Euroclear SA/NV

Consolidated financial statements at 31 December 2012

2012

euroclear

Post-trade made easy

Contents

Directors' report

The directors of Euroclear SA/NV are pleased to present their report, together with the audited consolidated financial statements of the company and its subsidiaries (the 'group') for the year ended 31 December 2012.

Principal activities

The company is a holding company which owns, directly or indirectly, the entire issued ordinary share capital of various companies operating in the European post-trade market infrastructure, including, inter alia, Euroclear SA/NV, Euroclear Bank, Euroclear Belgium, Euroclear Finland, Euroclear France, Euroclear Nederland, Euroclear Sweden, Euroclear UK & Ireland and Xtrakter Limited (Xtrakter).

These main group companies are engaged principally in providing settlement and related services for domestic and international securities transactions, covering bonds, equities, investment funds and derivatives. While Euroclear SA/NV provides system development and support services, the other entities mentioned act as Central Securities Depositories (CSDs) for Belgian, Dutch, Finnish, French, Irish, Swedish and UK securities whilst Euroclear Bank acts as an International CSD (ICSD) for international securities.

Xtrakter is a provider of market data, operational risk management, trade matching and regulatory reporting services, and owns a transaction reporting system named TRAX.

Business review

Last year was a very difficult one for the financial industry in general. Many economic issues converged to slow a recovery and created volatile and stagnant securities market conditions. In this environment, clients and other securities professionals focused on reducing costs through efficiency gains, limiting risks through automation and increasing liquidity through improved asset optimisation and usage. Far-reaching regulatory changes will lead to a reshaping of our sector and the individual business models of our clients.

Providing the most relevant services at the right time to our clients is a key part of our development strategy.

Meeting growing demands for collateral

Euroclear's global 'Collateral Highway' is the first fully open global market infrastructure to source and mobilise collateral across borders. It is open to all CCPs, CSDs, central banks, global and local custodians, investment and commercial banks. Since its launch in July 2012, more than 25 central banks have started using the Collateral Highway, as well as major CCPs like LCH.Clearnet, ICE Clear Europe and CME Clearing Europe. The first CSD outside the Euroclear group to join the Collateral Highway was the CMU unit of the Hong Kong Monetary Authority. The first ever renminbi triparty repo deal was conducted with them on the Collateral Highway. Other CSDs outside the Euroclear group and business partners like BNP Paribas Securities Services and Citi are working closely with us to help mutual clients source and mobilise securities as collateral via the Collateral Highway.

Further efficiency gains

Service enhancements across our group are enabling our clients to increase efficiency, reduce costs and expand their financing opportunities.

Euroclear Bank achieved further ISO compliance with custody reporting upgrades to increase asset servicing efficiency. The roll-out of new Open Inventory Sourcing technology enables clients to use assets held in Euroclear group entities, with agent banks and CSDs in numerous domestic markets as collateral for risk and exposure management purposes via the Collateral Highway. Automated fund transaction order routing and processing in Euroclear Sweden represents a further step in making post-trade easy for our clients.

ESES clients benefit from new triparty collateral management services with the Banque de France and a highly flexible term DBV collateral management service was launched by Euroclear UK & Ireland. Euroclear Belgium and Euroclear Nederland continued playing a key role in the securities dematerialisation process within their respective countries, thus delivering further efficiency gains by removing paper certificates.

Risk reduction and asset optimisation opportunities through innovation

Better risk control and asset optimisation opportunities will be offered through the gradual roll-out of our new web-based application called EasyWay. This application will give clients across the group a unique portal to perform operational tasks efficiently and quickly. Using a smart and user-friendly dashboard, clients will be able to manage all of their Euroclear activities through a single interface, whilst managing operational risk even better in real time. Leveraging new web and i-pad technologies, Easyway will offer a new user experience and wireless solutions for clients.

Business partnerships and new industry initiatives

<u>Business partnerships</u>

The launch of our Central Data Utility (CDU) in partnership with SmartStream offers clients validated, cleansed and enriched securities reference data. Through the centralisation and mutualisation of data management services, the CDU increases data accuracy and reduces client back-office costs. Starting with Eurobond data, the CDU will expand to other asset types from a broad geographic range of markets.

Our partnership with Markit will give the market access to reference data on more than 200,000 Eurobonds.

Euroclear Nederland and Broadridge Financial Solutions are working together to enable local investors to vote electronically at company general meetings.

Equity issuers in France can now benefit from a comprehensive worldwide shareholder identification service provided by Euroclear France, in partnership with Capital Precision, which will add shareholder profiles and shareholder benchmark information to issuers.

New industry initiatives

In March 2012, the Hong Kong Monetary Authority (HKMA), Bank Negara Malaysia (BNM) and Euroclear Bank launched a common platform to ease cross-border investment in and settlement of Asian debt securities. This project has received several innovation awards.

Two Asian CSDs have partnered with us to enhance their investment fund processing infrastructure. Korea Securities Depository (KSD) linked to Euroclear Bank's FundSettle platform to become part of Korea's infrastructure to process cross-border fund transactions. Taiwan Depository & Clearing Corporation is now using FundSettle's automated order-routing service.

Euroclear Bank recently linked with the new Russian CSD to offer cross-border post-trade services for Russian government bonds (OFZs). Similar services are planned for other Russian fixed-income securities in 2013.

Stability in a turbulent environment

With market conditions shifting regularly, Euroclear's reliability and low-risk profile, resilient systems and stable results are the best way to add value to our clients and for the market.

Our successful handling of the Greek debt restructuring in March – processing more instructions than any other service provider outside Greece – contributed to the smooth execution of the swap transaction globally.

New Euroclear Bank branch office in Poland

Euroclear Bank has received full regulatory approval to open an operations centre in Krakow, Poland. Euroclear Bank SA/NV (Spółka Akcyjna) - Oddział w Polsce officially opened on 28 January 2013.

This centre will grow over the next five years to provide a dual-office arrangement with Euroclear Bank's existing operations set-up in Belgium and will ultimately have several hundred Euroclear employees servicing our global business. We are pursuing this initiative in order to benefit from a second large employee recruitment pool, ensuring high levels of support for our clients, whilst continuing to improve our competitiveness.

During 2012 Euroclear started paving the way for setting up the operations center, which is expected to start supporting client business in 2013.

Operating highlights

The Euroclear group delivered strong performance during a year that was impacted by uncertainty about the future of the global economy and the crisis in the euro zone. In addition, far-reaching regulatory reforms in the financial sector and their potential impact on market participants remained unclear in 2012.

The **value of securities held** for Euroclear clients at the end of 2012 was a record of €23.0 trillion, a 4% increase compared to €22.1 trillion in 2011.

Turnover, or the value of securities transactions settled, decreased by 7% to €541.6 trillion in 2012 compared to €580.6 trillion in 2011.

The **number of netted transactions** settled in the Euroclear group was 158.9 million in 2012, a 3% decrease compared with the 163.3 million reported in 2011.

Euroclear's global **Collateral Highway** achieved daily outstandings at the end of 2012 of €700.6 billion. Following the successful launch of the Collateral Highway in July 2012, Euroclear has maintained strong levels in outstandings, which is particularly noteworthy in view of the general downturn in repo market activity and specifically the deep impact of the European Central Bank's Long Term Refinancing Operations reducing reliance on funding from the secured repo market.

Average **overnight cash deposits** increased by 35% to €15.8 billion, demonstrating that clients are sensitive to our strong ratings.

Financial performance highlights

The consolidated results for the year are set out on page 10 of the financial statements.

Net fee and commission income is mainly a function of the value of securities deposited in our (I)CSDs, the number of settlement transactions and the daily value of collateral provision outstanding. The value of bonds is based on nominal value whilst for equities, their market value is taken into consideration. Net fee income increased slightly to €893 million in 2012 compared to €882 million in the prior year. This evolution is due to higher safekeeping fees in line with the increase in value of securities held as well as higher other non-volume related fees, partly compensated by a decrease in settlement fees linked to lower market trading volumes.

Net interest income reached €91 million, a decrease by 20% compared to last year. Our interest income stems principally from Euroclear Bank's overnight deposits of our clients' cash balances. Although average client overnight deposits reached unprecedented levels, net interest income is significantly down as a result of the historically low levels of interest rates. Interest income is also generated from the investment of Euroclear Bank's capital, retained earnings and the proceeds from subordinated debt, which have also yielded lower interest returns reflecting the downward trend in interest rates.

Operating income reached €1,031 million, growing by €9 million compared with 2011. Operating income is composed of net fee and commission income, net interest income and other income (respectively 87%, 9% and 4% of 2012 total operating income). Other income in 2012 included a realised profit of €30 million related to the buy back by Euroclear Bank for €196 million of its hybrid capital (issued in 2005 for €300 million).

Administrative expenses decreased by 3% to €723 million in 2012. Operating expenses have been under constant focus for the past few years, without compromising our risk management and business developments.

Operating profit before impairment and taxation was €308 million, an increase of 12% compared with €275 million in 2011, reflecting the slight increase in operating income combined with the decrease in administrative expenses thanks to strong cost management.

Impairment charges were recognised in 2012 for €54 million, consisting mainly of goodwill impairment charges of €52 million relating to Euroclear Sweden and Euroclear Finland. No goodwill impairment charges were recognised in 2011.

Taxes: The tax rate dropped to 14%, compared to 26% in 2011. This is due to the partial reversal (€45 million) of the deferred tax asset write off recognised in 2010 for €117 million.

Profit for the year: The profit after tax for the year ended 31 December 2012 amounted to €218 million, compared with a profit of €204 million for the year ended 31 December 2011.

Balance sheet: Total assets stood at €20,464 million on 31 December 2012, up €3,973 million on the previous year. Loans and deposits increased by 30% and 31% to €18,027 million and €16,609 million, respectively. Total shareholders' equity increased by 6% to €3,111 million in 2012.

Share capital: The total number of issued shares of Euroclear SA/NV stayed flat, amounting to 12,014,560 at the end of 2012.

Employee evolution

The average number of persons employed by Euroclear SA/NV during the year was 3,551 compared to 3,688 in 2011. This decrease is the result of non-replaced departures over the course of the year**.**

Post balance sheet events

In October 2012, Euroclear signed an agreement to sell Xtrakter to MarketAxess Holdings Inc. As a result, Xtrakter has been presented as an asset held for sale as of 31 December 2012. The FSA granted regulatory approval for the transaction on 18 February 2013 and the sale was completed on 28 February 2013.

Information on circumstances that might materially influence the development of the consolidated perimeter

During the financial year, no circumstances occurred that might materially influence the development of the consolidated perimeter of the company.

Research and development

The Euroclear group has continued investing in research and development. These investments are linked to the performance and resilience of our systems as well as business developments, which are described in more detail in the 'Business review' section of this report. The group also continued investing in market research in line with its mission to provide increasingly commoditised market infrastructure services.

Euroclear is a founding member of TransConstellation, a non-profit organisation promoting Belgium as a centre of excellence in financial transaction processing. During 2012, a number of Euroclear group employees attended the training modules offered by TransConstellation Academy, a training centre run in collaboration with the Solvay Brussels School of Economics & Management.

Risk management in Euroclear

We have built a strong risk culture and risk management framework. Our Enterprise Risk Management framework is based on relevant market and regulatory standards. It minimises the risks in delivering settlement and custody services, as well as settlement-related banking activities. Policies related to each of the relevant risks are in place and our governance structure clearly defines responsibilities for monitoring and control.

All of our entities face **operational** risk. Effective monitoring, appropriate reporting and the maintenance of a database of operational risks containing more than a decade of data enable us to understand and manage operational risk well. Euroclear is designated as critical national infrastructure in seven countries. We have developed and tested comprehensive processes in all entities to ensure continuous availability of business-critical services and effective management response to crises. We have three data centres sufficiently far apart to sustain operations in the event of a regional-scale disaster. Crisis response capability is maintained through regular switches of activity and adequate training of staff.

Financial risks are mainly faced by Euroclear Bank in its role as a single-purpose settlement institution. These risks are a by-product of the services we offer. They are limited by conservative policies, strict limits, carefully selected counterparties and a short duration. The CSDs of the group only offer securities settlement services in central bank money and do not provide credit to clients. They only engage in operations with counterparties to invest their own funds.

As a settlement bank, Euroclear Bank mainly faces collateralised intra-day **credit** exposures on its clients. In addition, it runs credit risk resulting from the intraday use of a high-quality correspondent network and from short-term placements, mainly by using reverse repos, of clients' end-of-day cash positions in the market with high-quality counterparties.

Because **liquidity** is key for the efficient functioning of Euroclear Bank, it has built a strong framework to ensure a high level of preparedness to cope with unexpected and important liquidity shocks.

A low level of **market** risk (interest rate and foreign exchange rate risks only) arises as a by-product of the investment of Euroclear Bank's capital (interest rate risk) and future earnings (interest rate and foreign exchange rate risks). We do not have a trading book. A hedging strategy was put in place to mitigate interest rate risk and foreign exchange risk.

In anticipation of new European rules regarding recovery and resolution planning, the National Bank of Belgium asked us to prepare a recovery plan for Euroclear Bank and the Euroclear group. We are progressing well and intend to complete these plans in 2013.

Further information on the risks faced by Euroclear, as well as our risk management strategies, policies and processes can be found in Euroclear's yearly Pillar 3 report on www.euroclear.com as well as, in less detail, in the Notes to the Consolidated Financial Statements.

Non-statutory audit services

The amount of fees charged to Euroclear SA/NV and its subsidiaries for non-statutory audit services amounted to €941,000, the largest part of it relating to the ISAE 3402 report. Further details of fees for audit and non-audit services are provided in Note X of the financial statements.

Publicity of external mandates

Details of the reportable directorship mandates and managerial functions exercised in companies outside the Euroclear group by the members of the Board and the management of Euroclear SA/NV are posted on Euroclear's website.

Individual and collective Audit Committee and Remuneration Committee member skills

The Audit Committee (AC) of the company is comprised of seven members, who are all non-executive directors of the company. At least one member of the AC is an independent director within the meaning of Article 526ter of the Belgian Companies Code and is competent in accounting and audit matters. All members have in-depth knowledge of the financial markets and services due to their (current or past) senior positions in financial institutions. Individual AC members have accounting skills, audit, legal, regulatory and operational expertise. The members of the AC collectively have an understanding of the company's business, accounting and audit matters, as required by Article 10 of the Royal Decree of 26 September 2005 and as a whole have the requisite collective knowledge base and skills in finance, accounting and audit as well as the relevant personal attributes among its members necessary to fulfill its role efficiently.

The company has established a Remuneration Committee (RC) comprised of eight non-executive directors. At least one member of the RC is an independent director within the meaning of Article 526ter of the Belgian Companies Code. At least one member of the Committee has sufficient expertise and professional experience concerning risk management and control activities. The expertise of the individual RC members and the Committee as a whole is such that the Committee can make an independent assessment of the company's remuneration policies and practices in view of the risks faced by the company.

By order of the Board

Marc Antoine Autheman
Chairman of the Board
5 March 2013

Euroclear SA/NV Board and Committees - current composition

as at 31 December 2012

MEMBERS	Board	Audit Committee	IT and Operations Committee	Remuneration Committee	Management Committe	Nominations & Governance Committee	Risk Committee
Marc Antoine Autheman Chairman Independent	•		•	• (chair)		•	•
Jean-Jacques Verdickt Deputy Chairman Independent	•	•	•	•		•	• (chair)
Joseph C. Antonellis	•		• (chair)			•	
Michel Berthezène	•					•	
Stephen Davies	•						•
Drew Douglas	•			•			
Erik Dralans	•		•	•			
Mary M. Fenoglio	•	• (chair)	•				•
Mark S. Garvin	•			•		• (chair)	
Tsutomu Hattori	•						
William Higgins	•			•			•
Mathias Hlubek Independent	•	•					
Toru Horie	•						
Peter T. Johnston	•					•	•
Francis La Salla	•			•			
Vivien Levy-Garboua	•						•
François Marion	•	•					
Neil Martin	•		•				
Nils-Fredrik Nyblaeus	•	•					
Bruno Prigent	•		•				
Martin Slumbers	•	•	•				
John Stewart	•	•					
Clare Woodman	•					•	
Eddy Wymeersch Independent	•			•		•	
Tim Howell Executive Director, CEO	•				• (chair)		
Frederic Hannequart Executive Director	•				•		
Joël Mérère					•		
Lieve Mostrey Executive Director	•				•		
André Rolland					•		
Monika Bergström			•				
ADVISORS							
John P. Davidson							•
M. Andrew Threadgold							•

Euroclear SA/NV Market Advisory Committees - current composition

as at 31 December 2012

NAME	First Name	Representing	BE	NL	FR	ESES	FI	IR	SW	UK	XMAC
Addenbrooke	Chris	Capita Financial Group								•	
Ahola	Maarit	Svenska Handelsbanken AB Finland					•				
Alpen	Malin	Sveriges Riksbank							•		
Alsop	Warren	Merrill Lynch								•	
Andersson	Esa	Skandinaviska Enskilda Banken AB					•				
Barber	Richard	Citibank International plc		•		•				•	
Barnes	Robert	UBS								•	
Barrett	Richard	International Financial Data Services (UK) Ltd								•	
Bataille de Longprey	Gautier	Bank Degroof SA	•								
Bellegarde	Roland	NYSE-Euronext			•						
Bergström	Monica	Svenska Handelsbanken AB							•		
Berthon	Pierre-Yves	AFG			•						
Black	Charlotte	Brewin Dolphin Securities									•
Bongers	Pieter	Rabobank Nederland		•		•					
Brink	Henk	KAS Bank N.V.				Mkt Obs.					
Brits	Hans	De Nederlandsche Bank NV		•		•					
Bruggeman	Henk	DACSI		Obs.							
Castelanelli	Philippe	HSBC			•	•				•	
Cattelin	Marc	Natixis			•						
Cotelle	Nelly	ICMA/AMTE			Obs						
Davies	Toby	Bank of England								•	
de Fournoux	Emmanuel	AMAFI			•						
de Leusse	Guy	Entreprises d'Investissement			•						
de Nexon	Eric	Société Générale			•	•					
De Wit	Dominique	Groupe Crédit Agricole SA			•	•					
De With	Thomas	Deutsche Bank Amsterdam		•		•					
Decker	Adrien	Crédit Mutuel/CIC			•						
Dijmarescu	Diana	JPMorgan Chase & Co									•
Doyle	Eamonn	Davy Stockbrokers						•			
Ericsson	Torbjörn	Swedbank AB							•		
Eyssautier	Jean-Marc	CACEIS			•	•					•
Farrell	Albert	Bastow Charlton						•			
Farrell	Mary	Central Bank and Financial Services Authority of Ireland						•			
Fleming	Peter	Skandia								•	
Fors	Göran	Skandinaviska Enskilda Banken AB							• (C)		•
Grima	Jean-Philippe	Crédit Mutuel/CIC Titres				•					
Gulikers	Michel	BNP Paribas Fortis	•			•					
Halligan	Donald	Capita Registrars (Ireland) Limited						•			
Healy	Brian	Irish Stock Exchange						• (C)			•
Hemon	Christophe	LCH.Clearnet SA			•						
Hermansson	Kerstin	Swedish Securities Dealers Association							•		
Hervo	Frédéric	Banque de France			•	•					
Hill	Simon	TD Waterhouse								•	
Humphery	Marye	Upper Woolwich								• (C)	•
Jokelainen	Reijo	Sampo Pankki Oy					•				
Koponen	Risto	Bank of Finland					•				
Kuitunen	Päivi	Ålandsbanken Oy					•				
Levaux	Jean-Marie	Bank of New York Mellon	•								
Lightfoot	Peter	RBS Global Banking & Market								•	
Mairesse	Anne	LCH.Clearnet SA	•								
Majuri	Tuomas	Finnish Federation of Financial Services					•				
Martin	Jukka	Nordnet Bank Ltd					•				
McPolin	Michael	JP Morgan								•	
Mjörud	Ola	Citibank International plc							•		
Molony	Joe	Computershare						•			
Morecroft	Mike	Henderson Global								•	
Morleghem	Yves	Belfius Bank	•								
Morris	Mark	Nomura International plc									•
Nolan	Emer	Bank of Ireland Securities Services						•			
O'Brien	Graham	NCB Stockbrokers						•			
Patel	Vikesh	Goldman Sachs								•	
Philips	Jason	UK Debt Management Office								•	
Pochet	Alain	BNP Paribas			• (C)	• (RC)					• (C)
Price	Judy	Investec Wealth								•	

NAME	First Name	Representing	BE	NL	FR	ESES	FI	IR	SW	UK	XMAC
Rastedt	**Mats**	Nordea Pankki Oy					•				
Roegiers	**Damien**	NYSE-Euronext	•								
Roncin	**Marcel**	AFTI			•						
Rousseau	**Jean-Paul**	Febelfin - Representative MEC	• (C)			• (RC)					•
Sakki	**Kirsi**	Pohjola Bank plc					• (C)				•
Schricke	**Christian**	ANSA			•						
Shiels	**Paul**	National Treasury Management Agency						•			
Shuttlewood	**Graham**	The Royal Bank of Scotland						•			
Sinnott	**Peter**	CBFSAI						•			
Timmermans	**Yvan**	National Bank of Belgium	•			•					
Tricou	**Jean**	Fédération Bancaire Française			•						
Van Acker	**Erik**	KBC NV	•			•					
Van der Star	**Ed**	ABN AMRO Bank NV		•		•					
Van Katwijk	**Sikko**	Kas Bank NV		•		•					
van Knorring	**Anna**	State Treasury					•				
Verhoyen	**Els**	ING Belgium	•								
Viou	**Jean-François**	AFSF			•						
Vonk	**Antoine**	Representative ING securities services		• (C)		• (RC)					•
Waesterberg	**Fredrik**	Nordea AB							•		
Wernhall	**Karin**	Swedish National Debt Office							•		

Consolidated income statement

For the year ended 31 December 2012

(€'000)	Notes	2012	2011
Interest income	VI	116,158	152,947
Interest expense	VI	(25,095)	(39,206)
Net interest income		**91,063**	**113,741**
Fee and commission income	VII	1,259,833	1,273,941
Fee and commission expense	VII	(366,846)	(392,263)
Net fee and commission income		**892,987**	**881,678**
Net interest and fee income		**984,050**	**995,419**
Dividend income		369	296
Realised gains/(losses) on investment securities	VIII	3,080	10,377
Realised gains on financial liabilities measured at amortised cost	VIII	30,410	-
Net gains/(losses) on financial assets and liabilities held for trading	IX	6,847	932
Net gains/(losses) on foreign exchange		(4,786)	1,289
Other operating income		10,656	14,054
Operating income		**1,030,626**	**1,022,367**
Administrative expenses	X	(722,756)	(747,310)
Operating profit/(loss) before impairment and taxation		**307,870**	**275,057**
Impairment	XI	(54,280)	(436)
Operating profit/(loss) before taxation		**253,590**	**274,621**
Taxation	XII, XIII	(35,673)	(70,832)
Profit/(loss) for the year		**217,917**	**203,789**

For the companies in the group, see Note I.

The accompanying Notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2012

		2012			2011		
(€'000)	**Notes**	**Gross**	**Tax**	**Net**	**Gross**	**Tax**	**Net**
Changes in Other comprehensive income							
Available-for-sale financial assets	XIV, XXIV	(5,028)	1,292	(3,736)	13,697	(4,041)	9,656
Cash flow hedges	XVI, XXIV	3,867	(1,315)	2,552	(826)	281	(545)
Hedge of net investments in foreign operations	XVI, XXIV	-	-	-	2,501	-	2,501
Foreign currency translation reserve	XXIV	10,382	-	10,382	5,447	-	5,447
Disposal groups held for sale	XXV	508	-	508	-	-	-
Recyclable subsequently to profit or loss		9,729	(23)	9,706	20,819	(3,760)	17,059
Defined benefit plans	XXI	(3,018)	102	(2,916)	(21,811)	6,324	(15,487)
Not recyclable to profit or loss		(3,018)	102	(2,916)	(21,811)	6,324	(15,487)
Other comprehensive income for the year		**6,711**	**79**	**6,790**	**(992)**	**2,564**	**1,572**
Profit/(loss) for the year		**253,590**	**(35,673)**	**217,917**	**274,621**	**(70,832)**	**203,789**
Total comprehensive income for the year		**260,301**	**(35,594)**	**224,707**	**273,629**	**(68,268)**	**205,361**

The accompanying Notes form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2012

(€'000)	Notes	Capital	Share premium	Other reserves	Retained earnings	Total equity
At 1 January 2012		839,601	1,623,628	96,446	389,145	2,948,820
Changes in Other comprehensive income for 2012						
- Available-for-sale financial assets	XXIV	-	-	(3,736)	-	(3,736)
- Cash flow hedges	XXIV	-	-	2,552	-	2,552
- Foreign currency translation reserve	XXIV	-	-	10,382	-	10,382
- Defined benefit plans		-	-	-	(2,916)	(2,916)
- Disposal groups held for sale		-	-	508	-	508
Transfer to legal reserve	XXIV	-	-	5,761	(5,761)	-
Profit/(loss) for the year		-	-	-	217,917	217,917
Dividends paid	XXV	-	-	-	(62,115)	(62,115)
At 31 December 2012		**839,601**	**1,623,628**	**111,913**	**536,270**	**3,111,412**

		Capital	Share premium	Other reserves	Retained earnings	Total equity
At 1 January 2011		860,077	1,702,032	134,383	132,271	2,828,763
Changes in Other comprehensive income for 2011						
- Available-for-sale financial assets	XXIV	-	-	9,656	-	9,656
- Cash flow hedges	XXIV	-	-	(545)	-	(545)
- Hedge of net investments in foreign operations	XXIV	-	-	2,501	-	2,501
- Foreign currency translation reserve	XXIV	-	-	5,447	-	5,447
- Loss absorption	XXIV	-	(38,807)	-	38,807	-
- Reimbursement of capital	XXIV	(20,476)	(39,597)	-	-	(60,073)
- Defined benefit plans		-	-	-	(15,487)	(15,487)
Transfer to legal reserve	XXIV	-	-	4	(4)	-
Transfer to retained earnings	XXIV	-	-	(55,000)	55,000	-
Profit/(loss) for the year		-	-	-	203,789	203,789
Dividends paid	XXV	-	-	-	(25,231)	(25,231)
At 31 December 2011		**839,601**	**1,623,628**	**96,446**	**389,145**	**2,948,820**

The accompanying Notes form an integral part of these financial statements.

Consolidated statement of financial position

As at 31 December 2012

(€'000)	Notes	2012	2011
Assets			
Cash and balances with central banks	III	3,768,079	4,201,124
Loans and advances	III	14,259,110	9,617,809
Available-for-sale financial assets	XIV	997,279	1,263,032
Financial assets held for trading	XV	167	3,590
Derivatives used for hedging	XVI	2,898	-
Current income tax assets		14,264	10,986
Other assets		191,061	164,057
Pre-payments and accrued income		94,179	102,989
Deferred income tax assets	XIII	106,807	61,534
Property, plant and equipment	XVII	92,885	85,360
Goodwill and intangible assets	XVIII	924,489	978,504
Non-current assets and assets of disposal groups classified as held for sale	XIX	13,243	2,976
Total assets		**20,464,461**	**16,491,961**
Liabilities			
Deposits from central banks	III	2,509,023	1,417,910
Deposits from banks and customers	III	14,099,944	11,276,473
Financial liabilities held for trading	XV	58	4,763
Derivatives used for hedging	XVI	-	3,774
Other liabilities		314,265	216,494
Accruals and deferred income		194,269	207,458
Current income tax liabilities		44,600	22,554
Deferred income tax liabilities	XIII	1,268	8
Provisions for liabilities and charges	XX	23,627	35,548
Pension deficit	XXI	63,242	58,421
Subordinated liabilities	XXII	100,112	299,738
Non-current liabilities and liabilities of disposal groups classified as held for sale	XIX	2,641	-
Total liabilities		**17,353,049**	**13,543,141**
Shareholders' equity			
Called up share capital	XXIII	839,601	839,601
Share premium account		1,623,628	1,623,628
Other Reserves	XXIV	111,913	96,446
Retained earnings		536,270	389,145
Total shareholders' equity		**3,111,412**	**2,948,820**
Total liabilities and shareholders' equity		**20,464,461**	**16,491,961**

The accompanying Notes form an integral part of these financial statements.

These financial statements were approved by the Board of directors on 5 March 2013 and signed on its behalf by

Marc Antoine Autheman, Chairman of the Board.

Consolidated statement of cash flows

For the year ended 31 December 2012

(€'000)	Notes	2012	2011
Profit/(Loss) before taxation		**253,590**	**274,621**
Adjustments for:			
- Depreciation and amortisation	XVII, XVIII	35,350	49,299
- Impairment	XI	54,280	436
- Interest on subordinated loan added back	VI	7,652	12,693
- Dividends received		(369)	(296)
- Realised gains on investment securities	VIII	(3,080)	(10,377)
- Realised gains on financial liabilities measured at amortised cost	VIII, XXII	(30,410)	-
- (Gains)/losses on disposal of property, plant and equipment		(26)	(30)
- Provisions for liabilities and charges	X	2,005	13,474
Other non-cash movements		(24,497)	41,500
Cash flows from operating profit/loss before changes in operating assets/liabilities		**294,495**	**381,320**
Net increase/(decrease) in deposits from banks and customers		4,058,827	4,770,350
Net (increase)/decrease in monetary reserve	III	132	10,112
Net (increase)/decrease in loans and advances	III	(870,170)	(23,037)
Net (increase)/decrease in other assets		(29,197)	145,713
Net increase/(decrease) in other liabilities		98,976	(58,546)
Net cash inflow/(outflow) from operating activities		**3,553,063**	**5,225,912**
Tax paid		(59,990)	(61,983)
Net cash from operating activities		**3,493,073**	**5,163,929**
Cash flows from investing activities			
Reimbursement of capital		-	(60,073)
Purchase of available-for-sale financial assets	XIV	(1,937,553)	(1,940,622)
Proceeds from redemption and disposals of available-for-sale financial assets	VIII, XIV	2,184,130	2,077,515
Proceeds from redemption and disposals of held-to-maturity financial assets	VIII	-	201,833
Purchase of property, plant and equipment	XVII	(33,222)	(20,307)
Purchase of intangible assets	XVIII	(2,301)	(2,579)
Sale of property, plant and equipment		27	100
Dividends received		369	296
Remboursement of loans to related party	XXVIII	-	55,967
Net cash used in investing activities		**211,450**	**312,130**
Cash flows from financing activities			
Interest paid on subordinated liabilities		(11,765)	(12,451)
Repurchase of subordinated liabilities	XXII	(165,103)	-
Equity dividends paid	XXV	(62,115)	(25,231)
Net cash used in financing activities		**(238,983)**	**(37,682)**
Net increase/(decrease) in cash and cash equivalents		**3,465,540**	**5,438,377**
Cash and cash equivalents at beginning of year		13,680,219	8,092,130
Effects of exchange rate changes on cash and cash equivalents		(126,688)	149,712
Cash and cash equivalents at end of year		**17,019,071**	**13,680,219**
Cash and cash equivalents at end of year comprise:			
Cash and balances with central banks	III	3,768,079	4,201,124
Excluding monetary reserve		(146)	(278)
Loans and advances	III	14,259,110	9,617,809
Excluding loans and advances with intitial maturity above three months		(1,007,972)	(138,436)
Cash and cash equivalents at end of year		**17,019,071**	**13,680,219**

Notes to the consolidated financial statements

I. General information

Euroclear SA/NV (the Company) and its subsidiaries (together, the group) arrange for the provision of settlement and related services, including banking services in the case of Euroclear Bank, for domestic and international securities transactions, covering bonds, equities, investment funds and derivatives. Euroclear SA/NV also provides software development and a variety of administrative and non-operational support services to the (I)CSDs in the Euroclear group.

Euroclear SA/NV is a limited liability company and is incorporated and domiciled in Belgium. The address of its registered office is:

Euroclear SA/NV
1 Boulevard du Roi Albert II
1210 Brussels
Belgium

The Company's subsidiaries are as follows:

Name	Country of incorporation	Nature of business	Proportion of voting rights and ordinary shares held
Consolidated subsidiaries			
Caisse interprofessionelle de dépôts et de virements de titres SA[1]	Belgium	Central Securities Depository for Belgium	100%
Calar Belgium SA/NV[2]	Belgium	Property investment	100%
EMX Company Limited[1]	United Kingdom	Non-trading	100%
Euroclear Bank SA/NV[1]	Belgium	Banking, securities settlement and custody services	100%
Euroclear Finance 2 SA[2]	Luxembourg	Financing vehicle	100%
Euroclear Finland Oy[1]	Finland	Central Securities Depository for Finland	100%
Euroclear France SA[1]	France	Central Securities Depository for France	100%
Euroclear Sweden AB[1]	Sweden	Central Securities Depository for Sweden	100%
Euroclear UK & Ireland Limited[1]	United Kingdom	Central Security Depository for the United Kingdom and Ireland, and Investment-fund order routing	100%
Nederlands Centraal Instituut voor Giraal Effectenverkeer BV (Necigef)[1]	The Netherlands	Central Securities Depository for The Netherlands	100%
Nederlands Interprofessioneel Effectencentrum NIEC BV(NIEC)[1]	The Netherlands	Central Securities Depository for The Netherlands	100%
VKI AB[3]	Sweden	Dormant	100%
Xtrakter Limited[1]	United Kingdom	TRAX trade matching and reporting	100%

1 Held through Euroclear SA/NV
2 Held through Euroclear Bank SA/NV
3 Held through Euroclear Sweden AB

NCSD Systems AB merged with Euroclear Sweden AB in September 2012 and NCSD Holding AB was liquidated in December 2012.

EMX Company Limited's investment-fund order routing business was transferred to Euroclear UK & Ireland Limited in September 2010.

Name	Country of incorporation	Nature of business	Proportion of voting rights and ordinary shares held
Non-consolidated subsidiaries			
CIN (Belgium) Limited[1]	United Kingdom	Nominee company	100%
CREST Client Tax Nominee (No. 1) Limited[1]	United Kingdom	Nominee company	100%
CREST Depository Limited[2]	United Kingdom	Nominee company	100%
CREST International Nominees Limited[1]	United Kingdom	Nominee company	100%
CREST Stamp Nominee (No. 1) Limited[2]	United Kingdom	Nominee company	100%
CREST Stamp Nominee (No. 2) Limited[2]	United Kingdom	Nominee company	100%
CRESTCo Limited	United Kingdom	Nominee company	100%
EC Nominees Limited[3]	United Kingdom	Nominee company	100%
EOC Equity Limited[3]	United Kingdom	Nominee company	100%
Euroclear International Services Limited[4]	United Kingdom	Nominee company	100%
Euroclear Nominees Limited[3]	United Kingdom	Nominee company	100%
FundSettle EOC Nominees Limited[3]	United Kingdom	Nominee company	100%
Trinity Nominees Limited[2]	United Kingdom	Nominee company	100%

[1] Held through CREST Depository Limited
[2] Held through Euroclear UK & Ireland Limited
[3] Held through Euroclear Bank SA/NV
[4] Held through Euroclear SA/NV

These companies have not been consolidated since they are not material. No transactions have occurred between these companies and the other companies in the group.

II. Accounting policies

II.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and IFRIC Interpretations applicable to companies reporting under IFRS.

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

The EU has not endorsed *IAS 39 Financial Instruments: Recognition and Measurement* as issued by the IASB, deciding instead to amend some of the hedge accounting requirements. The group has not applied these hedge accounting requirements and has therefore effectively also complied with IAS 39 in full as issued by the IASB.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note IV.

II.1.a. Adoption of amendments to standards

The following amendments to standards became effective on 1 January 2012:

- Amendments to FRS 7 Financial Instruments: Disclosures - Transfer of Financial Assets
- Amendment to IAS 12 Income Taxes - Deferred tax: Recovery of Underlying Assets
- Amendments to IFRS 1 First Time adoption of IFRS - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRIC 14 Prepayments of a Minimum Funding Requirement
- Improvements to IFRS (issued by the IASB in May 2010)

The application of these amended standards has no impact on the group's financial statements.

II.1.b. Standards, amended standards and interpretation endorsed by the EU, but effective on 1 January 2013

The group has chosen not to adopt early the following standards, amendments to standards:

- IFRS 13 Fair Value Measurement
- Revision to IAS 19 Employee Benefits
- Amendments to IAS 1 Presentation of Items in Other Comprehensive Income
- Amendments to FRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 1 First Time Adoption of IFRS - Government Loans

The application of these standards and amended standards will have no impact on the group's financial statements in the year of initial application, with the exception of IAS 19. The adoption of revised IAS 19 will involve: (i) the re-measurement of defined benefit obligations to include unrecognised past service cost, taxes and administrative expenses; (ii) the recognition of all past service costs in profit and loss; and (iii) the sum of the former interest cost and expected return being replaced by a new interest cost calculated on the unfunded liability. These changes are not expected to have a material impact on the group’s financial statements.

II.2. Summary of significant accounting policies

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

II.3. Consolidation

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date that control is transferred to the group. They are de-consolidated from the date that control ceases.

In accordance with IFRS 3, the cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets is recognised as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Where permitted under local legislation, the accounting policies of subsidiaries have been changed to ensure consistency with the policies of the group.

Business combinations involving entities under common control were specifically excluded from the scope of IFRS 3 Business combinations. The group has therefore applied the guidance provided by IAS 8 Accounting policies, changes in accounting estimates and errors, which requires management to consider the requirements and guidance in other international standards and interpretations dealing with similar issues. Management have therefore applied the UK GAAP requirements of Financial Reporting Standard (FRS) 6 Mergers and acquisitions for such business combinations involving entities under common control. This standard allows the assets and liabilities of the parties to the combination to be retained at their book value.

II.4. Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Euroclear SA/NV Management Committee.

II.5. Foreign currency translation

II.5.a. Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euro, which is the company's functional and presentation currency.

II.5.b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items measured at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on other non-monetary items are included in the foreign currency translation reserve.

II.5.c. Group companies

The results and financial position of all the group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates for the year; and
- the resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income, in the foreign currency translation reserve and the hedge of net investments in foreign operations reserve. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

None of the group companies has used the currency of a hyperinflationary economy as its functional currency.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

II.6. Revenue recognition

II.6.a. Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant accounting years.

The effective interest rate is the rate that exactly discounts the estimated cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future expected cash flows are estimated after considering all the contractual terms of the instrument, but not future credit losses.

Group loans to, and deposits from, banks and customers are principally related to Euroclear Bank clients' cash accounts operated in connection with their securities settlement activity, with balances generally changing on a daily basis. Time deposits and the re-deposits of surplus funds rarely have maturities of more than three months and accordingly the effective interest rate method is not used.

Interest income and expense on derivative instruments are recorded in profit and loss on an accrual basis.

II.6.b. Fee and commission income and expense

Fee and commission income and expense which respectively represent a return and cost for services rendered (e.g. safekeeping, settlement and custody) are recognised in the income statement when the related service is performed. Safekeeping fees are based on the monthly average depot value of securities held in custody, while settlement fees are based on the number of settled transactions. Rebates granted are deducted from fee and commission income when declared.

Fee and commission income and expense, which represent a return for credit risk borne or which are in the nature of interest (securities borrowing), are recognised in the income statement over the period of the loan, or on a systematic basis over the expected life of the transaction to which they relate, net of rebates granted.

II.6.c. Dividends

Dividends on available-for-sale equity instruments are recognised in the income statement when the group's right to receive payment is established.

II.6.d. Gains and losses on disposals

Gains and losses on disposals of property, plant and equipment, determined by comparing proceeds with the carrying amount, are included in the income statement in other operating income and administrative expenses respectively.

II.7. Financial instruments

Financial assets are classified into held-to-maturity investments, available-for-sale financial assets, held for trading, or loans and receivables. The group has not designated any financial instrument as at fair value through profit or loss.

II.7.a. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. In accordance with IAS 39, the disposal of any more than an insignificant amount of held-to-maturity assets will result in the entire category being tainted and reclassified as available-for-sale for a period of two years (provided no further tainting occurs). Held-to-maturity assets are recognised in the balance sheet on settlement date at fair value plus any directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

II.7.b. Available-for-sale investments

Available-for-sale investments are those financial assets including debt securities and equity shares which are intended to be held for an indefinite period of time, but which may be sold in response to changes in the group's financial environment.

Available-for-sale investments 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, matures or becomes impaired, 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 fair value of listed debt securities and equity shares reflects the published price at the balance sheet date. In the case of investments with no listed market price, a valuation technique (e.g. recent transactions between willing and knowledgeable parties, discounted cash flows and market multiples) is applied. Where the fair value of unlisted equity investments cannot be reliably measured, they continue to be valued at cost.

II.7.c. Held for trading

A financial asset is classified as held for trading if it is:

- acquired for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- a derivative that is not a designated and effective hedging instrument.

II.7.d. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised in the balance sheet on settlement date at fair value plus directly related transaction costs, if any, when cash is advanced to the borrowers. They are subsequently measured at amortised cost using the effective interest method.

Long-term loans or receivables that carry no interest are initially recognised at the net present value of all future cash receipts discounted using applicable market interest rates at origination. The difference between nominal value and net present value is recognised in the income statement over the life of the investment using the effective interest rate.

II.8. Borrowings

Borrowings are recognised initially at fair value, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Preference shares, which carry a mandatory coupon, or which are redeemable on a fixed or determinable future date, are classified as financial liabilities and are presented in other borrowed funds. The coupon on these preference shares is recognised in the income statement as interest expense.

II.9. Derivative financial instruments and hedge accounting

All derivative financial instruments are recognised, and subsequently re-measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in profit and loss, unless the derivative is part of a qualifying hedge.

Hedge relationships are formally documented at inception. The documentation includes identification of the hedged item and the hedging instrument, and explains the risk that is being hedged and the way in which effectiveness of the hedge relationship will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. In such circumstances, the ineffective portion retained in equity is immediately recycled to profit and loss.

The group may enter into three types of hedges: hedges of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedges), hedges of the variability in cash flows from a recognised asset or liability or a forecast transaction (cash flow hedges), and hedges of the net investment in a foreign entity (net investment hedges).

II.9.a. Fair value hedges

Changes in the fair value of derivatives that are designated and which qualify as fair value hedges are recorded in the profit and loss account, together with the gain and loss on the hedged item attributable to the hedged risk.

II.9.b. Cash flow hedges

In the case of a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge should be recognised directly in equity and released to profit and loss when the forecasted transaction affects profit and loss. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the profit and loss account.

II.9.c. Net investment hedges

A hedge of a net investment in a foreign operation is accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and released to profit and loss on disposal of the foreign operation. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the profit and loss account.

II.10. Impairment of financial assets

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss recognised where there is objective evidence that an event occurring after initial recognition of the asset has adversely affected the amount or timing of future cash flows and this effect can be reliably estimated.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the original market rate of return for a similar financial asset.

Cash flows relating to short-term receivables (less than three months) generally are not discounted. Impairment losses are recognised immediately in profit and loss. If, in a subsequent year, the amount of the impairment or bad debt loss decreases and the decrease can be related objectively to an event occurring after the recognition of the original loss, this loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

For financial assets carried at fair value, if there is objective evidence of impairment of an available-for-sale financial asset, the cumulative net loss (difference between amortised acquisition cost and current fair value less any impairment loss previously recognised in profit or loss) that has previously been recognised in equity is removed and recognised in the income statement. If, in a subsequent year, the fair value of an available-for-sale debt instrument increases and the increase can be objectively related to an event occurring after the loss was recognised, the loss may be reversed through profit and loss. Impairments on investments in equity securities cannot be reversed.

II.11. Purchase and resale agreements

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities sold subject to repurchase agreements (repos) are not entered into by the group.

II.12. Goodwill and intangible assets

II.12.a. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net tangible and intangible assets of an acquired entity at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses and tested for impairment annually or more frequently where events or changes in circumstances indicate that it might be impaired. For the purpose of impairment testing, goodwill is allocated to cash-generating units, the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If impairment is identified, the carrying value of goodwill is written down to its net recoverable amount. Impairment losses are immediately recognised in profit and loss and are not subsequently reversed.

II.12.b. Computer software

Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised on a straight-line basis.

Costs associated with the development phase of computer software being developed by, and for use of, the group are capitalised only when the following can be demonstrated:
- technical feasibility;
- intention to complete;
- ability to use or sell the asset;
- generation of probable future economic benefits;
- availability of technical, financial and other resources; and
- reliable measurement of attributable expenditure.

Borrowing costs that are directly attributable to the acquisition or development of software are considered as part of the cost of the software.

The cost of internally developed software is amortised using the straight-line method over its estimated useful life. The estimated useful life of purchased and internally developed software is three to five years.

Impairment tests are performed annually or more frequently if events or circumstances indicate that the asset might be impaired.

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

II.12.c. Other intangible assets

At the time of a business combination, part of the cost might be attributed to one or more intangible assets when these are separable or arise from contractual or other legal rights (such as contractual customer relationships), provided a fair value can be measured reliably.

For each asset, the expected useful life is also assessed. Where this is a finite period, the cost of the asset will be amortised using the straight-line method over that period. The estimated useful life is assessed to be indefinite when, following an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. In such circumstances, the cost will not be amortised.

The amortisation period and amortisation method for assets with a finite life are reviewed at least at each financial year-end, and changed when necessary.

For assets with an indefinite life, impairment tests are performed annually or more frequently if events or circumstances indicate that the asset might be impaired.

II.13. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Where an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for separately.

Borrowing costs that are directly attributable to the acquisition of an asset are considered as part of the cost of the asset.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost can be measured reliably. All other costs are charged to the income statement during the financial year in which they are incurred.

Depreciation on property, plant and equipment is determined using the straight-line method to allocate the depreciable amount (difference between the cost and the residual value) over its estimated useful life.

The estimated useful life of property, plant and equipment is as follows:
- freehold and long leasehold buildings: 25 to 40 years;
- building enhancements: 20 years;
- leasehold improvements: shorter of economic life and period of lease;
- data processing and communications equipment: between four and five years; and
- fixtures, fittings and furnishings: seven to ten years.

Land is not depreciated.

II.14. Leases

Contracts to lease assets are classified as finance leases where they transfer substantially all the risks and rewards of ownership of the asset to the customer. Contracts not deemed to be finance leases are treated as operating leases.

Assets provided under finance leases are included within fixed assets at cost and depreciated over their economic useful lives taking into account anticipated residual values.

Operating lease income and charges are adjusted where relevant by lease incentives and are recognised on a straight-line basis over the life of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor, or received from the lessee by way of penalty, is recognised as an expense or income in the period in which termination takes place.

II.15. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with an original maturity of not more than three months, including cash and non-restricted balances with central banks, and loans and advances to banks and other customers.

II.16. 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 are recognised in respect of onerous contracts where the unavoidable costs of the future obligations under the contract exceed the economic benefits expected to be received.

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 of 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.

II.17. Employee benefits

II.17.a. Pension obligations

The group operates a number of post-retirement benefit schemes for its employees, including both defined contribution and defined benefit pension plans.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. For countries without a deep corporate bond market, reference is made to the redemption yield on government bonds.

All actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity in the year in which they occur.

Past service cost is recognised in the profit and loss account over the average period until the benefits become vested. If the benefits are already vested, the past service cost is recognised immediately.

The costs of defined contribution plans are charged to the income statement in the year in which they fall due.

II.17.b. Other post-retirement benefits

Some group companies provide post-retirement healthcare benefits to their retirees. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity. These obligations are valued annually by independent qualified actuaries.

II.18. Current and deferred income taxes

Current tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the year in which profits arise.

Deferred income tax is provided in full, using the liability method, on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted in each relevant country by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from:
- depreciation of tangible fixed assets and amortisation of intangible assets;
- revaluation of certain financial assets and liabilities, including derivative contracts;
- provisions for pensions and other post-retirement benefits;
- tax losses carried forward; and
- in relation to acquisitions, the difference between the fair values of the net assets acquired and their tax base.

Temporary differences on the initial recognition of assets and liabilities other than those acquired in a business combination are not recognised unless the transaction affects accounting or taxable profit.

Deferred tax assets, including those related to income tax losses available for carry forward, are recognised when it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where:
- the timing of the reversal of the temporary timing difference is controlled by the group; and
- it is probable that the difference will not reverse in the foreseeable future.

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 available-for-sale investments and cash flow hedges) is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred tax assets and liabilities are not discounted.

II.19. Dividends

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

Dividends for the year that are declared after the balance sheet date are not recognised as a liability and are instead disclosed as subsequent events.

III. Risk management and the financial risk management environment

III.1. Managing business in a risk-controlled environment

III.1.a. Enterprise Risk Management: A coherent framework

The Risk Management function has developed a comprehensive risk framework, based on an Enterprise Risk Management (ERM) approach, an internal view on the capital needed by each entity, as well as appropriate policies and procedures. These cover both day-to-day operational and risk/control processes to identify, monitor and mitigate risks and incident response processes. Euroclear uses the ERM framework to help risk owners take decisions in line with the Company's risk appetite and apply effective controls in line with Euroclear’s intention to maintain a low-risk profile.

Euroclear’s ERM framework is based on relevant market and regulatory standards, including the work of the Committee of Sponsoring Organizations of the Treadway Commission (COSO); ISO 31000:2009 principles and generic guidelines on risk management and ISO 27001:2005 for Information Security; the Recommendations for Securities Settlement Systems (RSSS) published by the European System of Central Banks (ESCB) and the Committee of European Securities Regulators (CESR); and other relevant requirements, standards and guidelines issued by international, European and local regulatory bodies, including the Basel Committee on Banking Supervision (BCBS) and the Committee on Payment and Settlement Systems of the International Organization of Securities Commissions (CPSS-IOSCO).

Core to the framework is the risk register, which captures the risks that Euroclear faces in pursuing its corporate objectives. It distinguishes six principal risk categories. Credit, liquidity and operational risks arise from the provision of day-to-day services, while market, business and strategic risks relate to the environment in which Euroclear operates. The Board and management set explicit or implicit limits on the amount of risk that Euroclear entities can absorb (risk tolerance) and/or are prepared to accept (risk appetite).

In line with best market practice, Euroclear has adopted a three lines of defence model:
- as the first line of defence, line management identify, define and operate the control environment to help them achieve their business objectives and control the risks that prevent them from achieving these;
- as the second line of defence, Risk Management define the control environment framework in line with regulations and internal policies. They monitor the Risk and Internal Control environment in a changing internal and external environment and report, challenge or escalate to management risks or control defects. Compliance monitor, test and report to management on controls relating to laws and regulations and advice on remedial actions;
- as the third line of defence, Internal Audit independently review and test the control framework and report to management about the adequacy and effectiveness of the control environment.

The risk register is supported by High Level Control Objectives (HLCOs), established by the Management Committee to mitigate the risks. These HLCOs encompass all high-level processes that individual business areas need to realise to achieve their business objectives. Each of the HLCOs has a senior business management owner who is accountable for ensuring that risks are appropriately mitigated.

The HLCOs are supported by level two control objectives explaining in more detail how each business area achieves their control objectives. The level two control objectives are supported by detailed controls and control processes, designed by line management and describe how to mitigate the risks impacting their business activities.

These control objectives are the foundation of Euroclear's Internal Controls System (ICS) and form the basis of the annual Risk & Control Self-Assessments (RCSAs). During the self-assessments both the HLCOs and level two control objectives are re-validated with each of the owners. Risk Management then consolidates and summarises the results of the self-assessments, discusses them with the Management Committee of Euroclear SA/NV and its subsidiaries and reports its conclusions to the Board of Euroclear SA/NV.

Several Euroclear entities, including Euroclear Bank, also make audited ISAE 3402 control statements to inform clients and other stakeholders about their control environments. In addition, our CSDs and Euroclear Bank update annually the Disclosure Framework for Securities Settlement Systems, which is one of the requirements for compliance with the RSSS.

III.1.b. Operational risk management

All our entities face operational risks. We use Key Risk and Performance Indicators and regular self-assessments to effectively monitor operational risks. Incidents are appropriately reported. Our operational risk loss database contains more than a decade of data and we receive external loss data from the international Operational Riskdata eXchange Association (ORX).This helps us to understand and manage operational risks well.

Our Information Security (IS) ICS is part of the ERM framework and is aligned with international control frameworks.

As critical financial market infrastructure in Belgium, Finland, France, The Netherlands, Sweden and the United Kingdom we regularly receive threat assessments from the national security agencies from which we derive a standardised threat profile, supplemented annually by a more strategic IS threat assessment. This forms the annual IS risk assessment from which risk treatment plans are derived. We identify and rank IS risks and mitigate them within our defined risk appetite.

Our IS ICS includes processes to ensure continuous availability of business-critical services and effective management response to crises. All entities perform annual business impact analyses to identify their critical business services and recovery time objectives. We have three data centres sufficiently far apart to sustain operations in the event of a regional-scale disaster. Production activity switches between sites every two months and an annual regional disaster recovery exercise provides assurance of business resilience. Crisis response capability is maintained and tested through a comprehensive crisis management training programme.

III.2. Euroclear group financial risk management

Credit risk is defined as the risk of loss arising from the failure of a counterparty to meet its obligations to Euroclear. Liquidity risk is the risk of loss arising from Euroclear being unable to settle an obligation for full value when due. Liquidity risk does not imply that Euroclear is insolvent since it may be able to settle the required debit obligations at some unspecified time thereafter. Market risk is the uncertainty on future earnings and on the value of assets and liabilities (on or off balance sheet) due to changes in interest rates and foreign exchange rates.

The framework put in place at Euroclear ensures that financial risks are tightly controlled. At the level of Euroclear Bank, the core of this framework is formed by separate Board policies for market, credit and liquidity risks. These Board policies define the risk appetite of Euroclear Bank and formulate a risk and control statement, as well as the principles by which Euroclear Bank seeks to ensure effective assessment and management of these risks. The Euroclear Bank Board, through the Audit Committee, oversees the implementation of these policies and reviews them at least every two years. Board policies are complemented by management resolutions and implementation procedures. The risk control framework of the Euroclear CSDs reflects the limited purpose statutory goal of these entities, as well as their risk-averse nature and the stringent regulatory regime in which they operate.

III.3. Credit risk

Euroclear Bank

Euroclear Bank has never suffered a credit loss in its entire history, not even during periods of market turmoil. This is largely due to the very short duration of credit exposures which, in general, are intra-day. In addition, Euroclear Bank applies very strict collateralisation rules. More than 99% of its credit exposures are collateralised, mostly with very high-quality collateral.

In addition, Euroclear Bank also has treasury exposures resulting from clients' end-of-day cash positions. These balances are usually placed in the market with high-quality counterparties, preferably by using reverse repurchase agreements (repos). The risks are limited by their short duration (mainly overnight), as well as policy limits.

Euroclear CSDs

As their transactions settle in central bank money, Euroclear CSDs have no direct cash relationship with their clients. Consequently, they cannot extend loans or credit facilities to their customers. The CSDs can potentially face a certain level of credit risk arising from the non-payment of fees by their clients, albeit for limited amounts considering both the frequency of the billing and their relatively broad customer base. Therefore, each CSD of the group is required by its home regulator to hold enough liquidity to cover such risks. Finally, the CSDs are also exposed to the credit risk related to the reinvestment of their cash surplus with their bank counterparties. To limit the credit risk taken on such counterparties, the banks that are considered for these investments should at least have a rating of AA- or above. However, in the current market context, where a large number of institutions suffer from issuer credit rating downgrades, a list of A+ rated banks has exceptionally been considered, where government support is provided to them. The type of instruments used is limited to short-term or overnight deposits.

III.3.a. Maximum credit exposure

The table below summarises the maximum exposure to credit risk (net of any impairment losses recognised in accordance with IAS 39), which for the purpose of this annex is defined as the net carrying amount as reported in the financial statements, without taking into account any collateral held or other credit enhancement attached.

(€'000)	Notes	2012	2011
At 31 December			
Financial assets			
- Cash and balances with central banks		3,768,079	4,201,124
- Loans and advances		14,259,110	9,617,809
- Available-for-sale financial assets	XIV	997,279	1,263,032
- Financial assets held for trading	XV	167	3,590
- Derivatives used for hedging	XVI	2,898	-
Total financial assets		**19,027,533**	**15,085,555**
Securities lending indemnifications	XXVI	**9,802,399**	**12,067,914**
Total		**28,829,932**	**27,153,469**

At 31 December, the secured exposure amounted to €22,192,194,000 in 2012 (2011: €18,572,374,000), while the unsecured exposure amounted to €6,625,233,000 in 2012 (2011: €8,566,531,000). Accrued interest income on financial assets amounted to € 12,505,000 (2011: €14,564,000). Secured exposure includes €11,594,232,000 of reverse repo transactions (2011: €6,023,713,000).

The credit quality of balances with central banks and the portfolio of loans and advances can be assessed by reference to the internal rating system adopted by the group.

Rating (in %)	2012	2011
At 31 December		
Eaaa	21%	31%
Eaa	27%	16%
Ea	48%	50%
Ebbb+ and Ebbb	2%	2%
Ebbb- and below	2%	1%
Total	**100%**	**100%**

The internal rating 'Eaa' shown above sums up the ratings 'Eaa-', 'Eaa' and 'Eaa+' of Euroclear Bank’s internal ratings scale. Accordingly, the internal rating 'Ea' sums up the ratings 'Ea-', 'Ea' and 'Ea+' of the internal ratings scale.

The table below presents an analysis of the held-to-maturity financial assets and the available-for-sale financial assets (excluding equity shares) by rating agency designation at 31 December 2012 and 31 December 2011, based on Standard & Poor's ratings or their equivalent.

Rating (in %)	2012	2011
At 31 December		
AAA	26%	49%
A1	41%	51%
AA+	33%	0%
AA	0%	0%
AA-	0%	0%
Total	**100%**	**100%**

III.3.b. Credit risk mitigation

Euroclear Bank aims at mitigating most of the credit exposure on its clients, preferably by relying on securities or cash collateral held and pledged within the clients’ accounts in Euroclear Bank. Frequent monitoring shows that more than 95% of the collateral pledged in the Euroclear System has investment grade quality. As clients’ credit facilities are multipurpose and multicurrency, clients can use the collateral pledged to Euroclear Bank to guarantee all the obligations they have with Euroclear Bank, irrespective of the nature of the exposure and the original currency.

In order to accurately determine the value of the collateral it takes, Euroclear Bank has developed a dynamic internal collateral valuation model taking into account market, credit, country and liquidity risks. Haircuts are computed at least once a day for each security, reflecting the latest market risk factors and conditions. The collateral valuation model is back-tested and stress-tested each year. The collateral valuation model has provided continually adequate valuations, even during periods of highly volatile markets.

Euroclear Bank's secured exposure relates to overdrafts or fixed-term advances granted to clients, guarantees issued to securities lenders in the context of the securities lending and borrowing programme, and reverse repos.

III.3.c. Concentration risk

Concentration limits are set to ensure that the group does not take too large an exposure on too few clients or counterparties. Under EU and Belgian banking regulations, large individual exposures have to remain below 25% of their own funds (Tier 1 + Tier 2 less deductions). This applies to Euroclear Bank, as well as to Euroclear SA/NV and Euroclear Belgium, as these entities, all located in Belgium, are subject to the same capital adequacy rules. This stems from their regulatory status, under regulations applicable in Belgium, of "settlement institution" for Euroclear Belgium, and "company assimilated to a settlement institution" for Euroclear SA/NV.

In order to mitigate their concentration risk, Euroclear SA/NV and Euroclear Belgium invest their cash surplus with a minimum of two external counterparties. For best practice reasons, the same is applied for other group CSDs, even if the latter are not stricto sensu subject to the same capital adequacy rules.

Geographical concentration of financial assets and liabilities

(€'000)	Europe	Americas	Rest of the world	Total
At 31 December 2012				
Total financial assets	**15,981,084**	**1,618,733**	**1,427,716**	**19,027,533**
Total financial liabilities	**6,298,286**	**2,738,697**	**7,672,154**	**16,709,137**
At 31 December 2011				
Total financial assets	**13,204,502**	**885,452**	**995,601**	**15,085,555**
Total financial liabilities	**6,630,868**	**1,725,087**	**4,646,703**	**13,002,658**

III.4. Liquidity risk

III.4.a. Liquidity risk at Euroclear Bank

Liquidity allows Euroclear Bank to offer efficient settlement and custody services. It ensures timely cross-border settlement with domestic markets, supports new issues and custody activities, and enables clients to transfer sales and income proceeds in a timely manner. As a single purpose bank, Euroclear Bank's liquidity risk is largely intra-day and transactional, and results from the secured intra-day credit it extends to facilitate delivery-versus-payment settlement. Euroclear Bank's overnight settlement process, enabling clients to settle transactions in a wide range of currencies within a single timeframe, efficiently recycles and minimises liquidity needs, as clients only have to fund the resulting net debit position.

Although the daily incoming and outgoing cash payments are typically matched, clients may still end up with residual cash positions at the end of the day. On a daily basis, Euroclear Bank is typically long in cash, which it then invests mainly on an overnight basis, to match the volatility of clients' settlement and money transfer activities.

III.4.b. Liquidity risk appetite

Euroclear Bank's liquidity risk appetite is very low, given the criticality of intra-day liquidity for the efficient delivery of its settlement and custody services. Euroclear Bank has, therefore, adopted a strong risk management framework to anticipate, monitor and manage the intra-day liquidity flows to ensure the quality of its services. Liquidity risk is further mitigated by Euroclear Bank's strict client admission policy and the ongoing monitoring of its clients, and by the fact that credit is secured and very short-term (usually intra-day). In order to support its daily payment activity, Euroclear Bank is served by a wide network of highly rated cash correspondents and has direct access to TARGET2 for euro payments.

III.4.c. Funding

Back-to-back transactions and an efficient securities lending and borrowing programme facilitate the recycling of liquidity: on average in 2012, between €75 billion and €87 billion of secured intra-day credit enabled Euroclear Bank to settle transactions for clients amounting to €1,200 billion every day. Since Euroclear Bank's daily payment receipts typically match its payment obligations, additional liquidity is only used to smoothen or accelerate the payment process or to deal with time critical payments spread throughout the day. Euroclear Bank can rely on a wide range of liquidity sources including intra-day liquidity provided by a large network of cash correspondents and settlement banks, the National Bank of Belgium and broad access to the inter-bank market. Furthermore, Euroclear Bank has put in place contingency liquidity sources for the major currencies. All of Euroclear Bank's capital is re-invested in top quality European System of Central Banks (ESCB) eligible securities that can be pledged to obtain liquidity. Euroclear Bank continues to develop strategic initiatives to ensure adequate access to liquidity on a day-to-day basis and in contingency situations.

The adequacy of Euroclear Bank's liquidity capacity is assessed and approved quarterly by the Credit and Assets and Liabilities Committee (CALCO). It also monitors on a monthly basis liquidity risk trends that Euroclear Bank faces through liquidity key risk indicators, which enables it to identify, among other things, changes in clients' cash management practices that may affect Euroclear Bank's liquidity.

III.4.d. Management of intra-day and end-of-day liquidity

Euroclear Bank ensures that it has permanent access to enough liquidity to support its core services. It therefore forecasts, monitors and measures its net intra-day funding requirements derived from cross-border settlement activity, Bridge activity with Clearstream, new issues and advanced income payments in a timely manner and at different critical moments during the day.

Euroclear Bank also anticipates and monitors its end-of-day cash positions at each of the cash correspondent banks it uses. Long balances may be invested short term provided that liquidity limits, defined by currency and maturity buckets, are respected. Euroclear Bank maintains a network of treasury counterparties to ensure sufficient borrowing capacity to fund occasionally short end-of-day balances.

III.4.e. Liquidity stress testing

Euroclear Bank regularly performs idiosyncratic and market wide liquidity stress tests to assess potential liquidity strains and to ensure adequate access to enough liquidity sources to fund any shortfalls. For the group CSDs and Euroclear SA/NV, liquidity stress testing is also performed to ensure, where applicable, compliance with local regulatory liquidity obligations as well as adequate funding.

Currently, three types of stress tests are conducted regularly:

- quarterly stress tests based on historical data enable Euroclear Bank to assesses whether it complies with principle 7 of the CPSS-IOSCO principals, which states that securities settlement systems should be able to withstand a payment failure from a client with the largest net debit obligation;
- a set of scenarios that assess the potential impact on Euroclear Bank's liquidity of extreme but plausible events. It serves to quantify the potential liquidity gap which would materialise under a variety of idiosyncratic and market strains. At the same time, it serves to verify the adequacy of mitigating actions and to check the readiness of operational contingency procedures; and
- ad hoc stress tests, conducted as a role-playing exercise at least once a year, that is based on plausible, but extreme scenarios. This type of stress test, which involves different layers of management, from operational managers to senior management of the Company. It includes stress testing for liquidity risk and all relevant risks to which Euroclear Bank is exposed.

In addition, Euroclear Bank and Euroclear SA/NV comfortably comply with the regulatory liquidity stress test ratio, which became a binding requirement in July 2011. It is designed to reflect the liquidity position of the institution under exceptional circumstances (combining an idiosyncratic shock with a general liquidity crisis), by comparing the potential liquidity needed and the potential liquidity available. In this exercise, unsecured financing or credit lines from counterparties are assumed to be unavailable and on-demand deposits from wholesale clients are lost. Credit lines at the central bank, financing through repos, sales of assets and re-use of collateral remain accessible. The ratio is calculated for maturities of one week and one month.

III.4.f. Liquidity contingency plan

Euroclear Bank maintains an appropriate liquidity contingency plan to ensure business continuity of its core settlement and custody services, in line with principle 7 of the CPSS-IOSCO principals. The plan documents the relevant operational procedures and ensures access to (contingency) liquidity in the event of an operational or financial crisis. On top of its own capital, and access to regular market funding, Euroclear Bank has negotiated committed liquidity lines and can call upon a €1billion syndicated back-stop facility. The contingency plan and the availability of contingency liquidity is regularly tested and reviewed through stress testing. Finally, Euroclear Bank has put in place agreements with its largest clients to allow Euroclear Bank to appropriate and re-use these clients' collateral to generate liquidity up to the level of these clients' debit balances, in case they would be unable to fund their obligations to Euroclear Bank.

III.4.g. Liquidity risks in Euroclear SA/NV and the CSDs

Investments of cash belonging to Euroclear SA/NV and the CSDs aim at minimising liquidity risk for these entities:

- the stable cash positions linked to regulatory liquidity requirements, for entities where such requirements apply, should be invested on a roll-over basis; and
- the surplus cash investments, which includes the working cash needs of these entities, should always be cash flow driven, which means that the amount and period of the investments should take into account the evolution of working cash needs and capital expenditure.

The type of instrument to be used is limited to overnight or term deposits, the duration of which should not exceed six months.

The table below shows the consolidated financial liabilities analysed by remaining contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rate and the book value of the derivatives.

(€'000)	Notes	Repayable on demand or within one week	Other amounts maturing within 3 months	Maturity between 3 and 6 months	Maturity between 6 months and 1 year	Maturity within 1 to 5 years	Maturity after 5 years	Undiscounted contractual cash flows - Total	Book value
At 31 December 2012									
Financial liabilities									
- Deposits from central banks		2,509,023	-	-	-	-	-	**2,509,023**	**2,509,023**
- Deposits from banks and customers		14,090,119	161	3,093	322	6,703	-	**14,100,398**	**14,099,944**
- Financial liabilities held for trading	XV	50	8	-	-	-	-	**58**	**58**
- Subordinated liabilities	XXII	-	-	4,155	-	106,409	-	**110,564**	**100,112**
Total financial liabilities		**16,599,192**	**169**	**7,248**	**322**	**113,112**	**-**	**16,720,043**	**16,709,137**

(€'000)		Repayable on demand or within one week	Other amounts maturing within 3 months	Maturity between 3 and 6 months	Maturity between 6 months and 1 year	Maturity between 1 and 5 years	Maturity after 5 years	Undiscounted contractual cash flows - Total	Book value
At 31 December 2011									
Financial liabilities									
- Deposits from central banks		1,417,910	-	-	-	-	-	**1,417,910**	**1,417,910**
- Deposits from banks and customers		10,936,015	329,425	2,871	-	8,991	-	**11,277,302**	**11,276,473**
- Financial liabilities held for trading	XV	4,319	444	-	-	-	-	**4,763**	**4,763**
- Derivatives used for hedging	XVI	-	746	934	2,094	-	-	**3,774**	**3,774**
- Subordinated liabilities	XXII	-	-	12,451	-	331,353	-	**343,804**	**299,738**
Total financial liabilities		**12,358,244**	**330,615**	**16,256**	**2,094**	**340,344**	**-**	**13,047,553**	**13,002,658**

III.4.h. Fair value of financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These 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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:
- quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined by using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value; and
- other techniques, such as discounted cash flow analysis, are used to determine the fair value of remaining financial instruments.

The table below shows the three-level hierarchy of the financial instruments measured at fair value:

Level 1. Quoted prices in active markets for the same instruments;
Level 2. Quoted prices in active markets for similar assets or liabilities, or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3. Valuation techniques for which significant input is not based on observable market data.

(€'000)	Notes	Level 1	Level 2	Level 3	Total
At 31 December 2012					
Financial assets					
Available-for-sale financial assets	XIV				
- Equity shares		1,588	-	9,510	**11,098**
- Debt instruments issued by central governments and central banks		734,514	-	-	**734,514**
- Debt instruments issued by financial institutions		52,165	199,502	-	**251,667**
Financial assets held for trading	XV				
- Forward foreign exchange		-	167	-	**167**
Derivatives used for hedging	XVI				
- Forward foreign exchange		-	2,898	-	**2,898**
Total financial assets		**788,267**	**202,567**	**9,510**	**1,000,344**
Financial liabilities					
Financial liabilities held for trading	XV				
- Interest rate options		-	4	-	**4**
- Forward foreign exchange		-	54	-	**54**
Total financial liabilities		**-**	**58**	**-**	**58**

(€'000)	Notes	Level 1	Level 2	Level 3	Total
At 31 December 2011					
Financial assets					
Available-for-sale financial assets	XIV				
- Equity shares		1,360	-	12,890	**14,250**
- Debt instruments issued by central governments and central banks and central banks		1,248,782	-	-	**1,248,782**
Financial assets held for trading	XV				
- Forward foreign exchange		-	3,590	-	**3,590**
Total financial assets		**1,250,142**	**3,590**	**12,890**	**1,266,622**
Financial liabilities					
Financial liabilities held for trading	XV				
- Interest rate options		-	444	-	**444**
- Forward foreign exchange		-	4,319	-	**4,319**
Derivatives used for hedging	XVI				
- Forward foreign exchange		-	969	-	**969**
- Foreign exchange options		-	2,805	-	**2,805**
Total financial liabilities		**-**	**8,537**	**-**	**8,537**

Financial instruments classified in level 2 include a zero-coupon issued by the European Investment Bank. Although this security is eligible for refinancing at the European Central Bank and potentially highly liquid, no quoted price is readily available for it. The reason is that Euroclear Bank holds the whole issue outstanding amount for this security in its investment portfolio.

Financial instruments classified in level 3 relate solely to minority long-term participating interests of Euroclear Bank for which discounted cash-flow or market multiple analyses are used.

III.5. Market risk

III.5.a. Market risk in Euroclear

Euroclear Bank

The majority of market risk in the group is concentrated at Euroclear Bank. As part of the Market Risk Board Policy, an adequate risk framework has been put in place to measure, monitor and control the interest rate and foreign exchange risk supported by Euroclear Bank. Value-at-Risk (VaR) methodologies are used to measure interest rate and currency risk. The Management Committee of Euroclear Bank sets VaR limits for all currencies combined, which are monitored daily. The economic capital model for market risk takes both the interest rate risk on the economic value of Euroclear Bank's books and the current foreign exchange risk, as well as the risk on future interest rate earnings and the currency risk on future income streams into account.

By policy, Euroclear Bank's core equity (shareholders' equity plus retained earnings) and subordinated debts are invested in debt instruments rated AA- or higher. The duration of these assets is limited to five years and is currently around four months.

Euroclear SA/NV and the Euroclear CSDs

Interest rate risk exists only to a limited extent in the CSDs and in Euroclear SA/NV. Indeed, the CSDs do not operate commercial cash accounts but invest their cash positions in accordance with regulatory liquidity requirements. The duration of the investments cannot exceed six months, and the types of instruments to be used are limited to straight overnight or term deposits.

Foreign exchange risk is also very limited in the CSDs and in Euroclear SA/NV. To avoid the potential foreign exchange risk that could arise from the investment of these surplus cash, these investments can only be made in their local currency, i.e. in EUR for entities whose functional currency is EUR, in GBP for the entities located in the United Kingdom, and in SEK for the Swedish entities. The most significant source of foreign exchange risk stems from the potential change in net asset values of Euroclear SA/NV's non-euro shareholdings (e.g. Euroclear UK & Ireland and Euroclear Sweden).

III.5.a.1. Interest rate risk

Euroclear typically has net long cash positions and its earnings therefore are sensitive to future changes in interest rates.

The table below shows the interest rate sensitivity of Euroclear's Banking Book positions. The figures relate to Euroclear SA/NV consolidated, as communicated to the National Bank of Belgium in the framework of standardised reporting under Pillar 2 of Basel II. The figures for Euroclear plc are not expected to diverge materially from the content of this table. Assets and liabilities held in the Banking Book are predominantly denominated in euro, and they are expressed at market value for the purpose of this disclosure. The economic value of the Banking Book is computed by discounting the future cash flows for assets and liabilities present in this book.

The sensitivity of the economic value of the Banking Book to interest rate shocks is presented in the first column of the table below. The change in value mainly arises from the assets held in the Investment and Hedging Books of Euroclear Bank. Indeed, assets and liabilities of the Treasury Book are almost fully matched and have no material impact on this sensitivity measure.

The remainder of the table illustrates to which extent the net interest income of Euroclear Bank is sensitive to interest rate movements, compared to the amount earned in 2012. For the purpose of this disclosure, the latter is limited to pounds sterling, US dollars and euros, as is the analysis of future earnings sensitivity.

(€'000)	Economic value of banking book	Interest result Effective 2012	Income sensitivity interest result Expected 2013
Interest rate increase/(decrease), in basis points			
300	1,464,820		287,362
200	1,466,185		205,766
100	1,467,522		123,109
-	1,468,792	44,725	39,145
(100)	1,469,759		7,421
(200)	1,470,684		6,292
(300)	1,471,564		6,264

(€'000)	Economic value of banking book	Interest result Effective 2011	Income sensitivity interest result Expected 2012
Interest rate increase/(decrease), in basis points			
300	1,427,378		237,060
200	1,424,525		197,116
100	1,421,368		156,132
-	1,417,776	73,285	111,011
(100)	1,413,859		57,465
(200)	1,408,305		31,399
(300)	1,402,984		13,407

The table below reflects the maturity profile of assets and liabilities at 31 December, based on the earlier of maturity date and interest rate resetting date.

(€'000)	Repayable on demand or within one week	Other amounts maturing within 3 months	Maturity between 3 and 6 months	Maturity between 6 months and 1 year	Maturity between 1 and 5 years	Maturity after 5 years	Non-interest bearing	Total
At 31 December 2012								
Assets								
- Cash and balances with central banks	3,467,950	300,000	-	-	-	-	129	3,768,079
- Loans and advances	9,856,323	3,673,340	704,048	6,155	612	12,830	5,802	14,259,110
- Available-for-sale financial assets	-	525,104	50,601	403,902	-	-	17,672	997,279
- Financial assets held for trading	167	-	-	-	-	-	-	167
- Derivatives used for hedging	-	743	731	1,424	-	-	-	2,898
- Other assets	-	-	-	-	-	-	1,436,928	1,436,928
Total assets	**13,324,440**	**4,499,187**	**755,380**	**411,481**	**612**	**12,830**	**1,460,531**	**20,464,461**
Liabilities								
- Deposits from central banks	2,509,023	-	-	-	-	-	-	2,509,023
- Deposits from banks and customers	13,893,211	196,805	2,793	322	6,391	-	422	14,099,944
- Financial liabilities held for trading	49	4	-	-	-	-	5	58
- Other liabilities	-	-	-	-	-	-	643,912	643,912
- Subordinated liabilities	-	-	-	-	97,836	-	2,276	100,112
Shareholders' equity	-	-	-	-	-	-	3,111,412	3,111,412
Total liabilities and shareholders' equity	**16,402,283**	**196,809**	**2,793**	**322**	**104,227**	**-**	**3,758,027**	**20,464,461**
Total interest sensitivity gap	(3,077,843)	4,302,378	752,587	411,159	(103,615)	12,830	(2,297,496)	-
Cumulative gap	**(3,077,843)**	**1,224,535**	**1,977,122**	**2,388,281**	**2,284,666**	**2,297,496**	**-**	**-**

(€'000)	Repayable on demand or within one week	Other amounts maturing within 3 months	Maturity between 3 and 6 months	Maturity between 6 months and 1 year	Maturity between 1 and 5 years	Maturity after 5 years	Non-interest bearing	Total
At 31 December 2011								
Assets								
- Cash and balances with central banks	4,200,657	-	-	-	-	-	467	4,201,124
- Loans and advances	5,496,913	3,846,991	267,086	-	-	-	6,819	9,617,809
- Available-for-sale financial assets	-	625,160	200,410	307,694	106,848	-	22,920	1,263,032
- Financial assets held for trading	3,583	-	-	-	-	-	7	3,590
- Other assets	-	-	-	-	-	-	1,406,406	1,406,406
Total assets	**9,701,153**	**4,472,151**	**467,496**	**307,694**	**106,848**	**-**	**1,436,619**	**16,491,961**
Liabilities								
- Deposits from central banks	1,417,910	-	-	-	-	-	-	1,417,910
- Deposits from banks and customers	10,935,532	329,350	2,483	-	8,379	-	729	11,276,473
- Financial liabilities held for trading	4,296	444	-	-	-	-	23	4,763
- Derivatives used for hedging	-	746	934	2,094	-	-	-	3,774
- Other liabilities	-	-	-	-	-	-	540,483	540,483
- Subordinated liabilities	-	-	-	-	292,934	-	6,804	299,738
Shareholders' equity	-	-	-	-	-	-	2,948,820	2,948,820
Total liabilities and shareholders' equity	**12,357,738**	**330,540**	**3,417**	**2,094**	**301,313**	**-**	**3,496,859**	**16,491,961**
Total interest sensitivity gap	(2,656,585)	4,141,611	464,079	305,600	(194,465)	-	(2,060,240)	-
Cumulative gap	**(2,656,585)**	**1,485,026**	**1,949,105**	**2,254,705**	**2,060,240**	**2,060,240**	**-**	**-**

Interest sensitivity gap

A negative interest rate sensitivity gap exists when more liabilities than assets re-price or mature during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, and vice versa;.

Key components

The following table analyses the nature of cash and balances with central banks:

(€'000)	2012	2011
At 31 December		
Cash in hand	14	19
Loans and advances	3,767,919	4,200,827
Monetary reserve	146	278
Total cash and balances with central banks	**3,768,079**	**4,201,124**

Euroclear Bank had deposited €3,767,719,000 (2011: €4,173,002,000) of surplus funds with central banks. Euroclear Bank, like other banks, is required to comply with average monetary reserve requirements determined by the European Central Bank (ECB). Throughout each period set by the ECB, Euroclear Bank deposits varying amounts in its monetary reserve account at the Belgian National Bank in order to meet the average requirement for that period.

The following table analyses the nature of loans and advances:

(€'000)	2012	2011
Surplus funds	13,243,584	8,967,279
Loans and advances	1,015,526	650,530
Total	**14,259,110**	**9,617,809**

The fair value of the loans with a maturity greater than one year at 31 December 2012 was €15,196,000.

The following table analyses the nature of deposits from banks and clients:

(€'000)	2012	2011
Deposits	13,587,232	11,242,931
Borrowings	512,712	33,542
Total	**14,099,944**	**11,276,473**

The fair value of deposits with a maturity greater than one year at 31 December 2012 was €6,319,000 (2011: € 9,088,000).

At 31 December 2012, the total value of deposits from central banks was €2,509,023,000 (2011: €1,417,910,000). A large number of national central banks are clients of Euroclear Bank. As of 31 December 2012, the current account deposits represent €2,509,023,000 (2011: €1,286,577,000).

III.5.a.2. Foreign exchange risk

The group's entities have the euro as their functional currency with the exception of subsidiaries located in the United Kingdom and Sweden.

The group's structural currency exposures as at 31 December 2012 and 2011 were as follows:

(€'000)	Net Investment in non-euro operations	Currency hedges other than borrowings	Remaining structural currency exposures
Functional currency of the operation involved			
At 31 December 2012			
- Pound Sterling	108,101	-	108,101
- Swedish krona	56,738	-	56,738
At 31 December 2011			
- Pound Sterling	89,514	-	89,514
- Swedish krona	58,582	-	58,582

The larger remaining structural currency exposures at the end of 2012 result from the discontinuation of hedges of net investments in foreign operations in July 2011.

The table below summarises the group's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the group's assets and liabilities at carrying amounts, categorised by currency.

Concentration of assets and liabilities per currency (€'000)	Euro	US dollar	Japanese yen	Pound sterling	Other	Total
At 31 December 2012						
Total assets	**10,546,736**	**5,477,121**	**1,153,456**	**1,019,440**	**2,267,708**	**20,464,461**
Total liabilities and shareholders' equity	**10,833,924**	**5,425,236**	**1,206,335**	**942,778**	**2,056,188**	**20,464,461**
Net balance sheet position	**(287,188)**	**51,885**	**(52,879)**	**76,662**	**211,520**	**-**

The net non-euro balance sheet positions mainly reflect a combination of outstanding currency swaps and the net assets of subsidiaries and branches located in the United Kingdom and Sweden.

Concentration of assets and liabilities per currency

(€'000)	Notes	Euro	US dollar	Japanese yen	Pound sterling	Other	Total
At 31 December 2011							
Total assets		**9,688,068**	**3,511,658**	**574,784**	**812,988**	**1,904,463**	**16,491,961**
Total liabilities and shareholders' equity		**9,324,427**	**3,317,551**	**900,929**	**729,339**	**2,219,715**	**16,491,961**
Net balance sheet position		**363,641**	**194,107**	**(326,145)**	**83,649**	**(315,252)**	**-**

III.5.b. Market risk appetite for Euroclear Bank

Market transactions are carried out at the discretion of Euroclear Bank, which accepts market risk only within its risk appetite. That risk appetite is limited by the available capital allocated annually for market risk by the Board of Euroclear Bank. In addition, Euroclear Bank complies with internal market limits, such as Value-at-Risk (VaR), proposed by the CALCO and approved by Euroclear Bank's Management Committee.

Euroclear Bank adheres to the following principles relating to the management of market risk: Euroclear Bank does not engage in any activity that is not considered as part of its normal business or a consequence of its clients' activity, and as such will not engage in trading (even if, under IFRS, certain transactions in derivatives do not qualify as hedges and are therefore recognised under trading activities). The activities and instruments in which Euroclear Bank can engage must be in line with its low-risk profile. Euroclear Bank is not exposed to equity risk or commodity risk. A prudent investment strategy is applied in order to preserve the core equity of Euroclear Bank. In particular, the assets of the investment book can only be invested in highly rated and liquid debt instruments (with the exception of intra-company loans) and an appropriate hedging strategy may be applied so as to protect future earnings against adverse market conditions.

III.5.c. Market risk mitigation (hedging)

Euroclear Bank has engaged in a series of market derivatives in order to hedge the market risk exposure resulting from future income streams, with the aim of ensuring that the financial results are not adversely affected by market evolutions ('predictability of future revenues'). It is compliant with market expectations that Euroclear Bank conducts its business prudently, as a single purpose bank. This hedging strategy occurs on a rolling five quarters time horizon and must comply with strict guidelines: (1) to be hedged, a future cash flow must be expected with a sufficiently high level of certainty; (2) a position, once hedged, may not be re-opened; and (3) any position above the anticipated level must be reversed.

Given the exceptionally low level of interest rates, and therefore the marginal downside risk, Euroclear Bank has only entered into a limited amount of interest rate hedges in 2012 and 2011. Under IFRS, the results of interest rate derivatives contracts qualifying as hedges under Belgian GAAP must be recorded directly in the income statement.

As far as foreign currency derivatives are concerned, Euroclear Bank enters into currency forwards in order to protect its revenue stream from adverse movements in foreign exchange rates. Such transactions are classified as cash flow hedges. In addition, forex hedging is used by the companies of the Euroclear group to economically hedge the fair value of some specific liabilities expressed in foreign currencies.

III.5.d. Market risk measurement

III.5.d.1. Value-at-Risk

The market risk relative to the management of the available-for-sale and, until February 2011, held-to-maturity portfolios is measured using a VaR methodology. The VaR for a portfolio is the maximum loss over a determined time horizon at a given confidence level (99%). The VaR model assumes a holding period, until positions can be closed, of one day. The market parameters are derived from the volatility and correlation observed from historical daily changes. Euroclear Bank has to comply with a global VaR limit, as well as VaR limits by book.

The market risk exposure that Euroclear Bank takes is segregated in the following books: Investment Book (all securities purchased by Euroclear Bank with the proceeds of its subordinated issues and its own equity); Treasury Book (assets, liabilities and commitments resulting from the activity of Euroclear Bank clients); and Hedging Book (market transactions that are conducted to manage the risk exposure resulting from future income streams).

Given its low market risk appetite and the fact that Euroclear Bank does not engage in trading activities, the VaR figures are low. The decrease in VaR between 2011 and 2012 mainly reflects the shorter duration of the investment book.

(€'000)	2012 Average	2012 min	2012 max	2011 Average	2011 min	2011 max
Investment book IR risk	564	10	3,039	3,098	228	6,380
Treasury book IR risk	101	31	461	97	22	236
Treasury book FX risk	16	2	326	22	2	1,178
Hedging book	586	42	2,839	786	269	2,970
Aggregate VaR	942	164	3,134	2,886	854	5,766

III.5.d.2. Economic capital for market risk

Euroclear Bank measures the economic capital for market risk based on a Monte-Carlo process, which estimates the uncertainty on the loss absorption capacity of Euroclear Bank over a one-year horizon due to movements in market risk factors (interest rates and foreign exchange rates). The loss absorption capacity is defined as the buffer that would be available to Euroclear Bank in case it would face a loss. It is made up of the market value of the investment book (Tier 1 capital), the unrealised gain or loss on the hedging book and earnings over the next twelve months. The economic capital amount is determined assuming a confidence level that allows Euroclear Bank to retain a high-quality rating.

The economic capital for market risk at the end of December 2012 and 2011 was €21 million and €71 million, respectively.

III.5.e. Back and stress tests

Stress tests provide an indication of the potential size of losses that could arise under extreme conditions. Stress movements are applied to the different risk factors, including interest and foreign exchange rates. The stress tests follow the ‘Principles for the management and supervision of interest rate risk’ (July 2004) issued by the Basel Committee on Banking Supervision.

III.6. Capital management

III.6.a. Capital measurement and allocation

The internal view on Euroclear Bank’s capital needs is based on an economic capital model that is continuously kept up-to-date and regularly validated by an independent party. Euroclear Bank is therefore fully confident that the resulting capital requirements are adequate to support the risks that it faces. The model covers operational, market and credit risks, as well as business risks. This conservative approach to capital, combined with Euroclear's strong risk management and effective controls, has helped Euroclear Bank retain high credit ratings in times of market stress.

The National Bank of Belgium (NBB) is the main supervisor of Euroclear Bank, the lead regulator for Euroclear SA/NV and, for consolidated capital adequacy purposes only, Euroclear plc. In addition, individual Euroclear CSDs are regulated by their own local supervisors, which set and monitor compliance with their capital adequacy and liquidity requirements.

In accordance with the Basel II framework, the NBB requires each bank and banking group to maintain a ratio of total capital to risk-weighted assets that cannot fall under a threshold of 8%, and a ratio of Tier 1 capital to risk-weighted assets that must always exceed a threshold of 4%. Furthermore, as a company closely associated with a settlement institution, Euroclear SA/NV is subject to certain specific requirements regarding its solvency and liquidity position.

Risk-weighted assets take into consideration balance sheet assets and off-balance-sheet exposures that may give rise to credit risk, as calculated for both Euroclear Bank and the group on a consolidated basis. Collateral and other eligible guarantees are taken into account appropriately.

Total capital is divided into two Tiers: Tier 1 is essentially made up of shareholders' capital, share premium, consolidated reserves and retained earnings, while Tier 2 comprises undated subordinated loans. In accordance with capital adequacy regulations, Euroclear monitors the proportion of the Hybrid Tier 1 instrument (issued in 2005) that can be considered as Tier 1, and reclassifies the remainder to Tier 2. Goodwill and intangible fixed assets are deducted in full from Tier 1 capital. The current regulatory framework stipulates that Tier 2 capital cannot exceed Tier 1 capital, a requirement that is very comfortably met by the group.

Euroclear Bank is assigned a AA+ credit rating by Fitch Ratings and a AA credit rating by Standard & Poor’s (S&P).

In accordance with the Basel II framework, Euroclear determines regulatory capital requirements for both credit and operational risk.

For credit risk, Euroclear uses the Foundation Internal Ratings Based Approach (FIRBA). For operational risk, Euroclear is permitted by the NBB to use the Advanced Measurement Approach (AMA) for the calculation of Pillar 1 capital requirements. Euroclear uses a hybrid approach at all consolidated levels above Euroclear Bank, by combining the AMA for Euroclear Bank with a Standardised or Basic Indicator Approach for the group’s other entities.

As from January 2013, Euroclear will introduce the changes required under Basel III to the measurement of its risks and the eligibility of its capital for the purpose of assessing the group’s capital adequacy. This will be done in accordance with the new European Capital Requirements Directive (or Regulation), which still needs to be finalised by the relevant authorities.

With its very conservative capital composition, limited leverage, and room for manoeuvre provided by excess capital above regulatory requirements, Euroclear believes that it is unlikely to need to raise additional capital to comply with the new framework. Euroclear also believes that its limited liquidity risks at the defined time horizons will allow it to satisfy the proposed liquidity ratios.

The table below sets out the group's Tier 1 and total capital, which both comfortably exceed the regulatory requirements.

III.6.b. Regulatory capital position

(€'000)	2012	2011
Risk-weighted assets (1)	**4,721,010**	**4,398,710**
Capital requirement	**377,681**	**351,897**
- Credit risk	74,602	61,769
- Market risk	22,165	24,134
- Operational risk	280,914	265,994
Capital base	**2,200,502**	**2,196,722**
- Tier 1	2,197,209	2,192,673
- Tier 2	3,293	4,049
Solvency ratio		
- Tier 1	46.5%	49.8%
- Total	46.6%	49.9%

[1] Risk-weighted assets (unaudited) represent the total capital requirement multiplied by a factor of 12.5. This means that the risk-weighted assets do not only relate to credit and market risk, but also comprise the gross-up of the capital requirements related to operational risks. For Euroclear, the latter are the main source of capital consumption.

The solvency ratios observed as of 31 December 2012 are very stable vis-à-vis those of the preceding year, as a result of:
- an increase in regulatory capital resources, essentially explained by the partial retention of consolidated earnings which has more than offset the partial repurchase of the Hybrid Tier 1 securities issued by the group (see note XXII); and
- a slight increase in capital requirements, observable for both credit risk and operational risk.

IV. Critical accounting estimates and judgements

The Euroclear group makes estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates are considered to be important to understand the group'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.

IV.1. Impairment of goodwill and contractual customers' relationships with an indefinite useful life

The group tests goodwill and contractual customers' relationships for impairment annually (during the fourth quarter), irrespective of whether there is an indication of impairment. Furthermore, the group remains alert for indicators of impairment throughout the year and conducts a high-level impairment review at each quarter end.

Such impairment reviews are deemed to detect:
- overpayment;
- under-performance compared with expectations; and
- significant changes with an adverse effect on the acquired business. Such changes can stem from, for example, new business parameters (e.g. volatility of stock markets, changes in the volume of securities safekept on behalf of customers, ...) or from changes in market data used to determine the cost of capital of the acquired businesses.

An impairment loss is recognised whenever the recoverable amount of the goodwill is less than its carrying amount (book value). The recoverable amount of an asset is the higher of its net selling price and its value in use, both based on present value calculations.
- Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less the cost of disposal.
- Value in use is the amount obtainable from the use of an asset until the end of its useful life and from its subsequent disposal. Value in use is calculated as the present value of estimated future cash flows. The value in use calculation may take into account not only the post-acquisition performance of the acquired entity itself, but also the changes in cash flows in other entities in the group that are positively or negatively affected by the acquisition.

While no impairment charge was deemed necessary at the end of 2011, an impairment loss was booked as a result of these reviews at the end of 2012. See Note XVIII.

Contractual customers' relationships with an indefinite useful life relate to the acquisition of Euroclear Belgium.

IV.2. Depreciation and impairment of other intangible assets with a finite useful life

Intangible assets that derive their fair value from, for example, contractual relationships, communication standards or unpatented technologies, and have a finite useful life are amortised over their estimated useful life, usually between three and five years. Determining the latter requires an analysis of circumstances and judgement by the group's management.

At each balance sheet date, or more frequently when events or changes in circumstances require, these intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its estimated recoverable amount: the higher of the asset's net selling price and its value in use, as defined above.

The most significant amounts of such intangible assets relate to the acquisition of the NCSD group.

IV.3. Provisions

A provision is a liability of uncertain timing or amount. At each reporting year, the necessity to record or adjust provisions is considered based on the latest information available.

Onerous lease provisions are recognised when a decision has been taken to vacate premises leased by the Company and when the space is expected to remain empty or to be sub-let at terms and conditions below those in the Euroclear lease. The provision represents the lower of the cost to breach the contract and the cost of fulfilling it, taking into account the expected benefits that might be received under a sub-lease, providing the entity is actively seeking to sub-let the property.

Provisions for onerous contracts are recognised when the Company has a contract that is onerous. The provision represents the best estimate of the unavoidable costs of the obligations under the contract over the economic benefits expected to be received under it.

Provisions for redundancy are recognised when a decision has been made, a formal plan exists and the main features are known by those affected. The provision represents the best estimate of the full cost to be incurred to implement the plan.

Provisions for dilapidation, or end-of-lease obligations, are recorded when Euroclear is contractually bound to incur such costs and a reliable estimate can be made.

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.

IV.4. Defined benefit plans

The present value of the defined benefit plan obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the obligations.

The assumptions used in determining the net cost (income) for the plans include the discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the plan obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related plan liability.

Other key assumptions for plan obligations are based in part on current market conditions.

The major assumptions used are shown in Note XXI.

IV.5. Deferred tax assets

Deferred tax assets are recognised to reflect the future tax benefit from unused tax losses or tax credits and other temporary differences. If there is a concern about the relevant entities' capacity to utilise the tax assets within a reasonable (10-year) period, the assets are impaired, even when there remains a possibility to benefit longer term if sufficient taxable profits arise. The 10-year period is considered reasonable in view of the activities of the Euroclear group entities and the sector in which they operate.

V. Segment analysis

The Euroclear SA/NV Management Committee receives internal reports for Euroclear Bank, Euroclear SA/NV, Euroclear UK & Ireland, the ESES CSDs, NCSD, and Xtrakter.

The reportable business segments are as follows:
- Euroclear Bank (including its Hong Kong branch and its Polish branch created in November 2012) is an International Central Securities Depository (ICSD);
- Euroclear SA/NV (including its branches in Amsterdam, London and Paris) is the provider of software development and non-operational support services to the (I)CSDs;
- Euroclear UK & Ireland is the Central Securities Depository (CSD) subsidiary located in the United Kingdom. This entity also runs an investment fund order routing business.
- The ESES segment includes the group's CSD subsidiaries located in Belgium, France and the Netherlands; and
- The NCSD segment includes three companies (five in 2011): Euroclear Sweden (CSD in Sweden), Euroclear Finland (CSD in Finland) and VKI AB. NCSD Systems AB was absorbed by Euroclear Sweden in September 2012 and NCSD Holding AB was liquidated in December 2012.

Information reported within 'Other' relates to Xtrakter, to a Special Purpose Vehicle (SPV) established in connection with the issuance of subordinated debt qualifying as capital for Euroclear Bank, and to a property development company whose property is leased almost entirely to Euroclear SA/NV. None of these qualified as a reportable segment in 2012 or 2011.

The risks and returns associated with Euroclear Bank's ICSD services do not vary geographically and, accordingly, is considered as one geographical segment. The activities of all other segments are within Europe.

No single customer generated 10% or more of the group's revenues.

Transactions between the companies are on normal commercial terms and conditions. Recharges of software development costs and support services are based on formal agreements between the entities concerned.

Segment assets and liabilities comprise all third-party assets and liabilities.

		2012							
(€'000)	Notes	Euroclear Bank	Euroclear SA/NV	Euroclear UK & Ireland	ESES CSDs	NCSD	Other	Eliminations	Group
Net interest income	VI	86,564	2,269	393	636	1,470	(269)	-	91,063
Net fee and commission income	VII	522,642	(15)	100,493	173,592	77,661	18,697	(83)	892,987
Intra-group recharges		129	499,167	322	20,796	370	1,232	(521,248)	768
Other income		43,556	32,749	(368)	6,482	1,399	7,615	(45,625)	45,808
Operating income		652,891	534,170	100,840	201,506	80,900	27,275	(566,956)	1,030,626
Staff costs	X	(106,060)	(231,486)	(6,189)	(17,489)	(15,141)	(6,631)	-	(382,996)
Other direct costs	X	(43,614)	(191,241)	(5,865)	(16,547)	(27,882)	(7,843)	11,513	(281,479)
Depreciation and amortisation	XVII, XVIII	(946)	(21,847)	(99)	(837)	(8,746)	(2,874)	-	(35,349)
Royalty fees		(22,338)	-	(437)	(527)	(301)	-	1,265	(22,338)
Group non-operational and administrative support services		(303,211)	(21,360)	(69,548)	(118,120)	(3,415)	(6,188)	521,248	(594)
Operating profit/(loss) before impairment and taxation		176,722	68,236	18,702	47,986	25,415	3,739	(32,930)	307,870
Impairment	XI	-	(353)	59	(1,793)	(52,193)	-	-	(54,280)
Operating profit/(loss) before taxation		176,722	67,883	18,761	46,193	(26,778)	3,739	(32,930)	253,590
Taxation	XII, XIII	(46,629)	39,325	(4,654)	(15,329)	(7,373)	(1,013)	-	(35,673)
Profit/(loss) for the year		**130,093**	**107,208**	**14,107**	**30,864**	**(34,151)**	**2,726**	**(32,930)**	**217,917**
External revenues		1,028,043	4,446	105,145	156,851	78,732	49,350	-	1,422,567
Revenues from other segments		37,100	529,779	569	47,443	3,148	(14,220)	(603,819)	-
Total revenues		**1,065,143**	**534,225**	**105,714**	**204,294**	**81,880**	**35,130**	**(603,819)**	**1,422,567**
Segment assets		18,720,794	1,089,916	97,472	174,967	334,343	46,968	-	20,464,460
Segment liabilities		17,002,994	153,340	8,502	45,228	30,798	109,546	2,641	17,353,049

(€'000)	Notes	2011 Euroclear Bank	Euroclear SA/NV	Euroclear UK & Ireland	ESES CSDs	NCSD	Other	Eliminations	Group
Net interest income	VI	107,922	2,679	236	1,507	1,704	(307)	-	113,741
Net fee and commission income	VII	504,227	(5)	102,912	176,957	80,360	17,330	(103)	881,678
Intra-group recharges		412	504,300	790	23,143	218	515	(528,293)	1,085
Other income		22,605	154,089	(886)	7,677	666	7,613	(165,901)	25,863
Operating income		635,166	661,063	103,052	209,284	82,948	25,151	(694,297)	1,022,367
Staff costs	XI	(101,288)	(237,992)	(6,776)	(20,861)	(13,976)	(6,883)	-	(387,776)
Other direct costs	XI	(28,852)	(220,567)	(5,754)	(9,723)	(28,881)	(6,305)	12,227	(287,855)
Depreciation and amortisation	XVIII, XIX	(870)	(26,558)	(2,248)	(1,274)	(15,403)	(2,946)	-	(49,299)
Royalty fees	XI	(22,046)	-	(373)	(637)	(267)	-	1,277	(22,046)
Group non-operational and administrative support services	XXX	(313,201)	(24,357)	(70,987)	(113,877)	(2,488)	(3,717)	528,293	(334)
Operating profit/(loss) before impairment and taxation		168,909	151,589	16,914	62,912	21,933	5,300	(152,500)	275,057
Impairment	XII	-	-	(139)	(75)	(198)	(24)	-	(436)
Operating profit/(loss) before taxation		168,909	151,589	16,775	62,837	21,735	5,276	(152,500)	274,621
Taxation	XIII	(42,554)	8,333	(5,073)	(20,736)	(9,336)	(1,466)	-	(70,832)
Profit/(loss) for the year		**126,355**	**159,922**	**11,702**	**42,101**	**12,399**	**3,810**	**(152,500)**	**203,789**
External revenues		1,074,841	7,804	107,206	163,375	83,010	17,600	-	1,453,836
Revenues from other segments		9,194	653,635	1,016	49,039	838	20,609	(734,331)	-
Total revenues		**1,084,035**	**661,439**	**108,222**	**212,414**	**83,848**	**38,209**	**(734,331)**	**1,453,836**
Segment assets		14,779,531	1,043,183	87,352	146,546	388,923	46,426	-	16,491,961
Segment liabilities		12,981,669	172,186	10,158	30,887	30,988	317,253	-	13,543,141

The €32,390,000 remaining in the Eliminations column relates to dividends received from companies within the group (2011: €152,500,000).

The assets for the ESES CSDs segment include €1,626,000 of Non-current assets classified as held for sale (2011: €2,976,000) (Note XIX).

The assets for the Other segment include €11,617,000 of Assets of disposal groups classified as held for sale (2011: €0). The liabilities for the same segment include €2,641,000 of Liabilities of disposal groups classified as held for sale (2011: €0) (Note XIX).

VI. Net interest income

(€'000)	2012	2011
Interest income on financial instruments		
- Cash and balances with central banks	4,102	10,822
- Loans and advances	109,034	123,568
- Available-for-sale financial assets	3,022	17,607
- Held-to-maturity financial assets	-	867
- Financial assets held for trading	-	3
- Derivatives used for hedging (only interest flows)	-	80
Total interest income	**116,158**	**152,947**
Interest expense on financial instruments		
- Deposits from central banks	(174)	(402)
- Deposits from banks and customers	(17,269)	(25,788)
- Subordinated liabilities	(7,652)	(12,693)
- Derivatives used for hedging (only interest flows)	-	(323)
Total interest expense	**(25,095)**	**(39,206)**
Net interest income	**91,063**	**113,741**

VII. Net fee and commission income

(€'000)	2012	2011
Fee and commission income		
Clearing and settlement	367,190	386,184
Custody	539,319	534,902
Other	353,324	352,855
Total fee and commission income	**1,259,833**	**1,273,941**
Fee and commission expense		
Clearing and settlement	(81,324)	(90,394)
Custody	(152,861)	(156,388)
Other	(132,661)	(145,481)
Total fee and commission expense	**(366,846)**	**(392,263)**
Net fee and commission income	**892,987**	**881,678**

Other fee and commission income mainly relates to communication fees and the recovery of out-of-pocket expenses incurred on behalf of clients, Xtrakter's fees, issuer services fees earned by Euroclear Finland and Euroclear Sweden, and revenue earned by Euroclear UK & Ireland for collecting Stamp Duty Reserve Tax on behalf of HM Revenue and Customs in the United Kingdom and Stamp Duty on behalf of the Irish Revenue Commissioners.

Other fee and commission expense mainly relates to fees incurred on behalf of clients as well as other fees for collateral leasing and back-stop facilities.

VIII. Realised gains/(losses) on investment securities and financial liabilities measured at amortised cost

(€'000)	2012	2011
Available-for-sale financial assets		
- fair value adjustment recognised in equity and released in profit or loss during the period - quoted debt instruments	3,843	(9,220)
- realised result recognised in profit or loss during the period - quoted debt instruments	(1,837)	20,854
- fair value adjustment recognised in equity and released in profit or loss during the period - equity shares	1,074	-
Held-to-maturity investments		
- realised result recognised in profit and loss during period	-	(1,257)
Financial liabilities measured at amortised cost		
- realised result recognised in profit and loss during period	30,410	-
Total	**33,490**	**10,377**

In January 2011, in view of credit concerns about the sovereign debt of certain countries, Euroclear Bank decided to sell €200 million of its €290 million Held-to-maturity (HTM) portfolio, realising a pre-tax loss of €1,257,000. These securities, representing the reinvestment of the proceeds from Euroclear Bank's hybrid capital issued in 2005, had been classified as HTM in accordance with management's intention, at that time, to keep them until maturity. As a consequence of these sales, and in accordance with IAS 39, the remaining €90 million of the HTM portfolio has been reclassified as Available-for-sale (AFS) at its fair value on the date of transfer. No securities may be classified as HTM before January 2014.

During 2012, Euroclear Finance 2 SA repurchased a nominal amount of €195.9 million of its issued securities. This transaction resulted in an equivalent repurchase of the notes issued by Euroclear Bank SA/NV. Three transactions have been carried out: two of them for €14,000,000 (at a price of 75%) and one for €181,900,000 (at a price of 85%), resulting in an external gain of €30,410,000 for the Company.

IX. Net gains/(losses) on financial assets and liabilities held for trading

(€'000)	2012	2011
Interest rate instruments and related derivatives	758	(207)
Foreign exchange trading	3,284	2,498
Foreign exchange options - time value	2,805	(1,359)
Total	**6,847**	**932**

The net gains/(losses) on interest rate instruments and related derivatives relate to contracts initiated by Euroclear Bank in order to reduce the volatility of its net interest earnings from the reinvestment of its euro, US dollar and pound sterling balances. Under IFRS, such contracts do not qualify as hedges and the results are recognised under financial assets and liabilities held for trading. These gains are offset within the amount of interest income on loans and advances (Note VI).

The net gains on foreign exchange trading relate to treasury swaps initiated by Euroclear Bank in order to convert balances in non-core currencies into euro or US dollars for re-investment purposes. Under IFRS, these results may not be included within net interest income.

Euroclear Bank uses foreign exchange options in order to be protected against the foreign exchange risk arising from expected future income streams sensitive to foreign exchange movements. Under IFRS, such contracts qualify as hedges. The change in fair value is recorded as follows:
- time value in profits and losses; and
- intrinsic value in other comprehensive income.

The net gains/(losses) on the foreign exchange options relate to the time value. The option's time value reflects the probability that the option will gain or lose in intrinsic value before it expires. Numerically, this value depends on the time until the expiration date and the volatility of the price of the underlying instrument. The time value of an option converges towards zero over time and, at expiration, when the option value is simply its intrinsic value, the time value is zero.

X. Administrative expenses

(€'000)	Notes	2012	2011
Staff costs			
- Wages and salaries		276,526	281,017
- Social security costs		71,062	71,368
- Defined benefit plans	XXI	13,191	12,395
- Defined contribution plans		6,669	7,433
- Other staff costs		15,548	15,563
Royalty fees	XXVIII	22,338	22,046
Auditor's remuneration		2,724	2,636
Consultants' fees		113,013	111,805
Occupancy		53,040	46,724
Maintenance and repairs		41,293	39,623
Communications		14,624	20,641
Other taxes		6,005	8,970
Depreciation and amortisation	XVII, XVIII	35,350	49,299
Other administrative expenses		49,368	44,316
Provisions for liabilities and charges	XX	2,005	13,474
Total		**722,756**	**747,310**

The average number of persons employed by the group during the year was 3,551 (2011: 3,688).

The auditor's remuneration for Euroclear SA/NV and its subsidiary undertakings was as follows:

(€'000)	2012	2011
Fees payable to the Company's auditor for the audit of the Company's annual accounts	631	474
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries, pursuant to legislation	1,152	1,081
- Other attest and assurance services	854	851
- Tax services	-	3
- Other services	87	227
Total	**2,724**	**2,636**

Euroclear ensures that the independence of the external auditor is preserved through a specific policy adopted by the Board and agreed by PwC. This policy adheres to the highest standards of independence. The engagement of the external auditor for non-core services is subject to specific controls, monitored by the Board's Audit Committee.

XI. Impairment

(€'000)	Notes	2012	2011
Impairment charges			
Non-current assets classified as held for sale	XIX	1,350	-
Property, plant and equipment	XVII	62	-
Goodwill and intangible assets	XVIII	52,068	-
Other assets		800	436
Total		**54,280**	**436**

(€'000)		2012	2011
Impairment of other assets			
At 1 January		1,292	929
Transferred to Assets of disposal groups classified as held for sale	XIX	(503)	-
Charge to the income statement		800	436
Amounts used		(178)	(108)
Exchange differences		44	35
At 31 December		**1,455**	**1,292**

For other assets, impairment mainly relates to fees receivable from clients in several of the group's (I)CSD subsidiaries, and to miscellaneous other receivables, the recovery of which is at least partially in doubt.

XII. Taxation

(€'000)	2012	2011
Current income tax expense	80,193	69,304
Adjustments to tax charge in respect of previous periods	(41)	(344)
	80,152	**68,960**
Deferred tax charge/(income) relating to the origination and reversal of temporary differences	(43,604)	1,966
Deferred tax charge/(income) resulting from change in tax rate	(875)	(94)
Tax expense for the year	**35,673**	**70,832**

Further information on deferred tax is presented in Note XIII.

The tax on the group's profit before tax differs from the theoretical amount that would arise from using the standard rate as follows:

(€'000)	2012	2011
Operating profit/(loss) before tax	**253,590**	**274,621**
At standard rate of tax (1)	67,379	70,832
Effects of:		
- Notional interest on capital	(14,426)	(15,811)
- Expenses not deductible for tax purposes	51,636	71,601
- Income not subject to tax	(29,270)	(68,267)
- Different rates in the companies of the group	18,034	19,162
- Change of tax rate on deferred taxation	(875)	(94)
- (Reversal of)/impairment of deferred tax assets	(56,764)	(6,247)
- Adjustments to tax charge in respect of previous periods	(41)	(344)
Tax expense for the year	**35,673**	**70,832**

(1) A rate of 26.57% (2011: 25.79%), representing the effective tax rate (before impairment), for the group, has been used as the standard rate.

Since 1 January 2006, the group entities in Belgium benefit from a tax reduction linked to a notional interest on capital.

The current income tax asset of €14,264,000 at 31 December 2012 (2011: €10,986,000) represents the total of amounts recoverable from the tax authorities relating to over-payments of income tax pre-payments and prior year adjustments.

The expenses not deductible for tax purposes include the tax effects of consolidation adjustments not subject to deferred tax, in particular eliminations of intra-group dividends.

XIII. Deferred taxation

The details of deferred taxation are as follows:

(€'000)	Total	Maturity on or before 31 December 2013	Maturity after 31 December 2013
At 31 December 2012			
Assets			
Defined benefit plans	17,024	-	17,024
Available-for-sale financial assets	(15)	(15)	-
Cash flow hedging reserve	(985)	(985)	-
Financial assets/(liabilities) held for trading	220	(2)	222
Software development	608	342	266
Property, plant and equipment	1,266	138	1,128
Tax losses carried forward	62,650	-	62,650
Other temporary differences	26,039	11,387	14,652
Total	**106,807**	**10,865**	**95,942**
Liabilities			
Defined benefit plans	(3,928)	-	(3,928)
Other temporary differences	5,196	-	5,196
Total	**1,268**	**-**	**1,268**

(€'000)	Total	Maturity on or before 31 December 2012	Maturity after 31 December 2012
At 31 December 2011			
Assets			
Defined benefit plans	14,868	-	14,868
Available-for-sale financial assets	(1,306)	(1,306)	-
Cash flow hedging reserve	329	329	-
Financial assets/(liabilities) held for trading	1,254	1,043	211
Software development	1,622	1,278	344
Property, plant and equipment	1,964	(25)	1,989
Tax losses carried forward	9,989	3,302	6,687
Other temporary differences	32,814	2,303	30,511
Total	**61,534**	**6,924**	**54,610**
Liabilities			
Defined benefit plans	(5,762)	-	(5,762)
Property, plant and equipment	-		
Other temporary differences	5,770	1,004	4,766
Total	**8**	**1,004**	**(996)**

Deferred taxes are classified as assets or liabilities depending on the total net deferred tax asset or liability across all types of deferred tax at year-end for each entity. At 31 December 2012 and 31 December2011, Euroclear Sweden had a net deferred tax liability.

Deferred taxation for tax losses carried forward mainly relate to Euroclear SA/NV.

During 2010, the Board of Euroclear SA/NV decided to discontinue certain strategic projects and the related capitalised software development costs were impaired. One consequence was the reversal of the deferred tax asset related to software development and a related charge in the consolidated income statement.

In light of improved profitability forecasts for Euroclear SA/NV, the Board has decided to reverse €45,000,000 of impaired deferred tax assets at the end of 2012. This represents the principal component of the reversal of impaired tax losses carried forward set out in the table below.

Analysis of the movements of the net deferred tax asset and liability balances is as follows:

(€'000)	Notes	2012	2011
At 1 January		61,526	60,812
Income statement	XII	44,479	(1,872)
Deferred tax relating to items (charged) or credited to equity			
- Defined benefit plans	XXI	102	6,324
- Revaluation reserve on available-for-sale financial assets	XXIV	1,292	(4,041)
- Cash flow hedging reserve	XXIV	(1,315)	281
Transferred to disposal groups classified as held for sale		(565)	-
Exchange differences		20	22
At 31 December		**105,539**	**61,526**

The deferred tax income/(charge) in the income statement comprises the following temporary differences:

(€'000)	Notes	2012	2011
Defined benefit plans	XXI	28	553
Financial assets/(liabilities) held for trading		(1,034)	556
Software development		(1,022)	(4,648)
Property, plant and equipment		(162)	(234)
Tax losses carried forward		(4,103)	738
Reversal of impaired tax losses carried forward		56,764	6,247
Other temporary differences		(6,023)	(3,343)
Other temporary differences impaired		31	(1,741)
Total		**44,479**	**(1,872)**

XIV. Available-for-sale financial assets

(€'000)	2012	2011
At 31 December		
Equity shares		
- Listed	1,588	1,360
- Unlisted but fair value determinable	9,510	12,890
Listed debt instruments issued by		
- central governments and central banks	734,514	1,248,782
- financial institutions	251,667	-
Total	**997,279**	**1,263,032**

All debt securities have fixed coupons. Equity shares do not bear interest.

For unlisted securities, the valuation is based on the prices at which the securities could probably be sold to willing and knowledgeable parties. These prices are determined using generally accepted valuation techniques, including discounted cash flow models and relevant market multiples.

The realised results on the available-for-sale financial assets can be found in Note VIII.

The maturity profile of the available-for-sale financial assets can be found in Note III.

The movement in available-for-sale financial assets can be summarised as follows:

(€'000)	Equity shares	Debt securities	Total
At 1 January 2012	14,250	1,248,782	1,263,032
Additions	-	1,937,553	1,937,553
Redemptions and disposals	(2,312)	(2,178,738)	(2,181,050)
Gains/losses from changes in fair value			
- Gains/losses on redeemed or sold securities	(1,074)	(3,843)	(4,917)
- Gains/losses on held securities	234	(344)	(110)
Amortisation of discounts and (premiums)	-	(15,132)	(15,132)
Net change in accrued interest	-	(2,097)	(2,097)
At 31 December 2012	**11,098**	**986,181**	**997,279**

(€'000)	Equity shares	Debt securities	Total
At 1 January 2011	12,441	1,296,809	1,309,250
Reclassified securities	-	90,503	90,503
Additions	-	1,940,622	1,940,622
Redemptions and disposals	-	(2,065,881)	(2,065,881)
Gains/losses from changes in fair value			
- Gains/losses on redeemed or sold securities	-	9,220	9,220
- Gains/losses on held securities	1,809	2,668	4,477
Amortisation of discounts and (premiums)	-	(15,975)	(15,975)
Net change in accrued interest	-	(9,184)	(9,184)
At 31 December 2011	**14,250**	**1,248,782**	**1,263,032**

XV. Financial instruments held for trading

In order to reduce the volatility of its net interest earnings, Euroclear Bank uses certain interest rate derivatives. In particular, it enters into transactions in interest rate futures and options.

Furthermore, in certain circumstances, currency forward exchange contracts are used by certain companies of the Euroclear group to hedge the fair value of some specific liabilities expressed in foreign currencies. These transactions do, however, not qualify for hedge accounting.

XV.1. Fair value and notional amounts

At 31 December 2012 and 31 December 2011, the fair value and notional amounts of the group's trading derivatives were as follows:

	Fair value		Notional amount	
(€'000)	Assets	Liabilities	Assets	Liabilities
At 31 December 2012				
Interest rate derivatives				
- Interest rate options	-	4	122,534	122,534
Foreign exchange derivatives				
- Forward foreign exchange	167	54	20,072	55,934
Total	**167**	**58**	**142,606**	**178,468**
At 31 December 2011				
Interest rate derivatives				
- Interest rate options	-	444	300,000	300,000
Foreign exchange derivatives				
- Forward foreign exchange	3,590	4,319	905,615	321,363
Total	**3,590**	**4,763**	**1,205,615**	**621,363**

The notional amount of assets related to forward foreign exchange contracts at 31 December 2012 and 31 December 2011 principally relates to outstanding currency swaps.

XVI. Derivatives used for hedging

In addition to the interest rate hedging described in the preceding note, which is classified as trading under IFRS, the group's policy is to hedge the following exposures:
- foreign exchange risk arising from expected future income streams sensitive to foreign exchange movements; and
- structural currency exposures (until July 2011).

Some of Euroclear Bank's fee income is sensitive to changes in foreign exchange rates. In order to protect this revenue stream from adverse movements in such rates, Euroclear Bank enters into currency forward foreign exchange contracts whereby it sells the relevant currencies on a future date at a predetermined price. As an alternative, Euroclear Bank also used forward plus contracts until December 2012, which combined different foreign exchange options, enabling Euroclear Bank to take advantage of a favourable exchange rate move up to a certain barrier level.

Such transactions are classified as cash flow hedges.

In addition, until July 2011, the group also used currency forward foreign exchange contracts to hedge its net investments in foreign operations. Such transactions are classified as hedges of net investments.

The positions taken on the hedging book are managed according to the following key principles:
- an exposure once hedged will not be re-opened; and
- unwinding of positions will be done only in exceptional circumstances, for instance in case of an over-hedged position.

XVI.1. Cash flow hedges

At 31 December 2012 and 31 December 2011, the fair value and notional amounts of the group's derivatives used for cash flow hedges were as follows:

(€'000)	Fair value Assets	Fair value Liabilities	Notional amount Assets	Notional amount Liabilities
At 31 December 2012				
Foreign exchange derivatives				
- Forward foreign exchange	2,898	-	93,176	-
Total	**2,898**	**-**	**93,176**	**-**
At 31 December 2011				
Foreign exchange derivatives				
- Forward foreign exchange	-	969	-	28,065
- Foreign exchange Options	-	2,805	-	69,557
Total	**-**	**3,774**	**-**	**97,622**

The group applies hedge accounting for expected revenue streams influenced by changes in foreign exchange rates for certain currencies.

The amounts recognised in the cash flow hedging reserve at year-end will be gradually released to the income statement (net gains/losses) on foreign exchange) in the following year, when the related cash flows materialise.

There was no ineffectiveness arising from cash flow hedging to be recognised in profit or loss as at 31 December 2012 and 31 December 2011.

There were no transactions for which cash flow hedge accounting had to be ceased in 2012 or 2011 as a result of the highly probable cash flows no longer expected to occur.

The movements in the cash flow hedging reserve can be detailed as follows:

(€'000)	Gross amount	Deferred tax	Net amount
At 1 January 2012	(969)	330	(639)
Amount released from other comprehensive income to profit or loss during the period	(3,713)	1,261	(2,452)
Change of fair value directly recognised in other comprehensive income during the year	7,580	(2,576)	5,004
Change to cash flow hedging reserve during the year	3,867	(1,315)	2,552
At 31 December 2012	**2,898**	**(985)**	**1,913**
At 1 January 2011	(143)	49	(94)
Amount released from other comprehensive income to profit or loss during the period	34	(11)	23
Change of fair value directly recognised in other comprehensive income during the year	(860)	292	(568)
Change to cash flow hedging reserve during the year	(826)	281	(545)
At 31 December 2011	**(969)**	**330**	**(639)**

XVI.2. Hedges of net investments in foreign operations

The group had hedged, until July 2011, part of the currency translation risk of net investments in foreign operations (Xtrakter, Euroclear UK & Ireland, the UK branch of Euroclear SA/NV and Euroclear Sweden). No ineffectiveness was recognised in the income statement arising from hedges of net investments in foreign operations.

The movements in the hedge of net investments in foreign operations reserve as at 31 December 2012 and 31 December 2011 can be detailed as follows:

(€'000)	Notes	2012	2011
At 1 January		18,014	15,513
Amount released from other comprehensive incomey to profit or loss during the period		-	(1,115)
Change of fair value directly recognised in other comprehensive income during the year		-	3,616
Change to hedge of net investments in foreign operations reserve during the year	XXIV	-	2,501
At 31 December		**18,014**	**18,014**

XVII. Property, plant and equipment

(€'000)		Land and buildings	Furniture and fixtures	IT equipment	Other equipment	Total
Cost						
At 1 January 2012		87,146	16,534	217,943	53,020	374,643
Additions		530	1,865	22,203	8,624	33,222
Capitalisation of dilapidation provision	XX	-	-	-	1,258	1,258
Transferred to Non-current assets and assets of						-
disposal groups classified as held for sale	XIX	-	(1,045)	(4,993)	(1,564)	(7,602)
Transfer and disposals		-	(2,315)	(5,043)	(8,260)	(15,618)
Exchange differences		-	80	268	111	459
At 31 December 2012		**87,676**	**15,119**	**230,378**	**53,189**	**386,362**
Accumulated depreciation						
At 1 January 2012		(48,463)	(15,054)	(185,347)	(40,419)	(289,283)
Depreciation charge		(2,703)	(656)	(17,432)	(3,595)	(24,386)
Impairment charge		-	(7)	-	(55)	(62)
Transferred to Non-current assets and assets of						-
disposal groups classified as held for sale		-	1,042	4,422	1,559	7,023
Transfer and disposals		-	2,123	4,211	7,255	13,589
Exchange differences		-	(66)	(226)	(66)	(358)
At 31 December 2012		**(51,166)**	**(12,618)**	**(194,372)**	**(35,321)**	**(293,477)**
Net book value at 31 December 2012		**36,510**	**2,501**	**36,006**	**17,868**	**92,885**

(€'000)		Land and buildings	Furniture and fixtures	IT equipment	Other equipment	Total
Cost						
At 1 January 2011		103,550	16,392	213,698	51,886	385,526
Additions		406	351	18,033	1,517	20,307
Transferred to Non-current assets and assets of						
disposal groups classified as held for sale	XIX	(16,810)	-	-	-	(16,810)
Transfer and disposals		-	(301)	(14,107)	(749)	(15,157)
Exchange differences		-	92	319	366	777
At 31 December 2011		**87,146**	**16,534**	**217,943**	**53,020**	**374,643**
Accumulated depreciation						
At 1 January 2011		(59,167)	(14,046)	(177,729)	(36,978)	(287,920)
Depreciation charge		(3,136)	(1,223)	(21,059)	(3,923)	(29,341)
Transferred to Non-current assets and assets of						
disposal groups classified as held for sale	XIX	13,835	-	-	-	13,835
Transfer and disposals		5	299	13,754	769	14,827
Exchange differences		-	(84)	(313)	(287)	(684)
At 31 December 2011		**(48,463)**	**(15,054)**	**(185,347)**	**(40,419)**	**(289,283)**
Net book value at 31 December 2011		**38,683**	**1,480**	**32,596**	**12,601**	**85,360**

The cost of property, plant and equipment in development amounted to €13,879,000 (2011: €0)

XVIII. Goodwill and intangible assets

(€'000)		Internally developed sofware	Purchased software	Know-how	Goodwill	Contractual customer relationship	Unpatented technology	Total
Cost								
At 1 January 2012		30,180	50,329	46,042	1,426,706	23,161	60,476	1,636,894
Additions		549	1,752	-	-	-	-	2,301
Transferred to Non-current assets and assets of		-	-	-	-	-	-	-
disposal groups classified as held for sale	XIX	(1,865)	(4,218)	-	(1,214)	(1,225)	-	(8,522)
Transfer and disposals		(810)	1,116	-	-	-	-	306
Exchange differences		43	232	50	8,115	28	1,043	9,511
At 31 December 2012		**28,097**	**49,211**	**46,092**	**1,433,607**	**21,964**	**61,519**	**1,640,490**
Provision for amortisation and impairment								
At 1 January 2012		(29,921)	(43,456)	(45,558)	(485,000)	(718)	(53,737)	(658,390)
Amortisation charges		(13)	(3,607)	(270)	-	(247)	(6,827)	(10,964)
Impairment		-	-	-	(52,068)	-	-	(52,068)
Transferred to Non-current assets and assets of								
disposal group classified as held for sale	XIX	1,865	4,062	-	-	980	-	6,907
Transfer and disposals		15	13	-	-	-	-	28
Exchange differences		(43)	(219)	(35)	(247)	(15)	(955)	(1,514)
At 31 December 2012		**(28,097)**	**(43,207)**	**(45,863)**	**(537,315)**	**-**	**(61,519)**	**(716,001)**
Net book value at 31 December 2012		**-**	**6,004**	**229**	**896,292**	**21,964**	**-**	**924,489**

(€'000)	Internally developed sofware	Purchased software	Know-how	Goodwill	Contractual customer relationship	Unpatented technology	Total
Cost							
At 1 January 2011	29,865	47,827	46,085	1,424,983	23,126	59,987	1,631,873
Additions	261	2,318	-	-	-	-	2,579
Transfer and disposals	-	(113)	(51)	-	-	-	(164)
Exchange differences	54	297	8	1,723	35	489	2,606
At 31 December 2011	**30,180**	**50,329**	**46,042**	**1,426,706**	**23,161**	**60,476**	**1,636,894**
Provision for amortisation and impairment							
At 1 January 2011	(29,784)	(39,287)	(45,301)	(485,000)	(465)	(37,690)	(637,527)
Amortisation charges	(83)	(3,873)	(261)	-	(230)	(15,511)	(19,958)
Impairment	-	-	-	-	-	-	-
Transfer and disposals	-	(5)	12	-	-	-	7
Exchange differences	(54)	(291)	(8)	-	(23)	(536)	(912)
At 31 December 2011	**(29,921)**	**(43,456)**	**(45,558)**	**(485,000)**	**(718)**	**(53,737)**	**(658,390)**
Net book value at 31 December 2011	**259**	**6,873**	**484**	**941,706**	**22,443**	**6,739**	**978,504**

Goodwill and the Contractual customer relationship relate to the acquisition of EMXCo, Euroclear Belgium, Euroclear Finland, Euroclear France, Euroclear Nederland, Euroclear NIEC, Euroclear Sweden, Euroclear UK & Ireland and Xtrakter Limited.

The unpatented technology related to the infrastructure of Euroclear Finland and Euroclear Sweden, which was fully amortised by mid-2012.

XVIII.1. Determination of the cash-generating units

Goodwill impairment reviews are based on the cash-generating units (CGU) for the group's three relevant operating segments: **ESES** (Euroclear Belgium, Euroclear France, Euroclear Nederland and Euroclear NIEC), **Euroclear UK & Ireland** (EUI and EMX Company Ltd, which was integrated into EUI in 2010), **NCSD** (Euroclear Finland and Euroclear Sweden). No goodwill impairment review has been performed for **Xtrakter** at the end of 2012, as MarketAxess has agreed to acquire the company in the first quarter of 2013 at a price not justifying any impairment (see note XIX).

Except for Euroclear Sweden, goodwill and contractual customer relationship are expressed and tested for impairment purposes in euro. At the time of the acquisition of Euroclear UK & Ireland, the related goodwill was considered as a non-monetary asset of the acquirer and therefore expressed in euro. At the time of migration to IFRS, which considers goodwill to be a monetary asset of the acquired entity, Euroclear decided not to restate prior years' business combinations. The goodwill relating to EMX Company Ltd, now appraised together with that of Euroclear UK & Ireland, is expressed in sterling but is translated into euro at the spot rate on closing date for the purpose of impairment testing.

XVIII.2. Basis on which recoverable amounts have been determined

The recoverable amounts is based on the "value in use" using the discounted cash flow methodology for each segment. The 2012 valuation of all the entities concerned is based on a five-year free cash flow forecast with projections for periods beyond this assuming a perpetual growth rate of 2 percent.

The net book values of the goodwill, and Euroclear Belgium's contractual customer relationship, are set out in the table below.

(€'000)	2012 After impairment	2012 Before impairment	2011
Euroclear UK & Ireland	204,847	204,847	204,454
ESES	485,261	485,261	485,261
NCSD	228,149	280,463	272,769
Xtrakter	-	-	1,186
	918,257	970,571	963,670

These are the only intangible assets considered to have indefinite useful lives.

XVIII.3. Key assumptions related to discount factors

The appropriate discount rates are determined by applying the Capital Asset Pricing Model (CAPM). The discount rates and perpetual growth rates used for each CGU in the 2012 and 2011 impairment reviews were as follows:

	2012		2011	
	Discount rate	Perpetual growth rate	Discount rate	Perpetual growth rate
Euroclear UK & Ireland	7.59%	2.00%	8.89%	2.50%
ESES	7.85%	2.00%	8.86%	2.50%
NCSD	9.30%	2.00%	10.62%	2.50%
Xtrakter	-	-	8.80%	2.50%

XVIII.4. The 2012 impairment review

The key assumptions for the valuation exercise are based on both external sources of information and on internal expectations (assets held in custody, transaction volumes, interest rates, etc.). Forecasts are taken from Board approved plans, which indicate a slower market recovery throughout 2013 and the years beyond. This assessment, combined with ongoing market volatility, results in a slower profitability improvement compared to last year for the group entities. In addition, a specific adjustment was made to the forecasted cash flows of Euroclear Finland to reflect the higher uncertainty of some forecasted revenues. Finally, the impact of T2S implementation on future cash flows has been tested and is not deemed to significantly change the results of this impairment review.

As far as sensitivity analysis is concerned, the following parameters have been tested:
- a parallel upwards shift of the interest rate curve by 1% across all relevant countries would have resulted, all other factors being equal, in an additional impairment charge of around €35,000,000 for NCSD at the end of 2012; and
- a decrease of all business volumes by 5% would have led to an additional impairment charge of around €40,000,000 for NCSD and an impairment charge of €10,000,000 for EUI.

The changes in the parameters used for the sensitivity analysis set out above are based on management's estimates of what level of change is reasonably possible. For example, the choice of a 5% decrease for business volumes is justified by the volatility observed between forecasts and actuals over the past two years.

As a result of this impairment review, the Board concluded that it was appropriate to record a total impairment charge of €50,000,000 for NCSD, of which €35,000,000 relates to Euroclear Finland and €15,000,000 to Euroclear Sweden. Furthermore, as the goodwill impairment of €15,000,000 has to be translated into SEK at a historical exchange rate, in line with the initial valuation of the goodwill, the total impairment charge related to Euroclear Sweden amounts to €17,000,000 in the consolidated financial statements.

For ESES and EUI, the valuation exercise indicated that the current values of goodwill and related intangibles are still justified.

XIX. Non-current assets and disposal groups classified as held for sale

A building of 4600 m² close to Paris has been reclassified in 2011 to Assets held for sale. The decision to sell has been taken following the decision taken in France to move to new office space. Real estate brokers had been instructed to aim for sales proceeds at the estimated market value that is higher than the net book value. The time required for an effective sale was estimated between 6 months and 15 months.

In December 2012, an impairment loss (€1,350,000) has been booked based on the difference between the adjusted carrying amounts of disposal group and fair value less costs to sell.

The assets and liabilities related to Xtrakter Limited (part of segment “other”) have been presented as held for sale following the approval of the group’s management on 24 October 2012 to sell Xtrakter Limited. The sale was completed on 28 February 2013.

Xtrakter is a provider of market data, operational risk management, trade matching and regulatory reporting services to the global capital market. Xtrakter also provides information services for fixed-income instruments and owns a transaction reporting system named TRAX.

The sale of Xtrakter is driven principally by the desire to rationalise the activities of the group in order to focus on the core activities agreed by the Board in forming part of Euroclear’s product strategy. In addition, the group was not considered best positioned to deal with the material investment decisions required by Xtrakter's business as a result of the changing regulatory environment.

(€'000)	2012	2011
Non-current assets classified as held for sale		
- Freehold land and buildings	1,626	2,976
Assets of disposal group classified as held for sale		
- Cash and balances with central banks	2	-
- Loans and advances	6,554	-
- Deferred income tax assets	565	-
- Other assets	1,349	-
- Pre-payments and accrued income	953	-
- Property, plant and equipment	579	-
- Goodwill and intangible assets	1,615	-
Total assets	**13,243**	**2,976**
Liabilities of disposal group classified as held for sale		
- Other liabilities	1,205	-
- Accruals and deferred income	860	-
- Current income tax liabilities	576	-
Total liabilities	**2,641**	**-**

XX. Provisions for liabilities and charges

(€'000)		Onerous contracts	Redundancy	Dilapidation	Litigation	Other provisions	Total
At 1 January 2012		29,924	230	4,342	1,002	50	35,548
Capitalisation of dilapidation provision	XVII	-	-	1,258	-	-	1,258
Additions		4,880	-	285	21	4,880	10,066
Unused amounts reversed during the period		(5,270)	(230)	(2,383)	(128)	(50)	(8,061)
Amounts used		(14,572)	-	-	(920)	-	(15,492)
Exchange differences		198	-	85	25	-	308
At 31 December 2012		**15,160**	**-**	**3,587**	**-**	**4,880**	**23,627**

At year-end 2012, the outstanding provision for onerous contracts mainly relate to three onerous contracts, one of them having been recognised in 2012. The provisions for vacant premises leased by several Euroclear entities have been used or reversed in the course of the year following termination of the underlying contracts. The outstanding provision for vacant premises will be progressively utilised over the remaining period of the contracts concerned.

Provisions for dilapidation costs are recorded to reflect end-of-lease obligations in several countries.

At the end of 2012, Euroclear Belgium has recorded a provision of €4,000,000 related to the dematerialisation of Belgian securities, which involves a series of discontinuation costs, amongst others the redeployment of staff, early retirement and severance costs. This provision is reflected in the 'other provisions' set out above.

The current portion of the above provisions is estimated at €7,472,000.

XXI. Defined benefit plans

The group has several defined benefit pension plans covering employees in Belgium, France, Japan, The Netherlands and Sweden. The group also provides medical plans and termination indemnities for its employees.

The assets of the plans are held separately from those of the group.

The most recent full actuarial valuations of the plans, under IFRS, were made by independent qualified professional actuaries as follows:
- Euroclear Bank - all plans: 31 December 2012
- Euroclear Belgium SA/NV - all plans: 31 December 2012
- Euroclear France - all plans: 31 December 2012
- Euroclear Nederland - pension plan: 31 December 2012
- Euroclear SA/NV - all plans: 31 December 2012
- Euroclear Sweden - all plans: 31 December 2012

The actuarial valuation of all plans as of 31 December 2012 showed a total deficit of €63,242,000 (2011: €58,421,000).

The pension cost in 2012 of €13,191,000 (2011: €12,395,000) has been fully recognised in the current year. The contribution, reflecting employer's contributions for funded plans and benefit disbursements for unfunded plans, amounted to €11,953,000 (2011: €10,629,000).

The major assumptions used by the actuaries in their valuations were:

	2012	**2011**
Discount rate	3.14%	4.77%
Expected rate of return on assets	6.11%	6.15%
Expected inflation rate	1.97%	2.14%
Future salary increases	3.63%	4.85%
Expected medical cost trend rate	5.41%	5.55%

The above percentages are weighted averages of the assumptions used for the individual plans.

Assumptions regarding future mortality experience are set based on advice and published statistics in each territory (MR/FR table with an age set back of three years in Belgium, TGHF 05 table in France, AG Prognosetafel 2012-2062 in The Netherlands, EPF 2009 rates in Japan and PRI 2011 in Sweden).

The value of assets in all plans and the expected rates of return were:

	2012		**2011**	
(€'000)	**Value of assets**	**Long-term rate of expected return**	**Value of assets**	**Long-term rate of expected return**
Equities	96,975	7.57%	75,018	7.69%
Bonds	84,510	4.57%	66,701	4.63%
Property	409	6.70%	-	-
Cash	-	-	475	1.49%
Other	5,712	4.14%	5,430	4.30%
Total market value of assets	**187,606**		**147,624**	

The above percentages are weighted averages of the expectations for the individual plans.

The expected rate of return on plan assets is based on market expectations at the beginning of the year, for a return over the entire life of the related asset class, net of administrative fees. It is determined by using the building block approach, which factors in long-term inflation and the expected long-term net return on each asset category.

'Other' represents an insurance company investment product with a guaranteed minimum interest rate.

The amounts recognised in the balance sheet are as follows:

(€'000)	2012	2011
Present value of funded obligations	(217,728)	(184,903)
Fair value of plan assets	187,606	147,624
	(30,122)	(37,279)
Present value of unfunded obligations	(32,011)	(20,111)
Unrecognised past service cost	282	393
Irrecoverable surplus	(1,391)	(1,424)
Pension deficit	**(63,242)**	**(58,421)**

The irrecoverable surplus relates to plans for which the surplus of plan assets over plan obligations is not available for offset with other group pension fund liabilities.

The changes in the net deficit are as follows:

(€'000)	2012	2011
Deficit in plans at 1 January	(58,421)	(34,825)
Employer's expense	(13,191)	(12,395)
Actuarial gains/(losses) for the year	(3,018)	(21,715)
Actual employer's contributions	11,953	10,629
Exchange differences	(565)	(115)
Deficit in plans at 31 December	**(63,242)**	**(58,421)**

The impact on other comprehensive income is as follows:

(€'000)	2012	2011
Actuarial gains/(losses) for the year	(3,051)	(23,260)
Impact of change in irrecoverable surplus	33	1,545
Exchange differences	-	(96)
Impact on statement of other comprehensive income	**(3,018)**	**(21,811)**

The defined benefit pension plan of Euroclear Nederland is financed via a multi-employer pension fund. Until the end of last year, the pension assets and liabilities related to inactives were not included in the actuarial valuation. These inactives have been identified by the plan administrator this year and allocated to the different participating employers. The net liability as of 31 December 2012 amounts to €5,100,000 and has been recognised through other comprehensive income.

The cumulative actuarial loss recognised in other comprehensive income as at 31 December 2012 was €79,403,000 (2011: €76,385,000).

The amounts recognised in the income statement are as follows:

(€'000)	2012	2011
Employer's current service cost	12,135	11,698
Interest cost	10,201	9,271
Expected return on assets	(9,300)	(9,388)
Amortisation of past service cost	155	111
Losses/(gains) on curtailments and settlements	-	703
Total, included in staff costs	**13,191**	**12,395**

Changes in the present value of the defined benefit obligations are as follows:

(€'000)	2012	2011
Present value of obligations at 1 January	205,014	176,224
Employer's current service cost	12,135	11,698
Interest cost	10,201	9,271
Benefit payments	(5,416)	(3,166)
Settlements	17,367	-
Curtailments	-	703
Plan amendment	44	-
Experience (gains)/losses	(7,896)	1,826
(Gains)/losses due to assumption changes	16,852	8,216
Exchange differences	1,438	242
Present value of obligations at 31 December	**249,739**	**205,014**

Changes in plan assets are as follows:

(€'000)	2012	2011
Fair value of plan assets at 1 January	147,624	143,854
Employer's contributions	11,953	10,629
Benefit payments	(5,416)	(3,166)
Expected return on plan assets	9,300	9,388
Experience gains/(losses)	11,016	(13,219)
Settlements	12,256	-
Exchange differences	873	138
Fair value of plan assets at 31 December	**187,606**	**147,624**

The amounts shown for curtailments in 2011 reflect some impacts of the restructuring in France. The amount shown for settlements in 2012 relates to inactive plan members included for the first time in 2012 in the defined benefit pension plan of Euroclear Nederland.

Expected contributions to post-employment benefit plans for the year ending 31 December 2013 are €3,028,000.

The amounts recognised on the balance sheet are as follows:

	2012	2011	2010	2009	2008
Present value of defined benefit obligations	(249,739)	(205,014)	(176,224)	(160,898)	(143,311)
Fair value of plan assets	187,606	147,624	143,854	119,461	88,027
Unrecognised past service cost	282	393	504	926	1,037
Irrecoverable surplus	(1,391)	(1,424)	(2,959)	(2,182)	(1,786)
Deficit in plans	**(63,242)**	**(58,421)**	**(34,825)**	**(42,693)**	**(56,033)**

Details of experience adjustments for the year:

(€'000)	2012	2011	2010	2009	2008
Gains/(losses) on plan assets	11,016	(13,219)	6,326	14,343	(34,130)
(Gains)/losses on plan liabilities	(7,896)	1,826	(2,886)	2,998	2,181

The effect of a 1% movement in the assumed medical cost trend rate would be as follows:

(€'000)	Increase	Decrease
- Effect on the defined benefit obligations	3,146	(4,844)
- Effect on the aggregate of the current service cost and interest cost	396	(575)

The movement in the deferred tax asset relating to the pension deficit is as follows:

(€'000)	Notes	2012	2011
Amount credited/(charged) through equity	XIII	102	6,324
Amount credited/(charged) through the income statement	XIII	28	553
Exchange differences		192	15
Increase/(decrease) in deferred tax asset		**322**	**6,892**

XXII. Subordinated liabilities

	2012		2011	
(€'000)	Book value	Fair value	Book value	Fair value
At 31 December				
Fixed/Floating Rate Guaranteed Non-Cumulative Perpetual Securities	100,112	94,034	299,738	229,024
Total	**100,112**	**94,034**	**299,738**	**229,024**
Repayable				
- in more than two years but not more than five years	100,112	94,034	299,738	229,024
Total	**100,112**	**94,034**	**299,738**	**229,024**

The Fixed/Floating Rate Subordinated Guaranteed Non-Cumulative Perpetual Securities listed above are denominated in euro and were issued at par by Euroclear Finance 2 in June 2005 (principal amount of €300,000,000). The proceeds of the issue and the €4,500,000 capital of Euroclear Finance 2 were lent to Euroclear Bank through the full subscription of Fixed/Floating Rate Subordinated Perpetual Notes (principal amount of €304,500,000, net of €2,600,000 of issue costs) issued by Euroclear Bank. These notes provide Upper Tier II regulatory capital to Euroclear Bank on a stand-alone basis, whereas the securities provide Hybrid Tier I regulatory capital to Euroclear Bank on a consolidated basis.

Euroclear Bank has irrevocably guaranteed, on a subordinated basis, the due payment of all sums payable by Euroclear Finance 2. The notes rank equally with all unsecured obligations of Euroclear Bank and rank in priority to the rights and claims of all classes of equity. They are subordinated to the claims of Senior Creditors of Euroclear Bank. The securities rank equally with all other present and future, direct, unsecured, perpetual, non-cumulative and subordinated obligations of Euroclear Finance 2 and rank in priority to the rights and claims of all classes of equity. They are subordinated to the claims of Senior Creditors both of Euroclear Finance 2 and Euroclear Bank. Euroclear Finance 2 has options to redeem the Fixed/Floating Rate Subordinated Guaranteed Non-Cumulative Perpetual Securities on 15 June 2015 and on any interest payment date thereafter. Upon the occurrence of a supervisory event or any event resulting in a general concursus creditorum on the assets of Euroclear Bank, as defined in the terms and conditions of Fixed/Floating Rate Subordinated Guaranteed Non-Cumulative Perpetual Securities, the securities together with the accrued interest will be converted into Conversion Profit-sharing Certificates in consideration for a contribution in kind of the securities to Euroclear Bank. Upon the occurrence of such an event, the notes will also be redeemed at their principal amount together with accrued interest.

During 2009, Euroclear Finance 2 SA repurchased a nominal amount of €6 million of its issued securities. Furthermore, during 2012, Euroclear Finance 2 SA repurchased a nominal amount of €195.9 million of its issued securities. These transactions resulted in an equivalent repurchase of notes issued by Euroclear Bank.

XXIII. Share capital and share premium

Equity shares	Number of shares	Share Capital (€'000)	Share Premium (€'000)	Total (€'000)
At 1 January and 31 December 2012	12,014,560	839,601	1,623,628	2,463,229
At 1 January 2011	12,014,560	860,077	1,702,032	2,562,109
- Loss absorption		-	(38,807)	(38,807)
- Reimbursement of capital		(20,476)	(39,597)	(60,073)
At 31 December 2011	12,014,560	839,601	1,623,628	2,463,229

At 31 December 2011, there was no stock option plan on the shares of Euroclear SA/NV or any subsidiary.

XXIV. Other reserves

(€'000)	Notes	Available-for-sale revaluation reserve	Cash flow hedging reserve	Hedge of net inv. in foreign operations reserve	Foreign currency translation reserve	Legal reserve	Disposal groups held for sale	Other	Total
At 1 January 2012		7,035	(639)	18,014	889	71,147	-	-	96,446
Fair value adjustments	XIV, XVI	(5,028)	3,867	(0)	-	-	-	-	(1,161)
Deferred tax on fair value adjustments	XIII	1,292	(1,315)	-	-	-	-	-	(23)
Foreign currency translation reserve		-	-	-	10,382	-	508	-	10,890
Transfer to non-distributable reserves		-	-	-	-	5,761	-	-	5,761
At 31 December 2012		**3,299**	**1,913**	**18,014**	**11,271**	**76,908**	**508**	**-**	**111,913**
At 1 January 2011		(2,621)	(94)	15,513	(4,558)	71,143	-	55,000	134,383
Fair value adjustments	XIV, XVI	13,697	(826)	2,501	-	-	-	-	15,372
Deferred tax on fair value adjustments	XIII	(4,041)	281	-	-	-	-	-	(3,760)
Foreign currency translation reserve		-	-	-	5,447	-	-	-	5,447
Transfer to non-distributable reserves		-	-	-	-	4	-	-	4
Transfer to retained earnings		-	-	-	-	-	-	(55,000)	(55,000)
At 31 December 2011		**7,035**	**(639)**	**18,014**	**889**	**71,147**	**-**	**-**	**96,446**

The hedge of net investment in foreign operations reserve and the foreign currency translation reserve relate to the group's subsidiaries in Sweden and the United Kingdom.

In addition to the translation of structural currency exposures relating to the group's subsidiaries with a functional currency other than the euro, the foreign currency translation reserve includes the translation impact of goodwill and intangible assets expressed in Swedish krona and sterling that were recognised at the time of acquisition of subsidiaries in Sweden, and EMXCo in the United Kingdom. The foreign currency translation reserve of Xtrakter has been transferred to Disposal groups held for sale in 2012.

The legal reserve represents non-distributable amounts required to be established as separate reserves in compliance with local laws in certain countries where the group operates.

XXV. Dividends paid

€ per share	2012	2011
Equity paid	**5.17**	**2.10**

(€'000)		
Equity paid	**62,115**	**25,231**

See Note XXIX for details of the proposed 2012 equity dividend.

XXVI. Contingent liabilities and commitments

(€'000)	2012	2011
At 31 December		
Assets pledged as collateral	980,933	1,237,319
Securities lending indemnifications	9,802,399	12,067,914
Litigations	19,636	30,648

Assets pledged as collateral include:
- investment securities with a book value of €979,953,000 (2011: €1,236,269,000) deposited with the Belgian National Bank as potential collateral, principally for TARGET2-related exposures. There was no exposure at 31 December 2012 (2011: €0), and
- a bank deposit of €980,000 (2011: €1,050,000) pledged by Euroclear Finland to a third-party registration fund in order to fulfil its obligations as account operator.

Under the terms of the Euroclear Securities Lending and Borrowing Programme, Euroclear Bank provides an indemnification to securities lenders whereby if a securities borrower is unable to return the securities, Euroclear Bank will indemnify the lender with replacement securities or their cash equivalent. As of 31 December 2012, the amount of such guarantees amounted to €9,802,399,000 (2011: €12,067,914,000), which represents market value plus accrued interest. Euroclear Bank's policy is that all securities borrowings are covered by collateral pledged by the borrowing banks and their customers.

Furthermore, Euroclear Bank faces a contingent liability amounting to ISK3.3 billion/€19,636,000 (2011: €ISK 3.3 billion/€20,648,000), excluding accrued interests, following a court case introduced by one of its cash correspondents. Euroclear Bank's cash correspondent is seeking the reimbursement of a money market deposit made in October 2008, stating that at the time the payment was made, they were already insolvent and therefore the payment was void. Euroclear Bank has formally disagreed with the voidance. Euroclear Bank is of the opinion that it is in a good position to defend this claim and consequently has made no provision. Euroclear Bank's insurance does not cover this claim. On 1 March 2013, Euroclear Bank won its litigation against the cash correspondent. However, an appeal by the latter against this decision is expected in the course of the year.

Finally, at the end of 2011, Euroclear Bank was involved in a potentially material litigation in the Commercial Court in the UK. The claim against Euroclear Bank had been brought by a client which was seeking damages for the alleged breach of contract and/or negligence by Euroclear Bank in certain of its past operations. This litigation has been settled in May 2012.

XXVII. Operating lease commitments

(€'000)	2012 Property	2012 Vehicles, plant and equipment	2011 Property	2011 Vehicles, plant and equipment
Group company as lessee				
Future aggregate minimum lease payments under non-cancellable operating leases:	**119,059**	**33,807**	**121,789**	**21,087**
- up to one year	16,307	12,754	21,622	13,239
- later than one year and not later than five years	49,827	21,053	57,138	7,848
- over five years	52,925	-	43,029	-

The are no sub-lease payments receivable relating to the above operating leases (2011: €0)

Minimum lease payments recognised as an expense	25,037	14,215	23,805	13,744

Group company as lessor				
Future minimum lease payments receivable under non-cancellable leases:	-	-	985	31
- up to one year	-	-	985	31
- later than one year and not later than five years	-	-	-	-
- over five years	-	-	-	-

XXVIII. Related-party disclosures

Euroclear SA/NV is controlled by Euroclear Investments SA/NV, incorporated in Luxembourg, which owns 99.99% of the ordinary shares. The ultimate parent and controlling party of the group is Euroclear plc, incorporated in the United Kingdom.

Euroclear SA/NV's investments in its subsidiaries are set out in Note I.

The following is a summary of the balances relating to transactions with Euroclear SA/NV's parent, ultimate parent and other companies in the Euroclear group included in its consolidated financial statements:

(€'000)	2012 Immediate parent	2012 Ultimate parent company	2012 Other group companies	2012 Total	2011 Immediate parent	2011 Ultimate parent company	2011 Other group companies	2011 Total
Assets								
Loans and advances	-	-	12,242	12,242	-	-	-	-
Other assets	45	-	100	145	3	-	(12)	(9)
Prepayments and accrued income	-	-	-	-	-	228	44	272
Total assets	**45**	**-**	**12,342**	**12,387**	**3**	**228**	**32**	**263**
Liabilities								
Deposits from banks and customers	3	40,666	-	40,669	4,005	17,330	-	21,335
Other liabilities	17	25	272	314	11	-	-	11
Accruals and deferred income	336	5,588	20	5,944	76	5,642	3	5,721
Total liabilities	**356**	**46,279**	**292**	**46,927**	**4,092**	**22,972**	**3**	**27,067**
Income statement								
Interest income	-	-	242	242	724	216	-	940
Interest expense	(7)	(34)	-	(41)	(37)	(126)	(116)	(279)
Fee and commission expense	-	(34)	-	(34)	-	(29)	-	(29)
Other operating income	167	601	(2)	766	184	762	141	1,087
Administrative expense	(594)	(22,338)	(4,563)	(27,495)	(333)	(22,046)	(4,137)	(26,516)
Total income statement	**(434)**	**(21,805)**	**(4,323)**	**(26,562)**	**538**	**(21,223)**	**(4,112)**	**(24,797)**
Off-balance sheet								
Liquidity facility received	-	20,000	-	20,000	-	20,000	-	20,000
Total off-balance sheet	**-**	**20,000**	**-**	**20,000**	**-**	**20,000**	**-**	**20,000**

Further details about transactions with related parties and of key management compensation are provided below.

XXVIII.1. Transactions with other companies in the Euroclear group

XXVIII.1.a. Loan

In December 2009, Euroclear SA/NV granted a one-year loan to Euroclear Investments to partially finance a capital increase in Euroclear SA/NV. The loan was automatically renewable for three successive one-year periods, including accrued interests. Interest on the loan accrues at the Euribor rate plus 50 basis points. The loan was reimbursed in the course of 2011.

In July 2012, Euroclear SA/NV granted a ten-year loan to Euroclear France Properties SAS to finance the building and management costs of a computer center in France. Interest on the loan, payable annually accrues at a rate of 4.60% per annum. At 31 December 2012, the outstanding loan plus accrued interest amounted to €12,242,000 (2011: €0).

XXVIII.1.b. Bank accounts and term deposits

Euroclear Bank, a subsidiary of Euroclear SA/NV, provides banking services to other companies in the Euroclear group. Deposits are remunerated at market rates of interest.

XXVIII.1.c. Administrative support

Certain administrative support costs are periodically recharged to and by other companies within the Euroclear group.

Euroclear SA/NV leases premises from Euroclear Properties France at market rates. The lease expires in 2025.

XXVIII.1.d. Licence agreement

Under a licence agreement, Euroclear plc has granted to Euroclear Bank the right to operate the Euroclear System and the right to use and sub-licence the Euroclear trademark. The agreement may be terminated by either party with three years notice. Euroclear Bank pays Euroclear plc a royalty fee of 2.7% (2011: 2.7%), computed on certain qualifying revenues.

XXVIII.1.e. Guarantees received

Euroclear plc provides a guarantee to a Belgian bank in connection with that bank's loan made in 1995 to Calar Belgium SA/NV, a wholly-owned subsidiary of Euroclear Bank. Calar Belgium pays Euroclear plc a guarantee fee of 20 basis points on the outstanding capital amount. At 31 December 2012, the amount of the guarantee was €8,379,000 (2011: €10,862,000).

XXVIII.1.f. Liquidity facility

In July 2005, Euroclear plc provided a liquidity facility to Euroclear SA/NV for an aggregate principal amount of €20,000,000. The facility was made for an initial period of one year, automatically renewed. It can be terminated by either party with three months notice. A fee of 5 basis points is computed on the amount of the facility regardless of whether the facility is used. Any utilisation of the facility (none to date) is remunerated at Euribor plus 12.5 basis points.

XXVIII.1.g. Pension fund

The group considers its Belgian pension fund as a related party as it has the ability to exercise significant influence over it in taking financial or operational decisions. Disclosures related to the pension fund are presented in Note XXI.

XXVIII.2. Key management compensation

The compensation of key management (members of the Management Committees of Euroclear SA/NV, its (I)CSD subsidiaries and Xtrakter and group division heads) and non-executive directors was as follows:

(€'000)	2012	2011
Short-term employee benefits	17,541	18,078
Post-employment benefits	1,316	1,227
Other long-term benefits	4,039	4,113
Termination benefits	1,213	695
Total compensation of key management	24,109	24,113
Emoluments of non-executive directors	715	742
Total compensation of key management and directors	**24,824**	**24,855**

For 2012, the National Bank of Belgium (NBB) has approved the compensation principles for the members of the Management Committees of Euroclear SA/NV and Euroclear Bank and of certain other senior management. The 2012 amounts - as approved by the respective Remuneration Committees/Boards - reflect these principles and more specifically the allocation between short-term and long-term benefits.

No loans or similar transactions occurred with directors, key management or their close family members.

The companies employing the Euroclear SA/NV non-executive directors are subject to the same terms, conditions and tariffs as other companies.

Directors' emoluments are in the form of fees with the exception of life insurance benefits for one director amounting to €13,000 (2011: €23,000).

XXIX. Events after the balance sheet date

XXIX.1. Proposed dividend

On 7 March 2013, the directors resolved to propose a dividend in respect of the financial year ending 31 December 2012 of €6.58 (2011: €5.17) per equity share, which will distribute €79,056,000 (2011: €62,115,000) of shareholders' equity.

Statutory auditor's report

to the general shareholders' meeting on the consolidated accounts as of and for the year ended 31 December 2012

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report includes our report on the consolidated financial statements for the year ended 31 December 2012 as defined below, as well as our report on other legal and regulatory requirements.

Report on the consolidated financial statements

We have audited the consolidated financial statements of Euroclear SA/NV ("the Company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The total of the consolidated statement of financial position amounts to '000' EUR 20.464.461 and the consolidated statement of comprehensive income shows a net profit for the year of '000' EUR 217.917.

Board of directors' responsibility for the preparation of the consolidated financial statements

The Company's board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the company's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion.

Unmodified Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's net equity and consolidated financial position as at 31 December 2012 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

In the framework of our mandate our responsibility is to verify compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statement which does not modify our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the group is facing, and on its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 8 March 2013

The Statutory Auditor
PwC Reviseurs d'Entreprises SCCRL
Represented by

Damien Walgrave
Reviseur d'Entreprises