the Council has established a communications and events plan for 2022 and is commencing two projects, one which will consider the collection and use of additional demographic data and the other to review the recruitment process with a view to improving inclusivity.

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[1] Peakon benchmark is set across all sectors and is not specific to the financial services sector

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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 2021, 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. These recommendations have been progressed throughout 2021, to include a Board workshop on culture, and the development of a culture dashboard to assist in ongoing assessment of the culture of the Company.

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

Clients

Ongoing engagement with clients as key Euroclear UK & International Limited stakeholders remains intrinsic to the Company's strategy to provide robust and reliable CSD services. During 2021 a number of service enhancements to the underlying platform and systems were undertaken, as described on page 3.

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 User Committee and Client Advisory Group
- Euroclear UK & International Limited representation on a number of market groups and forums, such as the Stock Events Working Party and the Transfer Agents (TA) Forum.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

The User Committee was 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 "Delivery versus Payment" (DvP) settlement through links.

The UK User Committee comprises 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 invitee at the Committee meetings and the Board receives a report from the UK User Committee Chair following each meeting. The Committee met five times in 2021 and key areas of focus were Euroclear UK & International Limited's strategy review, the implementation of the remediation programme as discussed on page 4 and 5, the migration of Irish securities settlement to Euroclear Bank. The Company also engaged closely with clients on a bilateral basis to discuss these matters.

In Q4 2020, a senior 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 has remained an important engagement forum during the year and will continue to be throughout 2022.

To monitor client satisfaction with the service, an annual client satisfaction survey is conducted. For 2021, the survey indicated a continuing trend of customer satisfaction with an overall client satisfaction score of 82.5% (a decrease of 0.7% compared to 2020) and a decrease in the Net Promoter Score by 1.1 points to 44.4.

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.

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.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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 manages the supply chain risks of its critical suppliers in order to contribute to financial market stability. All critical suppliers are assessed annually, with respect to ESG, compliance, anti-money laundering and counterterrorism financing, economic sanctions, conflicts of interest, gifts & hospitality, fraud, bribery, corruption and human rights, including modern slavery. Protocols are established and followed when issues are identified. In 2022, we will be investigating how we can further strengthen our supply chain assessment, especially in regard to scope 3 emissions.

Risk-aware culture and staff awareness

In 2021, the Company participated in the Euroclear group's sustained risk and compliance awareness programme. E-learning modules covered sanctions, fraud prevention, anti-money laundering and counter terrorist financing, conflicts of interest, personal data protection and market abuse with 99% participation overall in the group.

Further communication campaigns were rolled out to strengthen our corporate culture of integrity and compliance across the group – on data protection (General Data Protection Regulation), Speak Up, the Role of the Compliance Officer and the Code of Conduct.

More generally, all Euroclear UK & International 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 wrongdoing or area for concern the policy includes both internal channels of reporting and an external ethics hotline run by an independent third party, "Safecall".

III. *The Regulator*

The Company is supervised by the Bank of England and forms part of the UK financial market infrastructure (FMI). The Bank undertakes an annual risk assessment of the Company and will, on the basis of its findings from the review, set expectations for mitigating actions that it expects the Company to take as a result and in line with the Bank's 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 FMI and accordingly there is close engagement with the Bank by the Company at all levels from the Board Chair downwards in accordance with the requirements set within the Bank's Annual Risk Review (ARR) Letter. The relationship with the Bank is coordinated and supported by the Company Public Affairs and Regulatory Relations team, Regulatory Relationship Management team.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Throughout 2021, members of the Board and senior management engaged with the Bank focusing on matters that are:

- critical to the Company's business and wider financial market functioning
- within scope of each respective statement of responsibility, including, in particular, the Company's strategic objectives, operational resilience, cyber risk appetite and CSDR license application (as discussed on pages 3 to 5 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 and policy 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. In 2021, the group appointed its first Chief Sustainability Officer together with a dedicated team to coordinate and communicate the approach to ESG issues across the group. At the same time, and to deepen further the ESG maturity of the group, PwC were engaged to carry out two studies – one analysed the role of an FMI in creating a more sustainable marketplace, and the other provided an in-depth gap analysis of the current ESG approach. As a result, the group have identified five main ambitions for the coming years. For more details, please refer to the group's sustainability report on www.euroclear.com/ourresponsibility, prepared in accordance with the Global Reporting Initiative Standards (Core). The 2021 report will be published in May 2022.

The Euroclear group has been carbon neutral to PAS 2060 standards since 2012 and set our carbon emission reduction targets in accordance with science-based Targets. In 2021, we adapted our Science-based Target to be in line with the new Paris Agreement of keeping global warming below 1.5 degrees. We have accordingly set ourselves the ambitious target of reducing our carbon emissions by 42% by 2024 based on our 2014 baseline and keep these targets under close review. Further information on the Company's Carbon & Energy Reporting can be found on page 20.

V. *the Community*

2021 has been a difficult one for those in our communities who are most vulnerable. The Company's support of the wider community focuses on four main pillars: alleviation of poverty; coaching and education, social and financial inclusion and the environment. With the launch of a corporate volunteering programme in 2020, a number of volunteers took part in a range of activities over the year.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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. All donations in the UK, as determined by this committee, are paid through Euroclear SA/NV. Total UK donation for 2021 was £65,870, reducing from 2020 donations of £128,303 due to there being higher Covid related donations to communities in 2020.

Approved by the Board

MICHAEL CARTY
Chief Executive Officer
29 March 2022

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their report and the audited financial statements of Euroclear UK & International Limited for the year ended 31 December 2021. On 1 September 2021, the Company changed its name from Euroclear UK & Ireland Limited to Euroclear UK & International Limited.

In accordance with section 414C(11) of the Act, disclosures in relation to dividends and the future developments of Euroclear UK & International 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)		•			
Tom Challenor (Independent Director)		•	• (chair)		•
Tracy Dunley-Owen (Independent Director)	01/01/2022 (appointed)	•	•		•
Sue Concannon (Independent Director)	31/03/2021 (resigned)	•	•		• (chair)
Kirsten English (Independent Director)	25/03/2021 (appointed)	•	•		• (chair)
Philippe Tromp (Independent Director)		•	•	• (chair)	
Anouk Gauthier (Non-Executive Director)	19/05/2021 (appointed)	•			•
Paul Symons (Non-Executive Director)	19/05/2021 (appointed)	•		•	
Peter Sucaet (Non-Executive Director)	24/02/2021 (resigned)	•		•	•

Jennifer Parker was the Company Secretary throughout the year.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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

Members	2021 MEETING ATTENDANCE			
	Board (19)*	Audit Committee (6)	Risk Committee (8)	Nominations, Remuneration & Governance Committees (12)
Robert Hingley (Independent Chairman)	19	–	8	12
Michael Carty (CEO)	19	–	–	–
Tom Challenor (Independent Director)	18	6	–	10
Tracy Dunley-Owen** (Independent Director)	–	–	–	–
Sue Concannon** (Independent Director)	5	2	–	3
Kirsten English** (Independent Director)	14	6	–	11
Philippe Tromp (Independent Director)	19	6	8	–
Anouk Gauthier** (Non-Executive Director)	10	–	–	6
Paul Symons** (Non-Executive Director)	9	–	4	–
Peter Sucaet** (Non-Executive Director)	3	–	3	3

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

** Director held office for part of the current year, see table on page 16 for resignation and appointment dates

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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

As at year-end, there is a 28.6% representation of women on the Board, which is made up of 7 directors, 2 of whom are 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. With respect to ethnic diversity, with effect from December 2020, the Board has set the target of achieving (and maintaining) at least one director of colour on the Board no later than the date of the AGM of 2024.

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 2021:

- appointment of Allan Mycroft, CTO
- appointment of Anna Magee, CFO
- appointment of Guillemette Loisel, CCO
- identifying a replacement for Tom Challenor as an iNED[2]

During 2021, 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:

- annual Board Effectiveness Review
- 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 2021, including the Conflicts of Interest Board Policy and BBCCP.

[2] Appointment of Tracy-Dunley Owen, iNED as at 01 January 2022

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

Remuneration matters considered and recommended by the NRGC during the year included:

- the 2021 compensation awards and remuneration for 2022 for all Company staff, including the executive management team and control functions, and the Company's Remuneration Policy
- As at year end the NRGC was composed of 3 Non-Executive Directors, all of whom are considered to be Independent, one of whom is the Chair (see page 16).

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 2021, whilst ensuring all of the aforementioned responsibilities were met, the Audit Committee has continued to apply focus to a number of key areas, including Internal Audit and Compliance oversight.

By virtue of the Company being a wholly owned subsidiary, certain best practice guidelines relating to the external auditor do not fully 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 any tender process, and the Company's Audit Committee Terms of Reference further determine that it retains responsibility for formally recommending any change of auditor to the Board and for the approval of the external auditor's fees, subject to the approval of the shareholder.

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.

One of the Committee's key responsibilities is to monitor the financial reporting process and the integrity of the financial statements. During the last year, items reviewed by the Committee included the 2020 Annual Report and Accounts; the adequacy of regulatory capital to ensure consistency with the Company's stated risk appetite; and the financial soundness of the Company as a going concern.

When considering financial reporting, the Committee assesses compliance with the relevant accounting standards, regulations and governance codes. Providing oversight and challenge to the proposed Strategic report and Directors' report in the annual financial statements, including the disclosures required pursuant to section 172 Companies Act 2006 (including but not limited to stakeholder engagement and Environmental, Social and Governance (ESG) matters such as carbon energy reporting, diversity and inclusion and Modern Slavery Act requirements).

In reviewing these and other items, the Committee received reports from management as, as appropriate, reports from internal and external assurance providers.

As at year end the Audit Committee was composed of 3 Non-Executive Directors, all of whom are considered to be Independent, one of whom is the Chair (see page 16).

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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 2021, 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, following assessment of the skills gap within the Risk Committee two advisers were appointed to the Risk Committee during 2021 to provide direction to the Committee when considering how best to mitigate cyber and technology risks.

Throughout 2021, 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:

- Operational Resilience
- Strategy review
- Brexit and related projects
- Cyber and Technology
- Outsourcing

As at year end the Risk Committee was composed of 3 Non-Executive Directors, 2 of whom are considered to be Independent, one of whom is the Chair (see page 16).

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, continuously strives to reduce our impact on the planet (see page 14).

Within the UK we play our part in achieving the group targets to reduce our footprint. In 2021 we replaced office lighting to LED low energy panels and have made reductions to office space as part of our ongoing portfolio management. In 2022, the group will finalise the path towards achieving a reduced carbon footprint, while at the same time reviewing Scope 3 emissions, especially focusing on our supply chain and reassessing how we manage climate risk more broadly.

The disclosures required under the Companies Act 2006 are included below for the year ending 31 December 2021.

	Scope 1		**Scope 2**		**Scope 3**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Annual Energy Consumption in the UK (kWh)	550,598	165,464*	425,677	390,458	N/A	N/A
Energy Consumption in the UK per FTE	3,695	1,164	2,857	2,746	N/A	N/A
Annual GHG Emissions in the UK (tCO_2e)	117	33	90	91	147	119
GHG Emissions in the UK per FTE	0.8	0.2	0.6	0.6	1.0	0.8

*Increases in Scope 1 consumption and emissions in 2021 are due to office closures in 2020 giving rise to exceptionally low consumption levels of natural gas in the prior period.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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.

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 & International Limited has adequate resources to continue to operate for the foreseeable future. The assessment includes the future profitability of the Company over a period of 5 years, the principal risks and uncertainties facing the Company and the mitigation of these risks (see page 6 to 8) and the maintenance of capital requirements under CSDR capital requirement (see note 20). 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.

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".

Political donations

The Company made no political donations during the year (2020: £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.

Post Balance Sheet Events

The non-adjusting post balance sheet event arising from the Russian invasion into Ukraine is discussed in note 27 on page 59 of the financial statements.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

External Advisers

During the reporting year the following external advisers were engaged by the Company in corporate governance matters relating to the Board:

- Russell Reynolds Associates

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

Independent auditor

Deloitte LLP acted as Euroclear UK & International 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.

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. 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.

DIRECTORS’ REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

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.

Approved by the Board

MICHAEL CARTY
Chief Executive Officer
29 March 2022

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards 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 27.

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 and adopted by the United Kingdom.

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 & INTERNATIONAL 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 & INTERNATIONAL 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; and
- 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.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures to address it are described below:

Presumed risk of fraud in revenue recognition, arising from manual system entries and the recognition of settlement discipline fine income. We tested the design and implementation of key controls in place to address this risk and traced a sample of revenue transactions to supporting documentation.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override of controls. In addressing the risk of fraud through management override of controls,

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

we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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 HMRC 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 & INTERNATIONAL 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
29 March 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

(£)	Note	2021	2020
Net fee income		**126,007,277**	**118,711,071**
Fee income		142,903,868	133,103,603
Fee expense		(16,896,591)	(14,392,532)
Administrative expenses	4	**(96,012,694)**	**(91,478,112)**
Other (losses)/gains	6	**(228,560)**	**222,356**
Net interest income	5	**407,263**	**499,272**
Interest income		507,739	818,129
Interest expense		(100,476)	(318,857)
Impairment losses on financial assets	26	**(175,261)**	**(534,083)**
Profit before tax		**29,998,025**	**27,420,504**
Taxation	7	**(5,655,843)**	**(4,975,455)**
Profit for the year		**24,342,182**	**22,445,049**
Changes in other comprehensive income			
Recyclable subsequently to profit/(loss)			
Changes in the fair value of debt instruments	18	(1,079,618)	435,642
Taxation relating to these items	18	236,864	(83,250)
Other comprehensive income for the year		**23,499,428**	**22,797,441**
Total comprehensive income for the year		**23,499,428**	**22,797,441**

(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 59 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

(£)	Note	2021	2020
Assets			
Non-current assets			
Intangible assets	8	1,200	6,423
Property, plant and equipment	9	159,047	225,661
Investments in subsidiary undertakings	10	7,012	7,010
Financial assets at FVOCI	11	95,902,849	88,378,581
Deferred tax assets	12	128,824	-
Total non-current assets		**96,198,932**	**88,617,675**
Current assets			
Trade and other receivables	13	12,126,529	13,272,008
Current tax assets	7	991,201	1,491,407
Cash and cash equivalents	14	69,668,566	54,059,757
Total current assets		**82,786,296**	**68,823,172**
Total assets		**178,985,228**	**157,440,847**
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	(303,313)	539,440
Retained earnings		154,222,422	129,880,240
Total equity		**165,949,209**	**142,449,780**
Liabilities			
Current liabilities			
Trade and other payables	15	13,036,019	14,913,025
Deferred tax liabilities	12	-	78,042
Total current liabilities		**13,036,019**	**14,991,067**
Total equity and liabilities		**178,985,228**	**157,440,847**

The notes on pages 33 to 59 form an integral part of the financial statements.

The financial statements on pages 29 to 59 were approved by the Board of Directors on 29 March 2022 and authorised for issue on that date.

Approved by the Board:

MICHAEL CARTY
Chief Executive Officer
29 March 2022

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

(£)	Note	Share Capital	Share premium	Other reserves	Retained earnings	Total equity
At 1 January 2021		**6,015,100**	**6,015,000**	**539,440**	**129,880,240**	**142,449,780**
Profit		-	-	-	24,342,182	24,342,182
Other comprehensive income	18	-	-	(842,753)	-	(842,753)
Total comprehensive income		**-**	**-**	**(842,754)**	**24,342,182**	**23,499,429**
At 31 December 2021		**6,015,100**	**6,015,000**	**(303,313)**	**154,222,422**	**165,949,209**

(£)	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		-	-	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**

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

The notes on pages 33 to 59 form part of the financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

(£)	Note	2021	2020
Profit before tax		**29,998,025**	**27,420,504**
Adjustments for:			
Amortisation charge	4	5,223	9,834
Depreciation charge	4	70,371	54,359
Interest income	5	(507,739)	(818,129)
Interest expense	5	100,476	318,857
Impairment	26	55,524	35,867
Unrealised loss on non-current assets	11(a)	(23)	62
Changes in working capital:			
Trade and other receivables		1,145,478	(2,960,465)
Trade and other payables		(2,017,131)	(2,929,716)
Cash generated from operating activities		**28,850,204**	**21,131,173**
Interest received		8,052	54,573
Interest paid		(101,875)	(319,455)
Tax paid		(4,984,115)	(1,369,411)
Net cash generated from operating activities		**23,772,266**	**19,496,880**
Cash flows generated (used in)/from investment activities			
Loans and receivables			
Purchase of debt securities at FVOCI	11(b)	(40,861,489)	(46,263,918)
Redemptions and disposals of debt securities at FVOCI		32,701,788	46,141,822
Purchase of property, plant and equipment	9	(3,757)	(109,800)
Net cash generated (used in)/from investing activities		**(8,163,457)**	**(231,896)**
Net cash used in financing activities			
Ordinary dividends paid	19	-	-
Net cash used in financing activities		**-**	**-**
Net increase in cash and cash equivalents		**15,608,809**	**19,264,984**
Cash and cash equivalents at beginning of the year		54,059,757	34,794,773
Cash and cash equivalents at the end of the year		**69,668,566**	**54,059,757**

The notes on pages 33 to 59 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. General Information

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

Euroclear UK & International 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 & International Limited have been prepared in accordance with the United Kingdom adopted 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 and adopted by the United Kingdom.

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 United Kingdom adopted international accounting standards, 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 (see note 23). These financial statements present information about Euroclear UK & International 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 2021 had no impact on the entity's financial statements:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

2. Accounting policies (continued)

(a) Basis of preparation (continued)

The following amendments to standards will become effective on 1 January 2022:

- Amendments to IFRS 3 Business Combinations
- IAS 16 Property, Plant and Equipment;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- Annual Improvements 2018-2020 (All issued 14 May 2020)

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 & International Limited has adequate resources to continue to operate for the foreseeable future. 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 years presented.

(b) Foreign currencies

Euroclear UK & International 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 prevailing at the dates of the transactions.

(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 & International Limited's activities. All revenue arises in the United Kingdom and is shown net of Value Added Tax.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (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, annual charges) and is recognised when the related service is performed. 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 HMRC 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 2021 (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 financial assets at amortised cost and on debt instruments 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 2021 (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 2021 (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 & International Limited at cost less impairment.

(k) Pensions

Euroclear UK & International 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 2021 (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.

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 2021 (continued)

3. Critical accounting estimates and judgements (continued)

(a) Impairment of financial assets (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.

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 2021 (continued)

4. Administrative expenses

(£)	Note	2021	2020
Staff costs			
- Wages and salaries		12,526,129	11,172,679
- Social security costs		1,556,385	1,418,521
- Other pension costs		1,053,459	971,853
- Other staff costs		1,251,875	1,270,063
Depreciation	9	70,371	54,359
Amortisation	8	5,223	9,834
Legal and professional		4,520,314	3,177,234
Services provided by parent company	24	66,381,663	63,175,666
Independent auditor's remuneration		457,715	371,722
Irrecoverable VAT		4,411,104	4,141,392
Other costs		3,778,456	5,714,789
Total		96,012,694	91,478,112

Other costs represent occupancy, communications and other miscellaneous costs.

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

(£)	2021	2020
Fees payable to the Company's independent auditor for the audit of the Company's annual financial statements		
- Euroclear UK & International Limited	206,617	130,038
- Subsidiary entities	43,383	36,224
Fees payable to the Company's independent auditor and it's associated for the other services:		
Other audit-related: ISAE 3402 audit	207,715	205,460
Total	457,715	371,722

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

Number	2021	2020
Total – monthly average for the year	151	138
Total – at 31 December	157	146

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

4. Administrative expenses (continued)

The number of employees per business sector as at 31 December was as follows:

Number	2021	2020
Management	11	10
Support Services	67	54
Operations	79	82
Total	157	146

The cost of contributions to the Company Personal Pension scheme in the year was £1,053,459 (2020: £971,853). There were no outstanding or prepaid contributions at either 31 December 2021 or 31 December 2020. The scheme is classified as a defined contribution scheme.

5. Net interest income

(£)	2021	2020
Interest income on financial instruments		
- cash and cash equivalents at amortised cost	8,052	53,547
- financial assets at FVOCI	499,687	764,582
Total interest income	**507,739**	**818,129**
Interest expense on financial instruments		
- cash and cash equivalents at amortised cost	(100,476)	(318,857)
Total interest expense	**(100,476)**	**(318,857)**
Net interest income	407,263	499,272

6. Other gains/(losses)

(£)		2021	2020
Foreign exchange losses		228,560	(25,238)
Interest on monies held in trust	25	-	201,607
Gain/(loss) on sale financial assets at FVOCI	11	-	45,987
Total		228,560	222,356

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

7. Taxation

(£)	Note	2021	2020
UK Corporation Tax			
Current tax on income for the year		5,664,644	5,209,478
Adjustments in respect of prior years		(3,418)	(107,489)
Group loss relief		(35,381)	(193,315)
Total Current Tax		5,625,845	4,908,674
Deferred Tax	12		
Origination/Reversal of timing differences		38,179	3,023
Adjustments in respect of prior years		1,083	68,186
Remeasurement due to change in tax rate		(9,264)	(4,428)
Total Deferred Tax		29,998	66,781
Tax expense		5,655,843	4,975,455

The tax on Euroclear UK & International 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:

(£)	2021	2020
Profit before tax	29,998,025	27,420,504
UK Corporation Tax at 19.00% (2020: 19.00%)	5,699,625	5,209,896
Expenses not deductible for tax purposes	(17,425)	(9,006)
Adjustment in respect of prior years	(26,356)	(225,434)
Tax charge	5,655,843	4,975,456

A change in the UK main corporation tax rate to 25% will be effective from 1 April 2023.

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 2021 (continued)

8. Intangible assets

(£)	Internally developed software	Purchase software	Total
Cost			
At 1 January 2021	24,723,803	49,174	**24,772,977**
Additions	-	-	**-**
Disposals	-	-	**-**
At 31 December 2021	24,723,803	49,174	**24,772,977**
Accumulated amortisation			
At 1 January 2021	24,723,803	42,751	**24,766,554**
Additions	-	5,223	**5,223**
Disposals	-	-	**-**
At 31 December 2021	24,723,803	47,974	**24,771,777**
Net book value at 31 December 2021	-	**1,200**	**1,200**
Net book value at 31 December 2020	-	6,423	**6,423**

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 2021	69,115	605,418	**674,533**
Additions	-	3,757	**3,757**
Disposals	(21,299)	(18,375)	**(39,674)**
At 31 December 2021	47,816	590,800	**638,616**
Accumulated depreciation			
At 1 January 2021	69,115	379,757	**448,872**
Additions	-	70,371	**70,371**
Disposals	(21,299)	(18,375)	**(39,674)**
At 31 December 2021	47,816	431,753	**479,569**
Net book value at 31 December 2021	-	159,047	**159,047**
Net book value at 31 December 2020	-	225,661	**225,661**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

10. Investments in subsidiary undertakings

(£)	2021	2020
Investments in subsidiary undertakings	7,012	7,010

Subsidiary undertakings

(£)	Ownership of Equity Shares*	Cost of Investments 2021	2020
In the name of Euroclear UK & International			
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
CREST EURO Nominee Limited	100%	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 HMRC.

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, CREST USD Nominee Limited and CREST EURO Nominee Limited (incorporated on 18 February 2021) 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 2021 (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

(£)	2021	2020
At 1 January	1,832	1,894
Foreign exchange	23	(62)
At 31 December	1,855	1,832

The financial assets at FVOCI represent a holding of 25 preferred shares at $100 par value (2020: 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 2021 (continued)

11. Financial assets at FVOCI (continued)

(b) Debt securities

(£)	2021	2020
At 1 January	88,376,749	87,090,296
Additions	40,861,489	46,263,918
Redemptions and disposals	(31,460,000)	(45,065,884)
Gains/losses from changes in fair value		
- gains/(losses) on held securities	(1,135,142)	399,775
- gains/(losses) on redeemed or sold securities	-	45,987
Amortisation of discounts and (premiums)	(548,126)	(307,844)
Net change in accrued interest	(193,976)	(49,499)
At 31 December	95,900,994	88,376,749

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:

(£)	2021	2020
At 1 January	(78,042)	71,990
Income statement charge		
- property, plant and equipment	4,205	(5,065)
- provisions	(39,479)	(68,824)
- gains on FVOCI held securities	247,414	(75,957)
- adjustment in respect of prior years	(5,274)	(186)
At 31 December	128,824	(78,042)

A deferred tax asset has been recognised at 31 December 2021 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 £17,521 (2020: £15,380).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

13. Trade and other receivables

(£)	Note	2021	2020
Trade receivables	26	438,760	2,340,804
Amounts owed by group undertakings	24	38,200	23,303
Other debtors and prepayments		518,082	433,336
Accrued income		11,289,748	11,529,086
Total gross carrying amount		12,284,790	14,326,529
Expected credit loss allowance		(158,261)	(1,054,521)
Total carrying amount		12,126,529	13,272,008

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 2021 but not received as at year end.

14. Cash and cash equivalents

(£)	2021	2020
Cash at bank and in hand	69,670,339	54,061,030
Total gross carrying amount	69,670,339	54,061,030
Expected credit loss allowance	(1,773)	(1,273)
Total carrying amount	69,668,566	54,059,757

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

15. Trade and other payables

(£)	Note	2021	2020
Trade creditors		123,905	254,958
Amounts owed to group undertakings	24	5,709,056	7,324,485
Other creditors		893,854	1,228,950
Tax and social security		1,569,208	1,252,431
Employee benefits		2,344,696	2,116,423
Accruals and deferred income		2,395,300	2,735,778
Total		13,036,019	14,913,025

All amounts owed to group undertakings are unsecured and non-interest bearing and 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.

16. Provisions for other liabilities and charges

(£)	Note	2021	2020
At 1 January		-	400,000
Provision made in the year	4	-	-
Provision used in the year		-	(400,000)
At 31 December		-	-

The provision relates to end of contract costs associated with outsourced services that were terminated in December 2020.

17. Share Capital

(£)	2021	2020
Authorised, allotted and fully paid share capital		
24,060,400 (2020: 24,060,400) Ordinary Shares of 25p each	6,015,100	6,015,100
Total	6,015,100	6,015,100

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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	2021	2020
At 1 January		539,440	187,048
Fair value adjustments	11	(1,135,142)	399,775
ECL on FVOCI assets		55,524	35,867
Deferred tax on ECL		(10,550)	(7,293)
Deferred tax on fair value adjustments		247,415	(75,957)
At 31 December		(303,313)	539,440

19. Dividends

On the date of signing the Board approved a dividend to be paid of £34.2m, subject to regulatory approval.

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 & International 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 & International 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 & International Limited guarantee the rent, currently £2,409,411 per annum (2020: £2,409,411) until the end of the lease in 2026. The total contingent liability is £10,039,213 (2020: £12,448,624).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

22. Future commitments

Euroclear UK & International Limited has future commitments of £17,309,096 (2020: £17,489,370) 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.

23. Ultimate parent company

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

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

Related Party (£)	**Services provided (by)/to the group**	**2021 (Revenue)**	2020 (Revenue)	**2021 Charge**	2020 Charge
Parent	IT Services	**-**	-	**44,064,101**	40,977,808
	Commercial, Product Management & Strategy	**-**	-	**5,424,736**	6,026,210
	Support Services	-	-	**16,892,826**	16,171,648
	Royalty Payment	-	-	**491,156**	428,574
	Dividend Paid	**-**	-		-
Fellow subsidiary	Commercial, Product Management & Strategy	**(1,341,478)**	(1,190,131)	**14,366,110**	10,175,545
	Support Services	**-**	-	**-**	-
	Royalty Payment	**-**	-	**-**	-
Other	Other	**-**	-	**-**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

24. Related party transactions (continued)

Related Party (£)	**2021 Receivable**	2020 Receivable	**2021 (Payable)**	2020 (Payable)
Parent	-	-	**(4,491,455)**	(5,479,655)
Fellow subsidiaries	**38,200**	23,303	**(1,217,602)**	(1,071,569)
Other	-	-	-	(773,261)

KEY:

Parent: Euroclear SA/NV

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

Other: Euroclear Investments SA,

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 & International Limited and the group as well as voting members of Euroclear UK & International 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 & International Limited.

(£)	**2021**	**2020**
Short-term employee benefits	2,251,756	1,684,790
Post-employment benefits	101,981	54,172
Other long-term benefits	135,241	49,324
Total remuneration and compensation	2,488,978	1,788,286

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

24. Related party transactions (continued)

Directors' emoluments

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

(£)	2021	2020
Aggregate remuneration	938,614	932,475
Short-term employee benefits	78,344	83,303
Post-employment benefits	-	18,589
Long-term benefits	43,241	41,990
Total remuneration and compensation	1,060,199	1,076,357
The emoluments of the highest paid director:		
Aggregate remuneration	457,424	231,459
Short-term employee benefits	78,344	718
Post-employment benefits	-	7,500
Long-term benefits	43,241	33,000
Total remuneration and compensation	579,009	272,677

At 31 December 2021, the number of directors and independent directors was 7 (2020: 6). During the year, 2 directors did not receive any remuneration from Euroclear UK & International Limited (2020: 1). The emoluments of these directors are paid by the parent company which makes no recharge to Euroclear UK & International Limited for their role as director. The above details include no emoluments in respect of these directors.

No directors and non-executive directors participate in the defined contribution pension scheme (2020: 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 2021.

25. Monies held in trust

Two of the subsidiary companies of Euroclear UK & International 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 & International Limited.

(£)		2021	2020
Subsidiary:	Held in trust for:		
CREST Stamp Nominee (No.1) Limited	HMRC	74,075,004	141,458,231
CREST Stamp Nominee (No.2) Limited	Office of the Revenue Commissioners	2,413,106	5,377,655

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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 & International Limited. Day to day responsibility is delegated to the Management Committee.

Additional information on Euroclear UK & International 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 & International 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.

(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 & International Limited does not maintain overdrafts or loans.

The average rate of interest received in the year was 0.00% (2020: 0.13%). If the average interest rate in the year had been 1.00% (2020: 1.13%), the resulting effect would be an increase in revenue of £2.0 million (2020: £1.6 million). This would have increased profit before tax for the year by 7% (2020: 6%).

(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.

26. Financial risk management (continued)

(b) Management of credit risk

Credit risk is the risk that Euroclear UK & International 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 2021 (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 including inter-company balances. Included in the below is £113,560 of impairment relating to customers in administration that have an impairment rate of 100% applied.

(£)	Expected loss rate	31 December 2021	31 December 2020
Carrying amount			
Current	0.41%	950	376,442
Less than 30 days	0.81%	220,800	190,303
30 to 60 days	3.48%	45,963	317,408
60 to 90 days	4.44%	3,680	303,664
90 to 360 days	15.00%	38,822	338,531
Over 360 days	75.00%	140,734	814,456
Total Carrying amount		450,949	2,340,804
Impairment			
Current	0.41%	4	38
Less than 30 days	0.81%	3,086	1,561
30 to 60 days	3.48%	3,304	74,110
60 to 90 days	4.44%	1,217	79,367
90 to 360 days	15.00%	22,507	196,655
Over 360 days	75.00%	128,143	702,790
Total Impairment		158,261	1,054,521

(£)	2021	2020
At 1 January 2021	1,054,521	563,493
Charge to the income statement	119,237	491,028
Amounts used	(1,015,498)	-
At 31 December 2021	158,261	1,054,521

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

26. Financial risk management (continued)

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:

(£)	2021	2020
12 month expected credit loss		
Impairment gains/(losses) on cash and cash equivalents	500	871
Impairment gains/(losses) on financial assets at FVOCI	55,524	35,867
Total 12 month expected credit loss	56,024	36,738
Lifetime expected credit loss		
Impairment gains/(losses) on trade receivables	119,237	497,345
Total lifetime expected credit loss	119,237	497,345
Total impairment losses on financial assets	175,261	534,083

(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.

(£)	2021	2020
Maximum exposure to credit risk by class of asset		
Cash and cash equivalents	69,668,566	54,059,757
Financial assets at FVOCI	95,900,994	88,376,749
Trade Receivables	280,499	1,286,283

(c) Management of liquidity risk

Liquidity risk is the risk that Euroclear UK & International 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 & International 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 & International 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

27. Post Balance Sheet Events

The Russian invasion into Ukraine in February 2022 has caused widespread humanitarian suffering as well as impacted Financial Services. The consequences to the Company of this have been discussed further on page 7. The medium to long term impact to the Company and to the wider marketplace continues to be uncertain and the Company is closely monitoring the situation. The Company does not consider there to be a material impact to its financial statements at 31 December 2021 and is a non-adjusting post balance sheet event.

As per note 19, on the date of signing the Board approved a dividend to be paid of £34.2m, subject to regulatory approval.