EuroCCP

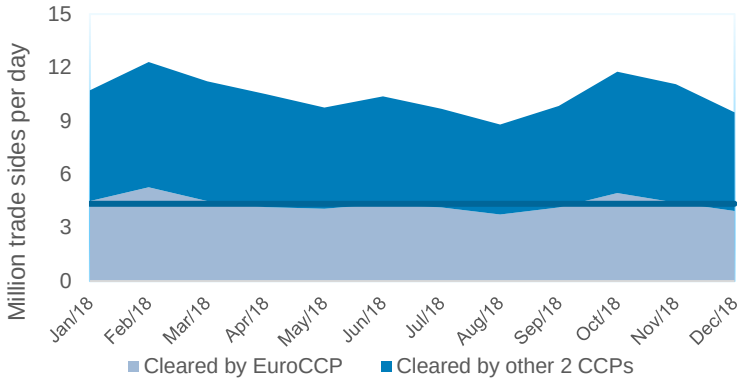
Make a difference

European Central Counterparty N.V.
Annual Report 2018

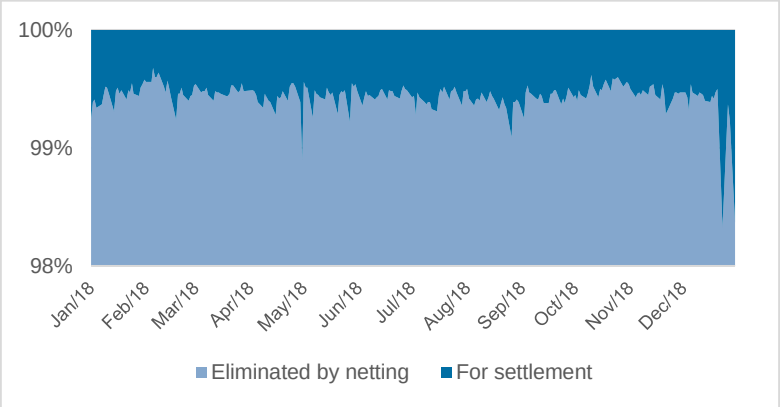
EuroCCP is the leading equities CCP in Europe. Our core focus remains to minimise post-trade costs, maximise netting and increase capital efficiency, while continuously improving risk management.

In partnership with our clients, we have started to explore opportunities to diversify our business and provide new products and services with a focus on capital and operational efficiencies.

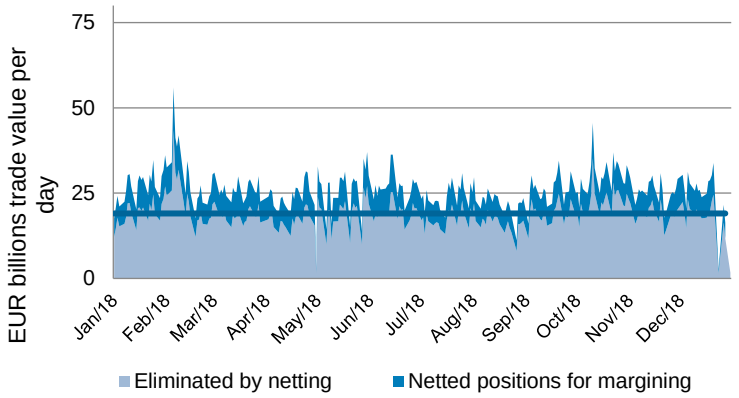
EuroCCP cleared 44% of trades on platforms to which it has access and which are interoperable[1].



Through netting, EuroCCP eliminates 99.5% of trades for settlement …



… and 73% of trading firms' market risk exposure, an equivalent of EUR 19 billion daily.



[1] Accessed platforms can be found in section "EuroCCP at a glance" on page 7.

Letter from the CEO

- 2018 was a very significant year both for the European equities industry and for me personally. January saw the introduction of the second iteration of the Markets in Financial Instruments Directive (MiFID II) with its ambition to increase transparency and efficiency in financial markets. And in September, I took on the role of Chief Executive Officer of EuroCCP.
- A significant focus of my work since becoming CEO has been to look at ways to strengthen EuroCCP's liquidity risk management framework. While liquidity is not an issue under business as usual market conditions, EU-wide stress tests carried out by ESMA identified weaknesses in EuroCCP's liquidity risk management framework, under an extreme but plausible scenario where two of our largest clearing members default. We have been working extensively with all stakeholders including clearing members and regulators to address these issues.
- Upon becoming CEO, I knew that part of my mandate would be to look at opportunities for EuroCCP to grow and diversify both organically and inorganically. We decided to accelerate our strategic review of the business in conjunction with our work on liquidity. I am pleased that this exercise led to an affiliate of Cboe, an existing shareholder of EuroCCP, to make an offer to acquire 100% of the business, a move that has been endorsed by the other shareholders. A Share Purchase Agreement (SPA) was signed on 9 December 2019 and the transaction is expected to be completed in the first half of 2020, subject to regulatory approvals and placement of the liquidity credit facility described below.
- As part of the transaction, EuroCCP and Cboe are advanced in putting in place a committed credit facility of up to EUR 1.5 billion to ensure EuroCCP meets all relevant (liquidity) requirements under EMIR. This facility is an important part of a number of new tools and procedures to strengthen our liquidity risk framework, which are expected to be implemented in early 2020 – subject to regulatory approvals.
- Against this backdrop it has been a challenging but rewarding time for me leading Europe's largest equities CCP. I am pleased that we have been able to gain positive momentum with existing and new clients, as well as initiating a number of initiatives to diversify our business such as in Exchange Traded Funds (ETFs) and establishing a path for future growth and development.
- EuroCCP has 30 percent share of the region's cash equities clearing and a share of more than 40 percent of those platforms offering three-way interoperability. With the implementation of MiFID II, which gives CCPs rights for non-discriminatory and open access to trading venues, EuroCCP gained access to Oslo Børs (1 November 2018), Borsa Italiana (3 December 2018) and Deutsche Börse (11 November 2019).These and other initiatives mean that by the end of 2019, EuroCCP extended CCP choice to over 95 per cent of all equity trades executed on organised markets in Europe. Clearing members will be able to continue to consolidate more flow, reducing complexity and gaining operational and netting efficiencies.
- Over the past year, EuroCCP has also focused on and worked closely with participants of ETFs industry on a number of initiatives aimed at increasing post-trade efficiencies. We announced a strategic collaboration with Tradeweb in September 2019 and continue to work with other ETF venues, as well as issuers and

market makers to improve workflow and processes and bring the benefits of central counterparty clearing to European ETFs.

- While EuroCCP is headquartered in the European Union (EU) and regulated by the Dutch Central Bank and the Dutch Authority for Financial Markets, the firm has spent time preparing for the UK's planned departure from the EU. We gained temporary recognition from the Bank of England (BoE) as a third country CCP enabling us to continue to operate in the UK for the three years following Brexit in the event of the UK leaving without a deal while the BoE reviews our application for permanent recognition. Furthermore, EuroCCP worked with venues and clearing members to help them execute their Brexit contingency plans, which included onboarding new EU entities.
- We continued to work on other important initiatives which will come to fruition in 2020. For example, the replacement of our risk system is progressing well and will enable us to replace our existing technology to improve transparency and provide greater flexibility. We also carried out extensive work on our recovery plan to bring us in line with new international standards and market practice.
- Finally, I would like to take this opportunity to thank all the clients, and colleagues who have provided invaluable support during the first year in my new role. I am very confident about EuroCCP's future prospects under Cboe's ownership. It will strengthen the organisation and allow us to innovate and accelerate growth and development as we continue to provide clients with further efficiencies and the new products and services they need.

Cécile Nagel
Chief Executive Officer

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About us

European Central Counterparty N.V. (EuroCCP) provides post-trade services to stock exchanges, multilateral trading facilities (MTFs) and for OTC equities trades.

EuroCCP centrally manages counterparty risk after a trade has been executed. EuroCCP will deliver securities or make payment to clients at the price agreed at trade execution, even if the original counterparty to the trade has defaulted on its obligations. In 2018, EuroCCP provided central counterparty (CCP) protection for an average of EUR 26 billion of value on a daily basis. Through the process of netting, EuroCCP eliminated 73% or EUR 19 billion of the value that required settlement on average each day.

EuroCCP also reduces settlement costs and operational complexity for clients. Regardless of how many trades a client has executed in the same security on multiple platforms on a given day, EuroCCP nets the trades across all platforms into a single settlement obligation. In 2018, over 99.5% of trades were netted into single settlement obligations.

Headquartered in Amsterdam, EuroCCP was formed in December 2013 following the combination of European Multilateral Clearing Facility N.V. (EMCF) and European Central Counterparty Limited (ECCP Limited), both of which were incorporated in 2007. The company's current shareholders are ABN AMRO Clearing Bank N.V., Cboe Europe Limited, Euronext N.V., Nasdaq AB and The Depository Trust & Clearing Corporation (DTCC), each with a 20% shareholding. Cboe, one of the shareholders, has recently signed a Share Purchase Agreement to acquire 100% of the EuroCCP business. The transaction is pending and is expected to close in the first half year of 2020.

EuroCCP provides central counterparty services for 30 trading platforms in Europe as of the end of 2018. The securities traded on these platforms and cleared by EuroCCP include equities, depositary receipts and ETFs across 19 national markets.

EuroCCP services, as of December 2018, 135 firms that trade on platforms it clears for and has 42 active Clearing Participants with headquarters in 13 jurisdictions in Europe.

CCPs are highly regulated financial market infrastructures. EuroCCP's home regulators are De Nederlandsche Bank (DNB, the Dutch Central Bank) and Autoriteit Financiële Markten (AFM, the Dutch Authority for Financial Markets).

The European Market Infrastructure Regulation (EMIR) governs the CCPs operating in the European Union and requires them to meet common risk management, governance and capital adequacy standards. EuroCCP received regulatory authorisation under EMIR from DNB in April 2014.

EuroCCP at a glance

30 platforms and trade sources cleared as of December 2018

Aquis	Euronext London
BlockMatch	Euronext Paris
Borsa Italiana Equity MTF	London Stock Exchange
Cboe Europe Equities	Equiduct
ETFplus Market	Mercato Telematico Aziionario (MTA)
Euronext Access Brussels	Nasdaq Copenhagen
Euronext Access Lisbon	Nasdaq First North
Euronext Access Paris	Nasdaq Helsinki
Euronext Amsterdam	Nasdaq Stockholm
Euronext Block	Oslo Børs
Euronext Brussels	Sigma-X
Euronext Growth Brussels	SIX Swiss Exchange
Euronext Growth Lisbon	Traiana
Euronext Growth Paris	Turquoise
Euronext Lisbon	UBS MTF

19 markets covered

Austria	Netherlands
Belgium	Norway
Czech Republic	Poland
Denmark	Portugal
Finland	Spain
France	Sweden
Germany	Switzerland
Hungary	United Kingdom
Ireland	United States
Italy	

5 cash accounts with Central Banks

De Nederlandsche Bank	Euro
Danmarks Nationalbank	Danish krone
Norges Bank	Norwegian krone
Sveriges Riksbank	Swedish krona
Swiss National Bank	Swiss franc

Direct member of Central Securities Depositories settling 16 markets / asset types

Austria	OeKB
Belgium	Euroclear Belgium
Denmark	VP
France	Euroclear France
Finland	Euroclear Finland
Germany	Clearstream Banking Frankfurt
IDRs / International ETFs	Euroclear Bank
Ireland	Euroclear UK & Ireland
Portugal	Interbolsa
Italy	Monte Titoli
Netherlands	Euroclear Nederland
Norway	VPS
Spain	Iberclear
Switzerland	SIX SIS
Sweden	Euroclear Sweden
United Kingdom	Euroclear UK & Ireland

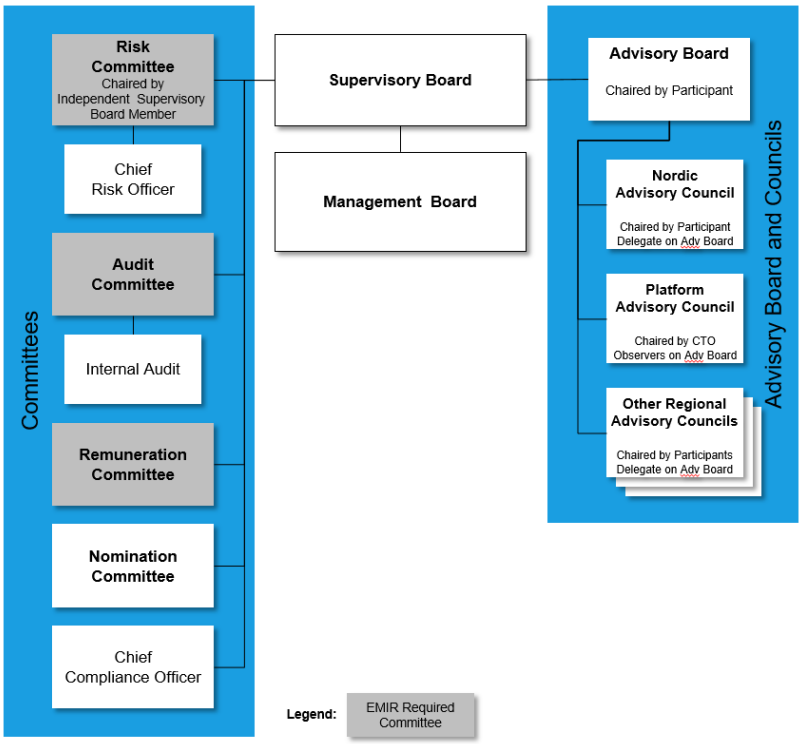
Governance and organisation

Governance structure

The governance of EuroCCP reflects the requirements of EMIR. EuroCCP has a two-tier board structure under Dutch corporate law.

In addition, the governance structure is designed to enable stakeholders – both Clearing Participants who pay for services and platforms which give EuroCCP access to their trade feeds – to advise management of their service requirements.

EuroCCP governance structure overview



Supervisory Board

The EuroCCP Supervisory Board consists of eight members: three independent members and five members nominated by the shareholders (NB: the current structure will likely be subject to change under the new ownership).

Each shareholder may nominate one Supervisory Board member and the shareholders appoint all members of the Supervisory Board.

In compliance with the EMIR requirement that independent members comprise one third of the board, EuroCCP has three independent members.

As of December 2018, the Supervisory Board consisted of the following members:

Jan Bart de Boer (1967), Chairman, Chief Commercial Officer of ABN AMRO Clearing Bank.

Mark Hemsley (1962), Chief Executive Officer of Cboe Europe.

Karl Spielmann (1970), Managing Director and Deputy General Counsel of DTCC Europe.

Lauri Rosendahl (1960), President Nasdaq Nordics and Nasdaq Stockholm and Senior Vice President European Cash Equity and Equity Derivatives within Global Transaction & Market Services at Nasdaq.

Nicolas Rivard (1977), Chief Innovation Officer of Euronext. In mid-2018 Mr Rivard joined the Supervisory Board as a representative from Euronext.

Peter Bezemer (1950), former member of the Executive Committee of Euronext; currently a financial services consultant.

Clotilde Bouchet (1966), Deputy CEO of Credit Immobilier de France.

Dr Iain Saville CBE (1948), founder and former CEO of CRESTCo Ltd and a non-executive director of the Astana Financial Services Authority. Mr. Saville's assignment with EuroCCP ended on 30 September 2019.

As of September 2019, Paul Hilgers joined EuroCCP as independent member of the Supervisory Board.

The Supervisory Board has three committees: Audit Committee, Remuneration Committee and Nomination Committee. The Audit Committee advises the Supervisory Board on financial accounting, on the workings of the internal risk and control framework, the role and functioning of the internal auditor and the appointment of the external auditor. The Remuneration Committee oversees the Company's remuneration strategy and principles for members of the Management Board. It reviews the policies and general principles on which the Company's compensation plans are based. The Remuneration Committee performs its task in preparation for decision-making by the Supervisory Board. The Nomination Committee makes recommendations for the appointment of independent members of the Supervisory Board.

Risk Committee

The Risk Committee is an EMIR required advisory committee composed of four representatives from Clearing Participants, three representatives from clients of Clearing Participants and two independent members of the Supervisory Board, in compliance with EMIR requirements. Iain Saville chaired the Risk Committee throughout 2018. The Chief Executive Officer, Chief Risk Officer and Chief Compliance Officer attend the committee meetings. The committee held four meetings during 2018 and discussed the following subjects:

Public sector initiatives

- European Commission proposal on European Market Infrastructure Regulation (EMIR) review
- Committee on Payments and Market Infrastructures and Board of the International Organization of Securities Commissions (CPMI-IOSCO) report on Resilience of central counterparties (CCPs): Further guidance on the PFMI
- Recommendation ESMA stress test 2016 – follow up

Credit/Market risk framework

- Changes to the risk framework/new margin model
- Model validation
- Stress test policy and scenarios
- Sensitivity analysis
- Criteria for accepting clearing members
- Default handling procedure
- Haircuts

Other

- Liquidity plan
- Investment policy
- Cybersecurity
- Review of outsourced functions
- Recovery and resolution
- Brexit
- Risk tolerance statements
- Acceptance of transactions on T+1

At each meeting, reports concerning the performance of the risk framework were reviewed by the committee.

The most material risks faced by EuroCCP are described in the Risk Management section on page 30.

Advisory boards and councils

The Advisory Board was chaired in 2018 by Martyn Nott, Managing Director, Global Head of Network Management at Bank of America Merrill Lynch and Chair of the Post Trade Board of the Association for Financial Markets in Europe (AFME). The Advisory Board has representatives from 16 Clearing Participants and observers from the four largest trading platforms cleared by EuroCCP. The Advisory Board met three times in 2018. The chairman of the Advisory Board has a standing invitation to be an observer at EuroCCP Supervisory Board meetings.

The Nordic Advisory Council has representatives from 6 Clearing Participants headquartered in the Nordics. In addition, the Nordic Securities Association participates as a representative for the broader Nordic markets. The Council met three times in 2018. Two of the Clearing Participants of the Council are representatives at the Advisory Board. Topics of special interest for the Council in 2018 were EuroCCP's access to Oslo Børs and improving settlement performance in Sweden.

In the future, additional regional advisory councils will be set up as required when EuroCCP's business scope expands.

The Platform Advisory Council comprises of representatives from each platform cleared by EuroCCP and serves as a forum for the discussion of post-trade matters of common interest. The Council met twice in 2018.

Management Board

As of 31 December 2018, the Management Board consisted of 3 members:

- Cécile Nagel (1976), Chief Executive Officer, joined from the London Stock Exchange Group (LSEG) where she held a number of senior positions across the organisation including Head of Strategic Planning for the Group and Global Head of Equities and Commodities at LCH, LSEG's multi-asset clearinghouse. Most recently she was Head of LSE Markets Global Product Development and LSE Exchange Traded Products.
- Albert-Jan Huizing (1961), Chief Technology Officer, joined EMCF during the project phase in 2006. Prior to that, he was with Euronext in management positions for business development and information technology, with a focus on derivatives trading. Starting 1 July 2019, Mr. Huizing decided to pursue other interests outside EuroCCP.
- Arnoud Siegmann (1973), Chief Risk Officer, joined EMCF in 2008. He was previously Head of Risk at Fortis Clearing Americas between 2001 and 2008, and had risk-related roles at Object+ BV and Extra Clearing BV.

Mr. Huizing has not yet been replaced as a member of the Management Board. On the date of publication of these financial statements, the management board consisted of Mrs. Nagel and Mr. Siegmann.

Without detriment to the collective responsibility of the Management Board as a whole to establish and comply with the risk management framework, the Chief Risk Officer is responsible for implementation of the risk management framework, including its policies and procedures. The Chief Risk Officer does not bear individual responsibility for and operates independently from commercial matters.

Internal Audit

The internal audit function provides independent, objective assurance and consulting services designed to add value and improve EuroCCP's operations. The internal audit function has a direct reporting line to the chairman of the Audit Committee and administratively reports to the Chief Executive Officer. Internal Audit, the Audit Committee and the external auditor have regular contact to share information, discuss and consult on specific risk and control topics. In the meetings of the Audit Committee, risk analysis, audit plan and findings & resolutions are presented and discussed.

Organisation

EuroCCP currently has 59 employees on its payroll. This number has remained unchanged since the end of 2018.

All critical functions from a regulatory perspective, apart from the CEO function, are located at the company headquarters in Amsterdam. Client-facing functions, consisting of eight employees, are located in London.

Remuneration policy

Fixed salary levels are aligned with similar functions in the financial industry in each location where the company operates.

Variable compensation is discretionary and is according to legislation in the employees' jurisdiction of employment.

The variable compensation of risk management, compliance and internal audit staff is based on performance indicators that are independent of the business performance and aligned with prudent risk management.

Service development

In 2018, EuroCCP continued to focus on its objective to be the leading equities CCP in Europe, securing access to new venues including Oslo Børs in November and Borsa Italiana in December. Further in November 2019, EuroCCP secured access to Deutsche Börse.

Importantly and as explained before, EuroCCP allocated significant resources to enhance the firm's liquidity risk framework, in response to the weaknesses identified relating to extreme but plausible scenarios during the industry-wide stress tests carried out by the European Securities and Markets Authority (ESMA).

In conjunction with our work on liquidity, a strategic review of the EuroCCP business was conducted leading to existing shareholder Cboe making an offer to acquire 100% of the EuroCCP business. As part of the transaction, some new liquidity tools have been proposed and new procedures have been designed, which are expected to be implemented in early 2020 – subject to regulatory approvals. Importantly, a dedicated liquidity credit facility is in the process of being set up in order to ensure EuroCCP continues to meet all relevant (liquidity) requirements under EMIR.

Improving settlement efficiency continues to be a service priority. EuroCCP is a Directly Connected Party (DCP) in TARGET2-Securities (T2S) via all main Central Securities Depositories (CSDs) where EuroCCP settles transactions with Clearing Participants. Becoming a DCP has enabled EuroCCP's clients to benefit from T2S features that are designed to increase settlement performance.

EuroCCP successfully migrated to the new settlement system of Euroclear Finland, Infinity, in May 2018. In addition, settlement efficiency improved thanks to Euroclear Finland introducing partial settlement, in combination with new settlement priority logic in October 2019. In November 2018, EuroCCP also became a DCP for cash and securities of the Central Bank and CSD of Denmark, as soon as they migrated to T2S for Danish Krone (DKK) denominated activity.

In 2018, EuroCCP initiated and successfully progressed the replacement of its margin risk system, replacing the existing model and technology in order to improve transparency and enable greater flexibility. This project continued into 2019 and we expect the new risk system to be implemented in mid-2020 – subject to regulatory approvals.

Technology

EuroCCP's technology enables straight-through processing of equity transactions. Trade capture, multilateral netting, settlement and risk management applications form the core of EuroCCP's information technology infrastructure.

The trading venue access software has been enriched to implement the bespoke access requirements of Oslo Børs, Borsa Italiana and Deutsche Börse. Operational efficiency has been improved by changes in the settlement system. Further automation of liquidity stress tests and reporting have been planned and will be implemented as part of our enhanced liquidity risk framework – subject to regulatory approvals.

EuroCCP participated in the Dutch Central Bank's Threat Intelligence Based Ethical Red Teaming (TIBER) programme in 2017, and the cyber security assessment organised by SWIFT in 2017. Based on the outcome of these participations, EuroCCP improved its cyber resilience further in 2018 and 2019.

EuroCCP continues to monitor developments in distributed ledger technology and participates in the European Central Bank task force set-up to assess emerging technologies.

Financial results

For the year ending 31 December 2018, EuroCCP made a profit before tax of EUR 1.7 million, compared with EUR 4.6 million in the prior year. The decrease in profit was driven by a number of non-recurring costs, totalling EUR 2.8 million. Adjusted for these, EuroCCP's profit before tax was EUR 4.5 million, comparable with the prior year's profit before tax.

Total revenue of EUR 21.2 million was EUR 1.4 million (6%) lower than the previous year. The decrease in net revenues was driven by fees EuroCCP paid to certain new platforms in order to obtain access. Normalized for the non-recurring items, revenues were EUR 22.8 million, which is 1% (or EUR 0.2 million) above the 2017 revenue level.

Total expenses of EUR 19.6 million were EUR 1.6 million or 9% higher than prior year's EUR 18.0 million. This can be mainly attributed to an increase of personnel expenses as a result of costs related to changes in the EuroCCP staff composition, including change of CEO and staff who have left the company. Normalized for these non-recurring items, expenses for the year were EUR 18.3 million, which is 2% (or EUR 0.3 million) higher than the prior year's total expenses. Total capital as at year-end 2018 was EUR 44.7 million, well above the capital of EUR 23.9 million required by EMIR. The excess capital above regulatory requirement provides sizeable headroom for resilience and business growth.

Detailed figures are disclosed in the financial statements and in the notes to the financial statements.

Outlook

Looking ahead, we will continue to work closely with Cboe regarding the anticipated acquisition of EuroCCP, which is expected to close in H1 2020, subject to regulatory approvals. Cboe is an established advocate of open access and interoperability, values which EuroCCP has long sought to promote. Cboe has an established track record of servicing clients globally and providing innovative products across numerous asset classes. There are numerous natural synergies between the two businesses which will allow EuroCCP to accelerate business growth and develop new products and services, in addition to introducing further efficiencies in the marketplace.

We will continue to enhance EuroCCP's liquidity risk management framework as a matter of priority. Regulators rightly place significant importance on the vital role that CCPs play in ensuring the efficient functioning of financial markets and regularly stress test the resilience and safety of individual firms. EuroCCP will continue to ensure its liquidity framework meets these regulatory standards. In this context, the Article 49 EMIR application submitted on 9 December 2019 was a fundamental step and this will be continued with the submission of an application in accordance with Article 3.28a of the Dutch Act on Financial Supervision at the beginning of 2020. Amongst the proposed improvements included in the applications is a committed liquidity credit facility of up to EUR 1.5 billion. The costs associated with this loan will have an impact on profitability and the company is likely to report a loss in the coming 2 to 3 years. However, we are confident that, thanks to close collaboration with Cboe, the anticipated commercial growth will enable EuroCCP to improve profitability while reducing the cost of this loan (for further details see Basis of Preparation – Going Concern) .

We will continue to develop our pan-European coverage following securing access to trades executed on Deutsche Börse in November 2019, as well as developing our ETF offering across multiple initiatives with market participants.

We will also continue to help venues and clearing members execute their Brexit contingency plans. EuroCCP is headquartered in the EU and regulated by the Dutch Central Bank and the Dutch Authority for Financial Markets. We have gained temporary recognition from the Bank of England (BoE) as a third country CCP enabling us to continue to operate in the UK for the next three years while the BoE reviews our application for permanent recognition.

Other important initiatives which we expect to come to fruition include replacing our (margin) risk management system. The project was started in 2018 and filing for regulatory approval has taken place on 1 October 2019.

We are actively preparing for forthcoming changes driven by regulatory initiatives such as the final steps of implementation of the Central Securities Depositories Regulation (CSDR) and the consolidation of the TARGET2 and T2S platforms. We will also implement our recovery plan to bring us in line with new international standards and market practice and continue to improve our control framework and cyber resilience enhancement programme.

Finally, in our effort to create safety and efficiency and diversify our business we will continue to work with market participants on new initiatives with a clear focus on delivering efficiencies.

Amsterdam, 11 December 2019

Cécile Nagel

Arnoud Siegmann

Report of the Supervisory Board

The Supervisory Board oversees the Management Board, supervises the general affairs of the company and its associated business and provides advice to the Management Board. In order to function in line with prevailing regulations and to have better oversight, the Supervisory Board has three standing committees:

- The Remuneration Committee oversees the Company's remuneration strategy and principles for members of the Management Board. It reviews the policies and general principles on which the Company's compensation plans are based. The Remuneration Committee performs its task in preparation for decision-making by the Supervisory Board. The Remuneration Committee held five meetings in 2018.
- The Audit Committee advises the Supervisory Board on financial accounting, on the workings of the internal risk and control framework, the role and functioning of the internal auditor and the appointment of the external auditor. The Audit Committee held five meetings in 2018.
- The Nomination Committee makes recommendations for the appointment of independent members of the Supervisory Board.

In addition, as an EMIR authorised CCP, EuroCCP has a Risk Committee. The Risk Committee members consist of two independent Supervisory Board members and representatives of Clearing Members and Trading Participants. It provides input into EuroCCP's Risk Management activities and initiatives. The Risk Committee is chaired by one of the independent members of the Supervisory Board.

EuroCCP's Chief Risk Officer and Chief Compliance Officer have a direct reporting line to the Supervisory Board while Head of Internal Audit reports to Audit Committee of Supervisory Board.

The Supervisory Board held five board meetings in 2018 in the presence of the Management Board. The chairman of the Advisory Board attended these meetings as an observer when matters relevant to the mandate of the Advisory Board were discussed. In addition to the 4 regular meetings of the Supervisory Board in 2019, there were frequent meetings about the regulatory issues related to liquidity and the solutions to these issues.

The Management Board provided the Supervisory Board with information on a regular basis on business operations and on financial and strategic developments. The Supervisory Board was involved in all important decisions. Risk management is a standing agenda item at every Supervisory Board meeting.

The Supervisory Board welcomed Cécile Nagel as new Chief Executive Officer in September 2018 and is looking forward to continuing to support her and the rest of the Management Board in developing the business in the short, medium and longer term.

The Supervisory Board recognises the significant work undertaken by management to not only develop the business commercially but also to strengthen the organisation's risk management and operational and technical resilience. This includes specifically, the significant work undertaken to strengthen EuroCCP's liquidity risk management framework.

The Supervisory Board is also highly supportive of the proposed change in ownership of EuroCCP. It is confident in the ability of the business to bear the costs associated with improving EuroCCP's liquidity risk framework and sees the proposed transaction with Cboe as highly positive in terms of resiliency and growth prospects.

On behalf of the Supervisory Board,

Jan Bart de Boer

Chairman

Statement of financial position as at 31 December 2018

before proposed profit appropriation (x EUR 1,000)

Assets	Note	2018	2017
Cash and cash equivalents	1	566,193	583,558
Due from banks and due from customers	2	39,106	9,696
Property and equipment	3	1,153	1,028
Intangible assets	4	1,608	652
Other assets	5	7,608	4,344
Total assets		**615,668**	**599,278**

Liabilities			
Due to banks	6	326,789	257,690
Due to customers	7	234,174	291,340
Tax payables	8	79	74
Accrued interest, expenses and other liabilities	9	9,969	6,791
Total liabilities		**571,011**	**555,895**

Shareholders' equity	10		
Share capital		7,500	7,500
Share premium		5,392	5,392
Retained earnings		24,854	23,082
Other reserves (EMIR)		4,744	4,336
Other reserves (legal reserve)		1,013	-
Other reserves (re-measurements of defined benefit pension plan and currency translation)		-120	-113
Result for the year		1,277	3,193
Other comprehensive income for the year		-3	-7
Total shareholders' equity		**44,657**	**43,383**
Total liabilities and shareholders' equity		**615,668**	**599,278**

Contingent assets	11	**904,136**	**1,075,408**
Contingent liabilities	12	**374,533**	**308,116**

Statement of profit or loss for 2018

(x EUR 1,000)

Statement of profit or loss	Note	2018	2017
Interest income		-	-
Interest expense		5,194	6,091
Negative interest on assets		-3,454	-4,794
Net interest income (expense)	13	1,740	1,297
Net fees and commissions	14	18,322	20,517
Other revenue	15	1,175	782
Revenue		**21,237**	**22,596**
Personnel expenses	16	-9,867	-7,525
Depreciation and amortisation	17	-674	-1,042
Other operating and administrative expenses	18	-9,019	-9,419
Total expenses		**-19,560**	**-17,986**
Profit before tax		1,677	4,610
Income tax expense	19	-400	-1,417
Net profit/(loss)		**1,277**	**3,193**

Statement of total comprehensive income for 2018

(x EUR 1,000)

Statement of total comprehensive income	Note	2018	2017
Net profit/(loss)		**1,277**	**3,193**
Other comprehensive income			
Items that will not be classified to profit or loss:			
Re-measurements of defined benefit pension plan	16	-	-
Currency translation reserve		-4	-10
Income tax relating to other comprehensive income	19	1	3
Other comprehensive income/(expense)		**-3**	**-7**
Total comprehensive income for the year		**1,274**	**3,186**

Statement of changes in shareholders' equity (x EUR 1,000)

	Share capital	Share premium	Retained earnings	Other reserves (EMIR)	Other reserves	Legal reserves	Result for the year	Total 2018
Opening balance as at 1 January 2018	**7,500**	**5,392**	**23,082**	**4,336**	**-113**	**-**	**3,186**	**43,383**
Total comprehensive income	-	-	-	-	-	-	1,274	1,274
Profit appropriation	-	-	3,193	-	-	-	-3,193	-
Change in other reserves (EMIR)	-	-	-408	408	-	-	-	-
Change in other reserves (legal reserves)	-	-	-1,013	-	-	1,013	-	-
Change in other reserves (currency translation)	-	-	-	-	-7	-	7	-
Change in Other reserves (re-measurements of defined benefit pension plan)	-	-	-	-	-	-	-	-
Issue ordinary shares	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Closing balance as at 31 December 2018	**7,500**	**5,392**	**24,854**	**4,744**	**-120**	**1,013**	**1,274**	**44,657**

	Share capital	Share premium	Retained earnings	Other reserves (EMIR)	Other reserves	Legal reserves	Result for the year	Total 2017
Opening balance as at 1 January 2017	**7,500**	**5,392**	**18,704**	**3,847**	**-162**	**-**	**4,916**	**40,197**
Total comprehensive income	-	-	-	-	-	-	3,186	3,186
Profit appropriation	-	-	4,867	-	-	-	-4,867	-
Change in other reserves (EMIR)	-	-	-489	489	-	-	-	-
Change in other reserves (legal reserves)	-	-	-	-	-	-	-	-
Change in other reserves (currency translation)	-	-	-	-	-18	-	18	-
Change in Other reserves (re-measurements of defined benefit pension plan)	-	-	-	-	67	-	-67	-
Issue ordinary shares	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Closing balance as at 31 December 2017	**7,500**	**5,392**	**23,082**	**4,336**	**-113**	**-**	**3,186**	**43,383**

Cash flow statement for 2018

(x EUR 1,000)

	2018	2017
Cash flows from operating activities		
Profit before tax	1,677	4,610
Adjustment to reconcile profit to net cash generated by operating activities:	670	1,029
Depreciation and amortisation	674	1,042
Effect of foreign exchange rate	-4	-13
Changes in operating assets and liabilities	-16,680	59,071
Due from banks and due from customers	-29,410	5,379
Due to banks	69,099	68,438
Due to customers	-57,166	-11,505
Net changes in all other operational assets and liabilities	797	-3,241
Cash generated by operating activities	**-14,333**	**64,710**
Income taxes paid	-1,279	-1,292
Net cash from operating activities	**-15,612**	**63,418**
Cash flows from investing activities		
Acquisition of property and equipment	-434	-891
Acquisition of intangible assets	-1,319	-98
Net cash flow generated by investing activities	**-1,753**	**-989**
Cash flows from financing activities		
Proceeds from issue of share capital	-	-
Proceeds from share premium contribution	-	-
Dividend paid	-	-
Net cash from financing activities	**-**	**-**
Net decrease (-) / increase (+) in cash and cash equivalents	**-17,365**	**62,429**
Cash and cash equivalents – as at 1 January	**583,558**	**521,129**
Cash and cash equivalents – as at 31 December	**566,193**	**583,558**
Supplementary disclosures of operating cash flow information		
Interest received	8,669	8,719
Interest paid	-6,642	-7,432

General

EuroCCP was incorporated on 28 February 2007, with its registered office in Amsterdam, the Netherlands.

EuroCCP is registered as a UK establishment of an overseas company at UK Companies House, with the office located in London. In 2018, EuroCCP had a representative office in Stockholm for almost the entire year, but that was closed on 31 December 2018.

As at 31 December 2018 the company's shareholders were:

• ABN AMRO Clearing Investments B.V. (20%)

• Cboe Europe Limited (20%)

• DTCC Global Holdings B.V. (20%)

• Nasdaq AB (20%)

• Euronext N.V. (20%)

On 1 April 2014, EuroCCP was granted authorisation under European Market Infrastructure Regulation (EMIR) by the National Competent Authority, De Nederlandsche Bank N.V. In addition, EuroCCP is regulated by the "Autoriteit Financiële Markten".

EuroCCP provides post-trade services to stock exchanges, multilateral trading facilities (MTFs), other equities trading platforms and for OTC equities trades.

The assets and liabilities of the London office are included in these financial statements; they are initially denominated in Pounds Sterling and then translated into euro, EuroCCP's functional currency.

Basis of preparation

These financial statements are prepared by EuroCCP's Management Board on 11 December 2019, in accordance with IFRS, as adopted by the European Union, and with Title 9 of Book 2 of the Dutch Civil Code. All amounts in the tables of these financial statements are denominated in thousands of euros, unless otherwise stated.

Going concern

Recent stress tests undertaken by ESMA identified weaknesses in EuroCCP's liquidity framework, when operating under an extreme but plausible scenario. Earlier in 2019, in close collaboration with the regulator, EuroCCP committed to doing everything within its power to resolve the issue before the end of 2019.

EuroCCP has invested significant efforts into improvements ensuring full compliance with the EMIR liquidity requirements. These improvements were submitted to the relevant regulators for approval on 9 December 2019 with the formal approval due to be announced in early 2020. Throughout the period, EuroCCP has worked very closely with DNB and AFM and kept the regulators updated on the proposed improvements and timelines to resolve the issues. Given the progress that has been made and the complexity of the matter, the regulators have agreed to a later date for solving the liquidity issue.

Part of the improvement measures submitted for regulatory approval is the acquisition of 100% of EuroCCP's shares by an affiliate of Cboe Global Markets, Inc. (Cboe), an existing shareholder of EuroCCP. The transaction is expected to close in the first half year of 2020, subject to regulatory approvals and the placement of the liquidity facility described below.

Furthermore, amongst the proposed measures is a committed liquidity credit facility of up to EUR 1.5 billion. Due to the costs associated with this loan,

EuroCCP may be loss-making for a limited period of time. Nevertheless, the going concern assumption continues to be justified for a number of important reasons. Firstly, EuroCCP has sufficient surplus capital to be able to absorb the loan costs for several years without the regulatory capital of the company falling below the required level. In addition, Cboe, as the proposed acquirer of EuroCCP's entire share capital, will guarantee payment of scheduled interest and fees payable under the loan agreement. Finally, the cooperation with Cboe is expected to lead to further commercial expansion of EuroCCP, which will in 2 to 3 years' time increase the ability to carry these costs without reporting a loss.

Based on the ongoing dialogue EuroCCP maintains with its regulators, the company's forecast and projections which show the company has sufficient capital, and the fact that substantial and concrete progress has been made in securing the additional liquidity credit facility to meet liquidity needs in stressed circumstances, management is confident that the regulatory requirements will be met and regulatory approval will be obtained. While material uncertainty continues to exist on the date of these financial statements, particularly with regard to regulatory approval, management concluded that preparing these financial statements using the going concern assumption is justified.

Changes in accounting policies

Amended IFRSs

Amendments resulting from improvements to standards did not have a significant impact on the accounting policies, financial position or performance of EuroCCP during this financial year. The relevant amendments to EuroCCP, effective for annual periods beginning on or after 1 January 2018, are listed below:

IFRS 9 Financial Instruments: Classification and Measurement, incorporates requirements for classification, measurement, impairment, general hedge accounting, de-recognition and disclosure of financial instruments. The amendments classify the financial assets by relating to the business model under which they are reported and the characteristics of their contractual cash flow. The "incurred loss" model (IAS 39) is replaced with the "expected credit loss" model, meaning that an impairment allowance is to be recognised before the loss event occurs and expected credit losses are to be recognised in the profit or loss for financial assets not measured at fair value through profit or loss. The standard was endorsed by the European Union in November 2016. EuroCCP applies this standard as of January 1, 2018 with no re-statement of comparative figures.

EuroCCP analysed the business model and the contractual cash flow for the groups of financial assets in its financial statements and concluded that the objective of the business model for the purpose of IFRS 9 is to hold the financial assets in order to collect the contractual flows rather than selling the assets in order to realize the changes in the fair values. The characteristics of the cash flows refer to solely payments of principal amount and interest on the principal amount outstanding, on specified dates.

The financial assets are classified as financial assets measured at amortized costs, with expected credit loss close to nil. When assessing the financial assets, EuroCCP considered the CCP business model and the risk mitigation measures in place (for which we refer to the risk management chapter in this document).
The standard does not have impact on classification and measurement of the financial liabilities of EuroCCP.

IFRS 15 Revenues from Contracts with Customers provides a single five step model applicable to all revenue from contracts with customers, replacing the previous IFRS requirements on revenue recognition. The standard

requires entities to exercise judgement and take into consideration relevant factors when applying the model. The standard establishes when and how much revenue an entity should recognise and requires more informative disclosures to be presented. The standard also provides for the recognition and measurement of some non-financial assets. The standard was endorsed by the European Union in September 2016. Clarifications to IFRS 15 Revenues from Contracts with Customers is endorsed in November 2017.

EuroCCP applies this standard as of January 1, 2018. No change in the revenue recognition arose from adopting this standard.

Annual Improvements to IFRS standards 2014-2016 Cycles applicable for annual periods beginning on or after 1 January 2018 make reference to IFRS 1 and IAS 28. No impact occurred in EuroCCP's financial statements from the application of the amendments.

New and amended IFRSs not yet effective

EuroCCP is in process of assessing the impact on the financial statements of the following standards, that will become effective for the company for annual periods beginning on or after 1 January 2019:

IFRS 16 Leases sets up the principles for recognition, measurement, presentation and disclosures for all leases, introducing a single on-balance sheet lease accounting model for the lessees. This approach requires recognition of all assets and liabilities for leases whose lease period is more than 12 months, unless they are considered to be of low value. Lessor accounting remains similar as the current standard (the lessor continues classifying leases as finance and operating leases). The mandatory effective date for this standard is for annual periods starting on or after 1 January 2019, with early adoption permitted for entities applying IFRS 15 at or before the date of initial application of IFRS 16. The standard was endorsed by the European Union in November 2017. It is expected that new assets and liabilities are to be recognised in the statement of financial position of EuroCCP for the operating lease related to both the office premises in Amsterdam and the data centres located in the Netherlands. The estimated impact will be limited to EUR 1.3 million, as at 1 January 2019.

Annual Improvements to IFRS Standards 2015-2017 contain amendments to IAS 12, IAS 19, IAS 23, IFRS 3 and IFRS 11 with effective date beginning for annual periods beginning on or after 1 January 2019. EuroCCP is currently reviewing the adjustments of IAS 12. It is expected that the adjustments to other standards would not be applicable to EuroCCP.

Principles

Functional currency

The financial statements are stated in euros, the functional currency of EuroCCP.

Foreign currency translation

Foreign currency transactions are accounted for using the exchange rate at the date of transaction.

Outstanding balances in foreign currencies at year end are translated at year end exchange rates for monetary items.

Translation of non-monetary items depends on whether the non-monetary items are carried at historical cost or at fair value. Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date of the transaction. Non-monetary items that are carried at fair value are translated using the exchange rate on the date that the fair values are determined.

The resulting exchange differences are recorded in the statement of profit or loss as foreign currency gains (losses) except for those non-monetary items whose fair value change is recorded as a component of shareholders' equity.

The statement of profit or loss and the cash flow statement of entities whose functional currency is not denominated in euro are translated into the presentation currency (the euro) at the exchange rate at the date of the transaction and their balance sheets are translated using the exchange rates prevailing at the balance sheet date. Translation exchange differences are recognised in the currency translation reserves within the shareholders' equity.

Trade date and settlement date accounting

All purchases and sales of financial assets requiring delivery within the period established by regulation or market convention are recognised on the settlement date, which is the date on which the instrument is delivered to or by EuroCCP.

Accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying these accounting principles. Therefore, actual results may differ from these estimates and judgemental decisions. Estimates are reviewed on an ongoing basis.

Judgements and estimates are principally made in the following areas:

- recoverable amounts in case of indebtedness of clients; the recoverable amount is based on a mark-to-market valuation of the client position, vis-à-vis future obligations of EuroCCP in its function as central counterparty and taking into consideration the collateral provided;
- estimation of present obligations resulting from past events in recognition of provisions;
- determination of the expected useful life of intangible assets and amortization method applied;
- income taxes for the current year are recognised within the statement of profit or loss, based on estimations; actual income tax might differ from it, based on the applicable tax/fiscal laws in each jurisdiction and are available upon the tax return forms filed with and accepted by local tax authorities.

Offsetting

Financial assets and liabilities are offset, and the net amount reported on the balance sheet if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Assets are recorded net of any accumulated provision for impairment loss.

Cash flow statement

The statement of cash flows, based on the indirect method of calculation, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are divided into cash flows from operating activities, investing activities and financing activities.

The net result is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Given the nature and the short-term character of the funding, cash flows from funding activities are recognised under cash flows from operating activities and not as cash flows from financing activities. Interest received and interest paid are presented as cash flows from operating activities in the cash flow statement. Dividends received are classified as cash flows from operating activities.

Investing activities are comprised of acquisitions/disposals of property and equipment and intangibles.

Dividends paid are classified as cash flows from financing activities.

Classification and measurement of financial assets and liabilities

EuroCCP classifies financial assets and liabilities based on the business purpose of entering into these transactions.

All maturities were shorter than three months. If this is not the case, they are separately disclosed in the notes to these financial statements.

Financial assets

Financial assets comprise cash and cash equivalents, loans (due from banks and due from customers) and receivables (other assets). Their objective of business model for the purpose of IFRS 9 is to hold in order to collect the contractual flows rather than selling the assets in order to realize the changes in the fair values. The characteristics of the cash flows refer to solely payments of principal amount and interest on the principal amount outstanding, on specified dates.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The measurement and income recognition in the statement of profit or loss depend on the IFRS classification of the financial assets being:

- cash and cash equivalent; or
- loans and receivables.

Cash and cash equivalents are recognised and measured at nominal value.

Loans and receivables are recognised on the date at which they are originated and are initially measured at fair value (transaction price) plus any directly attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the statement of profit or loss.

Measurement of impaired assets

Financial assets are impaired using the expected credit loss model and based on the characteristics of the CCP business model and the risk mitigation measures in place.

An asset is impaired when its carrying amount exceeds its recoverable amount. The carrying amount of impaired assets is reduced to the net present value of its estimated recoverable amount and the change in the current year is recognised in the statement of profit or loss.

Financial liabilities

Financial liabilities comprise within the books of EuroCCP of amounts due to banks and amounts due to customers (demand deposits).

Financial liabilities are recognised on the date at which they are originated and are initially measured at fair value (transaction price). They are subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the statement of profit or loss.

Statement of financial position

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise freely available balances with central banks and other financial institutions, with original maturity of three months or less, and subject to insignificant risk of changes in value.

Due from banks and due from customers

Due from banks and due from customers includes loans originated by EuroCCP by providing money directly to the borrower or to a sub-participation agent.

Other assets

Other assets arising from the normal course of business and originated by EuroCCP are initially recorded at fair value (transaction price) plus any directly attributable transaction costs and subsequently measured at the amortised cost using the effective interest method, less provisions for impairment.

Non-financial assets

Property and equipment

Fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. Depreciation is recognised as expense in the statement profit or loss account and it is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual value and the useful life of property and equipment is reviewed at each financial year-end.

At 31 December 2018, EuroCCP's fixed assets include leasehold improvements, equipment and motor vehicles and IT equipment.

Subsequent expenditure on fixed assets is capitalised only when it increases the asset's future economic benefits.

Repairs and maintenance expenses are charged to the statement of profit or loss when the expenditure is incurred. Expenditures that enhance or extend the benefits of fixed assets beyond their original use are capitalised and subsequently depreciated.

The useful life for EuroCCP's property and equipment is set at either three or five years.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, controlled by the entity as a result of past events and from which future economic benefits are expected to flow. When initially recognised, an intangible asset is measured at cost (reliably measured).

At 31 December 2018, EuroCCP's intangible assets represented acquired software and software under development. Software for computer hardware that cannot operate without that specific software, such as the operating system, is an integral part of the related hardware and it is treated as property and equipment.

The acquired software is stated at cost less accumulated amortisation and accumulated impairment losses. It is amortised using the straight-line method over the estimated useful life of three years.

Amortisation is recognised as expense in the statement of profit or loss on a straight-line basis over the estimated useful life, from the date the software is available for use. Amortisation methods, useful lives and residual value are reviewed at each financial year-end.

Subsequent expenditure on software is capitalised only when it increases the asset's future economic benefits.

Software under development include mostly core application software in course of development. For year ended 2018, software under development is stated at cost and it consists mostly of licences and development software work acquired from external parties for the replacement of the margin risk management system.

Impairment of non-financial assets

Property, equipment and intangible assets are assessed at each balance sheet date or more frequently if necessary, in order to determine whether there is any indication of impairment. If such indication exists, the assets are subject to an impairment review. An impairment loss is recognised whenever the carrying amount of an asset that generates largely independent cash flows, exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. To calculate value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset.

Impairment losses are recognised in the statement of profit or loss as a component of depreciation and amortisation expense. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had previously been recognised.

During 2018, no impairment loss was recognised relevant to non-financial assets.

Financial liabilities

Due to banks and due to customers

Due to banks and due to customers are amounts on demand.

Demand deposits are initially measured at fair value (transaction price) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the statement of profit or loss.

Balances with clearing members (clearing fund) are included in due to banks and due to customers upon initial recognition.

Other liabilities

Other liabilities arising in the normal course of business are recognised and recorded at cost.

Defined contribution pension plan

A defined contribution plan is a pension plan under which EuroCCP pays fixed contributions. EuroCCP has no legal or constructive obligations to pay further contributions if the assets are not sufficient to pay the employee the benefits relating to employee service in the current and prior periods. The risk that benefits will be less than expected (actuarial risk) and the risk that assets invested will not be sufficient to meet the expected benefits (investment risk) fall on the employee.

EuroCCP's contributions to defined contribution pension plan are charged to the statement of profit or loss in the year to which they relate.

Provisions

Provisions are liabilities with uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation to transfer economic benefits (such as cash flows), as a result of past events and a reliable estimate can be made at the balance sheet date. Provisions are estimated based on all relevant factors and information existing at the balance sheet date.

Contingent assets and liabilities

Contingent assets and liabilities are those uncertainties where an amount cannot be reasonably estimated or when it is not probable that payment will be required to settle the obligation. Contingent assets and liabilities are not recognised in the financial statements.

Transactions with related parties

In the normal course of business, EuroCCP enters into various transactions with related companies. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Within the context of these financial statements, related parties are ABN AMRO Clearing Bank N.V. in Amsterdam and its group companies, Cboe Europe Limited and its group companies, DTCC Global Holdings B.V. and its group companies, Nasdaq AB and its group companies, Euronext N.V. and its group companies and the members of the Management Board and Supervisory Board of EuroCCP.

EuroCCP operates at arm's length from related party companies. EuroCCP's transactions with related party companies are subject to normal market contracts and relate mainly to some of its funding, clearing, settlement and securities borrowing.

The amounts receivable or payable to related companies are disclosed in the notes to the financial statements.

Shareholders' equity

Share capital

Incremental costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Other elements recorded in shareholders' equity are related to foreign currency translation effect.

Statement of profit or loss

Interest income and expense

Interest income and interest expense are recognised for all interest bearing instruments in the statement of profit or loss on an accrual basis, using the effective interest method based on the actual purchase price, including direct transaction costs.

Interest income is the result of current balances and settlement funding.

Once a financial asset has been amortised to its estimated recoverable amount, interest income is thereafter recognised based on the effective interest rate that was used to discount future cash flows for measuring the recoverable amount.

Realised and unrealised gains and losses

Realised and unrealised gains and losses represent foreign exchange transaction differences, from translation of monetary and non-monetary items. For further accounting treatment, refer to foreign currency transactions.

Fees, commission income and transaction costs

Fees earned on services provided are recognised as revenue at the time when the services are provided (when the customer obtains control of the service), based on the performance obligation and delivery of the services. The transaction price is allocated to the relevant service on a clearly

addressed selling price. The transaction price does not contain any variable amount.

The specific settlement and fail fees charged by settlement agents are passed on to the clients, provided that revenue and costs are measured reliably.

Transaction costs are included in the initial measurement of financial assets and liabilities other than those measured at fair value through profit or loss. Transaction costs refer to incremental costs directly attributable to the acquisition or disposal of a financial asset or liability. These include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

Expenses

EuroCCP's expenses include staff expenses and other administrative expenses, charged to the statement of profit or loss in the period in which they arise.

Income tax expenses

Income tax expense is recognised in the statement of profit or loss in the period in which profits arise, to the extent that it does not arise from a transaction recognised directly in shareholder's equity. Income tax expenses comprises current and deferred tax expenses. The current tax expense takes into account the taxable and deductible amounts for the period. Differences may arise when the accounting profits differ from the taxable profits as IFRS recognition criteria for items of income and expense are different from the tax law treatment. In such situations, the differences are to be recognised in the statement of financial positions as a deferred tax asset or deferred tax liability: a tax liability is recognised in full, while a tax asset is recognised to the extent it is likely to be recovered in the future. Current tax assets and liabilities are measured at the amounts expected to be recovered from and paid to the tax authorities, based on the applicable tax laws in each jurisdiction.

The tax effects of income tax losses available for carry-forward are recognised as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilised.

Credit risk

EuroCCP is exposed to credit risk predominantly in the event that a Clearing Participant fails to meet a financial or contractual obligation.

EuroCCP mitigates credit risk through minimum capital requirements for Clearing Participants and by monitoring their financial health. To cover potential loss to EuroCCP in the event of a Clearing Participant default, collateral is required from Clearing Participants.

EuroCCP accepts both cash and non-cash collateral with haircuts as specified in EuroCCP's Regulation Collateral[2]. Clearing Participants must deposit a percentage (currently 70%[3]) of their required collateral directly with EuroCCP. The remaining collateral may be held in an account at a financial institution and pledged to EuroCCP or it may be directly deposited with EuroCCP. As at 31 December 2018, EUR 606.2 million was directly deposited with EuroCCP with an additional EUR 34.2 million pledged to EuroCCP.

The value of the collateral (cash and bonds) held by EuroCCP as at 31 December 2018 was EUR 640.4 million and EUR 701.1 million in 2017.

The cash held by the Clearing Participants in the cash collateral accounts, EuroCCP's own funds and the cash held in the Clearing Fund account as detailed in the Regulation Clearing Fund[4], are invested in accordance with the Regulation EuroCCP Investment Policy[5] (REIP). The REIP specifies the approved types of transaction which EuroCCP may use to make investments, the type of securities that may be invested in, the eligible counterparties and the custodians where the securities can be held. Placements of cash made pursuant to the REIP are safeguarded by government securities received as collateral for the cash placements. The collateral received is subject to the concentration limits stipulated in the REIP. EuroCCP receives full title to the collateral. The collateral is used to secure intraday credit from DNB or to support credit arrangements with commercial banks.

Besides potential defaults of Clearing Participants, the main credit risk faced by EuroCCP is exposure to Clearing Participants when a trade fails to settle. To mitigate this risk, EuroCCP charges a fail fee to discourage late settlements. This fee covers EuroCCP's costs but also acts as a deterrent as required by Regulation (EU) No 236/2012 on short selling, together with certain aspects of credit default swaps. In the event that a trade still fails to settle after a certain period of time, EuroCCP will start a buy-in process, the costs of which are borne by the failing Clearing Participant. For more detail, refer to EuroCCP's Regulation Buy-in[6].

Offsetting financial assets and liabilities

The financial assets and liabilities of EuroCCP do not meet the criteria for offsetting in the statement of financial position and are shown gross.

The financial assets and liabilities are subject to the agreements in place, as part of the company's day to day activities. The agreements create a right of set-off of recognised amounts, enforceable only following an event of default, insolvency or bankruptcy of the other party to the contract.

The following tables show assets and liabilities and the related amounts not offset in the statement of financial position as at 31 December 2018:

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[2] Regulation Collateral is available on our website: www.euroccp.com.
[3] As of 1 January 2019: 100%
[4] Regulation Clearing Fund is available on our website: www.euroccp.com.
[5] Regulation EuroCCP Investment Policy is available on our website: www.euroccp.com.
[6] Regulation Buy-in is available on our website: www.euroccp.com.

Financial assets	Gross amount of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral received	
Cash and cash equivalents	566,193	-	566,193	-555,434	-	10,759
Due from bank and due from customers	39,106	-	39,106	-39,106	-	-
Total	**605,299**	**-**	**605,299**	**-594,540**	**-**	**10,759**

Financial liabilities	Gross amount of recognised financial liability	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liability presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral received	
Due to banks	326,789	-	326,789	-39,106	-287,683	-
Due to customers	234,174	-	234,174	-	-234,174	-
Total	**560,963**	**-**	**560,963**	**-39,106**	**-521,857**	**-**

Liquidity risk

EuroCCP is exposed to liquidity risk – the risk that the company is unable to meet its payment obligations, when due. EuroCCP operates a liquidity risk framework to identify, measure and monitor its settlement and funding flows.

Liquidity is mainly required for securities settlement. The payment and settlement obligations at EuroCCP stem from its function as cash equity Clearing House: shares are bought and sold by Clearing Participants on a trading platform or OTC, and netted to settle two or three days later. During the settlement the actual payment for and delivery of the shares take place, this process requires intraday liquidity. If counterparties, which receive shares against payment, are unable to settle, an overnight liquidity need arises. This overnight liquidity need usually is limited and very short term, no more than a few days at the most.

During 2018 the use of intraday liquidity facilities decreased as the funding for T2S, Finland, Sweden and Switzerland was reduced. This reduction was done in several steps strictly monitoring settlements to be sure that this reduction would not have any adverse consequences.

The tables below set out the maturities of the company's financial assets and liabilities, as at 31 December 2018:

Financial assets	Less than one month	Between one and three months	Between three and six months	Between six and twelve months	Between one and two years	Between two and five years	Between five and ten years	Total
Cash and cash equivalents	566,193	-	-	-	-	-	-	566,193
Due from banks and due from customers	39,106	-	-	-	-	-	-	39,106
Other assets	3,215	3,032	157	166	50	10	-	6,630
Total	**608,514**	**3,032**	**157**	**166**	**50**	**10**	**-**	**611,929**

Financial liabilities	Less than one month	Between one and three months	Between three and six months	Between six and twelve months	Between one and two years	Between two and five years	Between five and ten years	Total
Due to banks	326,789	-	-	-	-	-	-	326,789
Due to customers	234,174	-	-	-	-	-	-	234,174
Accrued interest, expenses and other liabilities	4,218	1,642	242	3,005	212	-	-	9,319
Total	**565,181**	**1,642**	**242**	**3,005**	**212**	**-**	**-**	**570,282**

Other assets and Accrued interest, expenses and other liabilities have maturities up to one month. All other financial assets and financial liabilities have maturities up to 7 days, unless otherwise mentioned.

As a result of the weaknesses identified by the regulators in the liquidity risk management framework, significant efforts were invested to improve various areas with regards to liquidity risk management in 2018 and 2019. Stress tests have been expanded and enhanced, tools and procedures have been greatly improved, new mitigating measures have been designed and an important additional liquidity source is currently being implemented (also see Accounting Principles). These improvements were submitted to the relevant regulators for approval on 9 December 2019 through an Article 49 EMIR application.

Market risk

EuroCCP is exposed to market risk in the event that a Clearing Participant defaults and the market prices of the securities in its open positions have moved adversely so that EuroCCP can only close out the Participant's obligations at a loss.

To mitigate market risk, EuroCCP collects collateral from Clearing Participants to cover for the probable loss during normal market conditions, together with contributions to the clearing fund to cover losses if a default occurred during extreme but plausible market conditions. Adverse movements in exchange rates affecting the value of obligations and collateral are factored into the calculation.

After each day's trades have been netted, EuroCCP calculates the maximum theoretical loss of the portfolio of all open net positions based upon a 99.7% confidence level (three standard deviations) and assumes that a three-day time horizon would be required for liquidation. In this calculation the dominant factor is the price risk for each security; however, other risk factors such as currency risk are also taken into account. On a daily basis, back tests are performed to assess the adequacy of the margin model. In 2018, this process demonstrated that EuroCCP did not need to make any adjustment to the parameters of the model. The outcome of these back tests is reported to EuroCCP's regulators.

For intraday calculations, EuroCCP recalculates the margin requirement continuously, using the current positions and market prices. EuroCCP has the authority and the operational ability to demand additional collateral at first notice, whenever there is a significant intraday collateral deficit.

EuroCCP provides a real time cleared trade feed to Clearing Participants to enable them to also perform intraday or real time risk management in respect of their clients.

The collateral required to cover for extreme but plausible market conditions is placed in the Clearing Fund. The amounts and percentages of the respective contribution per Clearing Participant are stipulated in the Regulation Clearing Fund, available on our website.

On a daily basis, stress tests are performed where portfolios are stressed along various scenarios. These stress tests can be as extreme as anticipating a market move of 40% across the whole portfolio of equities. The results of the stress tests are used to confirm that the EuroCCP risk framework is adequate at all times. The outcome of these stress tests is reported to EuroCCP's regulators.

EuroCCP is exposed to currency risk where receipts and payments take place in non-euro currencies, such as invoices received from settlement agents. This exposure is handled on a monthly basis, buying relevant currency amounts using spot transactions.

EuroCCP does not take significant interest rate risk on the cash part of the margin and clearing fund deposits it holds since EuroCCP passes on the interest income / charges minus costs.

Investment risk is the risk that invested cash is reduced in value upon maturity. This risk is mitigated through the strict application of the investment policy of EuroCCP, as set out in REIP.

EuroCCP does not run other price risk (the risk that fair value of future cash flows of the financial instruments will fluctuate due to changes in the market prices, other than those arising from interest rate risk or currency risk). The size of the EuroCCP clearing fund as at 31 December 2018 was EUR 244 million.

Operational risk

Operational risk is monitored and controlled by the operational risk and control team within the risk management department (hereinafter OR&C).

OR&C is responsible for the maintenance of the entire control framework, including policies, processes and procedures, business continuity management, operational risk events including operational errors. Within all processes and procedures, (key) risk indicators and (key) performance indicators are defined, being used in daily and monthly monitoring. OR&C reports on a monthly basis to the management team related to the status of the control framework, with separate detailed report sent to all department heads. Additional reporting is sent to the Supervisory Board, Audit Committee and the Risk Governance Board. These reports may include an overview of framework compliance (policies, processes and procedures), business

continuity, operational losses, risk tolerance statements, open audit findings, issue and action management.

EuroCCP did not incur any material operational loss in 2018.

Fair value measurement

Fair value reflects the price that would be received on selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The transaction is considered to take place either in the principal market for that asset/liability or in the most advantageous market where no principal market exists.

Fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that they act in their own economic best interest.

Fair value of financial assets and liabilities

Financial assets and liabilities are valued using the hierarchy below, to determine their fair value:

- level 1: unadjusted quoted prices for identical assets or liabilities in active markets;
- level 2: inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- level 3: unobservable inputs for the asset or liability, which include management's own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

The assumption used in the measurement is that the liabilities would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

When a quoted price for the transfer of an identical (or a similar) liability or entity’s own equity instrument is not available, and that identical (or similar) item is held by another party as an asset, the measurement of the fair value is performed from the perspective of a market participant that holds the identical item as an asset at the measurement date, by:

- using the quoted price in an active market for the identical item, or if not available;
- using other observable inputs, or if not available;
- using another valuation technique (i.e. income approach, or market approach).

Financial assets and financial liabilities are recognised on the date at which they are originated and are initially measured at transaction price. Subsequently, they are measured at amortised cost using the effective interest method, with the periodic (monthly) amortisation recorded in the statement of profit or loss.

As at 31 December 2018, EuroCCP was not aware of any material difference between the carrying value of the financial assets and financial liabilities and their estimated fair value, as all financial liabilities are short-term.

Disclosure of the contingent assets as at 31 December 2018 is presented below:

Contingent assets	Value (market value)	Quoted market prices in active markets (level 1)	Valuation techniques - observable inputs (level 2)	Valuation techniques - significant unobservable inputs (level 3)	Net amount
Non-cash contribution to clearing fund (bonds)	59,829	59,829	-	-	59,829
Non-cash deposits to interoperability fund (bonds)	105,114	105,114	-	-	105,114
Non-cash mandatory collateral deposits (bonds)	273,209	273,209	-	-	273,209
Collateral received (bonds)	130,003	130,003	-	-	130,003
Total	**568,155**	**568,155**	**-**	**-**	**568,155**

EuroCCP does not have any economic interest in the contingent assets. Details of the contingent assets are presented in Note 11.

Notes to the statement of financial position as at 31 December 2018

(x EUR 1,000)

ASSETS

	2018	2017
1. Cash and cash equivalents	**566,193**	**583,558**

This item comprises cash on hand, freely available balances with central banks and other financial institutions with less than three months maturity from the date of acquisition.

From the total balance, EUR 184 million relates to the clearing fund balance of participants available only pursuant to the rules of the clearing fund.

The table below shows the components of cash and cash equivalents at 31 December.

Cash and cash equivalents with central banks	425,436	289,269
Cash and cash equivalents with related party companies	52,864	177,731
Cash and cash equivalents with third party companies	87,894	116,558
Closing balance as at 31 December	**566,193**	**583,558**

Components of cash and cash equivalents:

Own cash	41,816	43,437
Cash and cash equivalents, required for use in EuroCCP, day-to-day clearing	524,377	540,121
Closing balance as at 31 December	**566,193**	**583,558**

	2018	2017
2. Due from banks and due from customers	**39,106**	**9,696**

This item consists of accounts receivables from participants, both credit and non-credit institutions, that relate to business operations. Due from banks and due from customers are fully collateralised by securities and do not belong to cash and cash equivalents. They reflect the value of transactions for which securities are delivered to EuroCCP in exchange for cash compensation. The securities are to be further delivered by EuroCCP to participants versus agreed cash compensation.

	2018	2017
3. Property and equipment	**1,153**	**1,028**

Property and equipment consists of equipment and motor vehicles, leasehold improvements and IT equipment.

	Lease-hold improvement	Equipment and motor vehicles	IT equip-ment	2018 Total	2017 Total
Cost as at 1 January	**583**	**439**	**1,869**	**2,891**	**2,682**
Additions	-	15	419	434	891
Removal of fully depreciated assets	-	-	-	-	-682
Closing balance as at 31 December	**583**	**454**	**2,288**	**3,325**	**2,891**
Accumulated depreciation at 1 January	**-20**	**-250**	**-1,593**	**-1,863**	**-2,016**
Depreciation expense	-97	-48	-165	-310	-532
Adjustment to depreciation due to removal of fully depreciated assets	-	-	-	-	682
Effect of foreign currency exchange differences	-	1	-	1	3
Accumulated depreciation as at 31 December	**-117**	**-297**	**-1,758**	**-2,172**	**-1,863**
Closing balance as at 31 December	**466**	**157**	**530**	**1,153**	**1,028**

Leasehold improvement is depreciated over 6 years (Amsterdam office premises, based on exiting contract). . Most of the equipment and motor vehicles are depreciated over 5 years. IT equipment is depreciated over 3 years. For year ended 31 December 2018, IT equipment - additions include some assets that are not yet in use. The value of these assets is EUR 260 thousand.

For year ended 31 December 2018, EuroCCP has no impaired assets.

	2018	2017
4. Intangible assets	**1,608**	**652**

The intangible assets consist of acquired software (that is not an integral part of the hardware) and software under development. The acquired software is amortised in 3 years. During 2018, EuroCCP began working on replacing the risk management system. For year-end 2018, EUR 1.0 million is capitalized as software under development.

EuroCCP has no impaired assets by 31 December 2018.

The tables below show the components of intangible assets at 31 December.

Software at cost as at 1 January	3,619	3,521
Acquired software at cost – additions	306	98
Software under development at cost – additions	1,013	-
Closing balance as at 31 December	**4,938**	**3,619**
Accumulated amortisation as at 1 January	-2,967	-2,457
Amortisation expense	-363	-510
Accumulated amortisation as at 31 December	**-3,330**	**-2,967**
Closing balance as at 31 December	**1,608**	**652**

For year ended 31 December 2018, acquired software at costs - additions include some software licences in value of EUR 222 thousand that are not yet in use.

	2018	2017
5. Other assets	**7,608**	**4,344**

The table below shows the components of other assets at 31 December:

Fees receivable from clients	360	1,040
Prepayments and accruals	3,554	3,118
Corporation tax receivable	832	-
Deferred tax asset	144	125
Other	2,718	61
Closing balance as at December 31	**7,608**	**4,344**

Prepayments and accruals consists of payments made in advance to providers of services and goods (according to commercial agreements in place). Fees receivables from clients relate to the month of December 2018, as the invoicing process takes place after the end of the month.

Components of other assets:

Other assets (accruals) related parties	284	403
Other assets third parties	7,324	3,941
Closing balance as at 31 December	**7,608**	**4,344**

Other assets related parties include EUR 7 thousand representing advanced payments to the Dutch tax authorities on behalf of one of the independent members of the Supervisory Board. The outstanding balance of EUR 7 thousand is not interest-bearing.

LIABILITIES

	2018	2017
6. Due to banks	**326,789**	**257,690**

The table below shows the components of due to banks at 31 December:

Demand deposits due to banks	326,789	257,690
Closing balance as at 31 December	**326,789**	**257,690**

This item includes, among others, balances of those clearing participants which are banks in the Clearing Fund (EUR 91 million) and mandatory collateral deposits (EUR 192 million).

The due to banks item can be split up as follows:

Demand deposits due to related party banks	178,762	146,737
Demand deposits due to third party banks	148,027	110,953
Closing balance as at 31 December	**326,789**	**257,690**

	2018	2017
7. Due to customers	**234,174**	**291,340**
The components of due to customers at 31 December are as follows:		
Demand deposits due to customers	234,174	291,340
Closing balance as at 31 December	**234,174**	**291,340**

This item comprises balances of non-bank clearing participants (customers) in the clearing fund (EUR 93 million) and mandatory collateral deposits (EUR 141 million).
The demand deposits are all due to third party customers.

	2018	2017
8. Tax payable	**79**	**74**
EuroCCP settles its tax obligations directly with the tax authorities in the relevant jurisdictions (the Netherlands, UK and Sweden).		
As at 31 December the composition of tax payables is as follows:		
Corporate tax payable	-	28
VAT payable	79	46
Closing balance as at 31 December	**79**	**74**

	2018	2017
9. Accrued interest, expenses and other liabilities	**9,969**	**6,791**
As at 31 December the composition of accrued interest and other liabilities is as follows:		
Accrued interest charges	650	507
Payables	548	300
Accruals	2,888	2,117
Salary related payables	2,163	1,116
Other	3,720	2,751
Closing balance as at 31 December	**9,969**	**6,791**

The accruals item consists of cost reservations for services performed by providers to EuroCCP, services for which invoices are not yet received. Most of the reservations relate to costs incurred in December 2018, relevant to both core business and administrative activities of EuroCCP.
“Other” includes mainly the Settlement Efficiency Improvement Fund (SEIF), as described in our Regulation Fees and Penalties[7], whose disbursements are made upon consultation of the Advisory Board of EuroCCP. These disbursements are reflected in note 15.

[7] Regulation Fees and Penalties is available on our website: www.euroccp.com.

Components of accrued interest, expense and other liabilities:		
Accrued interest, expense and other liabilities related parties	78	300
Accrued interest, expense and other liabilities third parties	9,891	6,491
Closing balance as at 31 December	**9,969**	**6,791**

	2018	2017
10. Shareholders' equity	**44,657**	**43,383**

At year-end 2018, EuroCCP has 7,500 ordinary shares in issue. The authorised share capital amounts to EUR 15 million distributed over 15,000 ordinary shares, each having a nominal value of EUR 1,000.

Share capital	7,500	7,500
Share premium	5,392	5,392
Retained earnings	24,854	23,082
Other reserves (legal reserve)	1,013	-
Other reserves (EMIR)	4,744	4,336
Other reserves (re-measurements of defined benefit pension plan and currency translation)	-120	-113
Proposed result of the year	1,277	3,193
Other comprehensive income for the year	-3	-7
Shareholders' equity	**44,657**	**43,383**

Other reserves (EMIR) consist of dedicated own resources, as are required by Regulation (EU) no. 648/2012 and Regulation (EU) no.153/2013. Other reserves (legal reserve) incurred during 2018 in relation to the replacement of the risk management system, as a requirement under Title 9 of Book 2 of the Dutch Civil Code.
Other comprehensive income for the year comprises the impact of the currency translation differences arising on consolidation of the London Branch, net of tax.

	2018	2017
11. Contingent assets	**904,136**	**926,183**
The details of contingent assets at 31 December are presented below.		
Non-cash contribution to clearing fund (bonds)	59,829	63,833
Non-cash deposits to interoperability fund (bonds)	105,114	115,867
Cash deposits to interoperability fund	335,981	265,217
Non-cash mandatory collateral deposits (bonds)	273,209	336,586
Collateral received	130,003	293,905
Total contingent assets	**904,136**	**1,075,408**

Contingent assets comprises of bonds and cash received from clients in the account of EuroCCP and bonds received under treasury agreements in vigour by end of the year, as follows:

The non-cash contribution to the clearing fund is governed by the rules of the Regulation Clearing Fund[8].
Interoperability fund deposits are comprised of cash and non-cash deposited by clearing participants of EuroCCP, according to the Regulation Interoperability Fund[9].
Mandatory collateral deposits are subject to the Regulation Collateral. The collateral received is relevant for and subject to REIP, that safeguards the cash provided by the clearing participants as clearing fund contributions and mandatory collateral deposits. EuroCCP does not have any economic interest in the collateral.

	2018	2017
12. Contingent liabilities	**374,533**	**308,116**
Commitments (rental of premises)	1,741	2,045
Guarantee given	372,792	306,071
Total contingent liabilities	**374,533**	**308,116**

Rental of premises represent the minimum period commitments as per 31 December 2018 for each geographical location. EuroCCP entered during 2017 into a new rental agreement for the Amsterdam office premises.
The “guarantee given” represents collateral pledged by EuroCCP on 31 December to 2018 the other interoperable CCPs, to cover margin calls EuroCCP received from other interoperable CCPs under reciprocal collateral arrangements in place with Clearstream Banking, which allow the co-operating CCPs to provide collateral to each other to meet the interoperable CCPs’ margin obligations. For EuroCCP, the assets used to provide collateral are deposited by the Clearing Participants in the interoperability fund designated account.
There are no contingent liabilities arising from post-employment obligations.

[8] Regulation Clearing Fund is available on our website: www.euroccp.com.
[9] Regulation Interoperability Fund is available on our website: www.euroccp.com.

Notes to the statement of profit or loss for 2018

(x EUR 1,000)

	2018	2017
13. Net interest income	**1,740**	**1,297**
Interest income	-	-
Interest expense	5,194	6,091
Negative interest on assets	-3,454	-4,794
Net interest expense	**1,740**	**1,297**

Net interest comprises of interest amounts paid by EuroCCP for use of credit lines, directly related to EuroCCP's settlement needs in different markets, and interest charged by EuroCCP for the financial liabilities to its clients.

The breakdown of net interest expense is as follows:

Interest expense related parties	1,183	684
Interest expense third parties	4,011	5,407
Interest expense	**5,194**	**6,091**

Negative interest on assets include interest amounts paid on financial assets - cash and cash equivalents deposited with credit institutions, part of treasury arrangements - as a result of negative interest rates.

Negative interest on assets can be split in:

Negative interest on assets related parties	-779	-2,114
Negative interest on assets third parties	-2,675	-2,680
Negative interest on assets	**-3,454**	**-4,794**

	2018	2017
14. Net fees and commissions	**18,322**	**20,517**

The Commissions and fees item can be split as follows:

Commission and fee income	32,164	33,166
Commission and fee expense	-13,842	-12,649
Net commissions and fees	**18,322**	**20,517**

The components of fee and commission are:

Net commissions securities	18,461	20,673
Net commissions - other	-139	-156
Net commissions and fees	**18,322**	**20,517**

The breakdown of the net commissions and fees item is:

Net commissions and fees related party companies	3,075	2,731
Net commissions and fees third party customers/banks	15,247	17,786
Net commissions and fees	**18,322**	**20,517**

The comparative amount for 2017 net commissions and fees related party companies was restated from 1,192 thousand euro to 2,731 thousand euro.

	2018	2017
15. Other revenue	**1,175**	**782**

This item consists mainly of cost recovery items related to company's initiatives for new products and settlement process enhancement in value of EUR 1.1 million. Included in this item are also the foreign exchange differences on monetary items and the result coming from losses from operational activity, which are immaterial (net impact is cost EUR 4 thousand).

	2018	2017
16. Personnel expenses	**9,867**	**7,525**

Details are presented below:

Salaries and wages	7,592	5,580
Social security charges	507	685
Contributions to defined contribution pension plans	674	573
Expenses related to defined benefit pension plans	-	-
Bonus expenses	832	437
Other	262	250
Total staff expenses	**9,867**	**7,525**

The remuneration of the Management Board in 2018 was EUR 1.65 million, composed of salary and bonus, comparable with EUR 1.2 million in 2017. The contributions made for the defined contribution pension plans amounted to EUR 55 thousand (2017: EUR 49 thousand).
The average number of full-time equivalent employees in 2018 was 59.3 (2017: 58.3).
The remuneration to the Supervisory Board was EUR 201 thousand in 2018 (including VAT) relevant to 3 members. The remuneration to the Supervisory Board was EUR 118 thousand in 2017 (including VAT) relevant to 2 members.

The breakdown of personnel expense is as follows:

Expense related parties	561	458
Expense third parties	9,306	7,067
Total personnel expense	**9,867**	**7,525**

Employee benefits

Defined contribution pension plan

By 31 December 2018, all EuroCCP employees benefited from defined contribution pension plans. The amount paid to defined contribution pension plans of employees in Amsterdam, Stockholm and London amounted to EUR 674 thousand in the statement of profit or loss; the amount for 2017 was EUR 573 thousand.

	2018	2017
17. Depreciation and amortisation	**674**	**1,042**
Details of depreciation and amortisation expense are presented below:		
Depreciation expense	310	532
Amortisation expense	364	510
Total depreciation and amortisation	**674**	**1,042**

	2018	2017
18. Other operating and administrative expenses	**9,019**	**9,419**
Details of other operating and administrative expenses are presented below:		
Technology and system costs	5,118	5,215
External staff	586	1,394
Audit, legal and compliance expenses	830	793
Consultancy	1,069	643
Travel and representation expenses	163	239
Rental expenses	577	421
Other	676	714
Total other operating and administrative expenses	**9,019**	**9,419**

The allocation of total operating and administrative expenses was as follows:

Expenses related parties	2,911	3,220
Expenses third parties	6,108	6,199
Total other operating and administrative expenses	**9,019**	**9,419**

Operating and administrative expenses decreased by EUR 0.4 million compared with previous year, mainly due to market development projects and research for clearing other products, with impact on external staff and consultancy.

The comparative amount for 2017 other operating and administrative expenses related parties was restated from 2,869 thousand euro to 3,220 thousand euro.

External auditor's fee

The remuneration to be paid to the external auditor totals EUR 218 thousand for the audit of the financial statements and EUR 12 thousand for non-assurance engagements related to the Regulation EuroCCP Investment Policy (2017: EUR 148 thousand and EUR 18 thousand respectively).

	2018	2017
19. Income tax	**399**	**1,417**
The details of the corporate income tax are presented below ("-" is profit in this particular note):		
Current tax expense for the current period	414	1,147
Adjustment recognised in the period for current tax of prior periods	4	-137
Deferred tax expense arising from previous period	-18	407
Total income tax expenses	**400**	**1,417**
Income tax relating to other comprehensive income	-1	-3
Total income tax	**399**	**1,414**

The effective tax rate was 24% in 2018, lower than previous year's effective tax rate of 31%. During 2018, the corporate income tax was 25% in the Netherlands.

Post-balance sheet date events

On 9 December 2019, a share purchase agreement was concluded setting out the conditions for the transfer of 80% of the shares to Cboe that are currently held by the other shareholders. Since Cboe currently already holds 20% of the shares, this means that Cboe will be EuroCCP’s sole shareholder at the time the transaction is closed, which is expected to happen in the first half year of 2020. The conditions included in the share purchase agreement relate in particular to regulatory approval of both the purchase of the remaining 80% of the shares by Cboe and the proposed solution to the liquidity issue. Another important condition relates to the placement of the syndicated loan of EUR 1.5 billion.

As part of improving EuroCCP's liquidity risk management framework and its resilience to extreme but plausible circumstances, Cboe and EuroCCP initiated a loan syndication process for a multi-currency committed, syndicated loan of EUR 1.5 billion that will commence early 2020.

October 2019 year-to-date profit before tax October amounted to EUR 3.3 million which was equal to the pre-tax profit reported for the same period in 2018.

Legal procedures

EuroCCP is not involved in court procedures.

Amsterdam, 11 December 2019

Management Board:	**Supervisory Board:**
Cécile Nagel	Jan Bart de Boer
Arnoud Siegmann	Karl Spielmann
	Mark Hemsley
	Lauri Rosendahl
	Nicolas Rivard
	Clotilde Bouchet
	Peter Bezemer
	Paul Hilgers

Other information

Independent auditor's report

To: the General Meeting and the Supervisory Board of European Central Counterparty N.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2018 of European Central Counterparty N.V., based in Amsterdam.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of European Central Counterparty N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. the statement of financial position as at 31 December 2018;

2. the following statements for 2018: the statement of profit or loss, the statements of total comprehensive income, changes in shareholders' equity and the cash flow statement; and

3. the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of European Central Counterparty N.V. (or 'the Company') in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Material uncertainty related to going concern

We draw attention to the going concern paragraph in the notes on page 21 of the financial statements, which indicates that the going concern of the Company depends on obtaining approval for the Company's revised liquidity framework from the Company's regulators. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the sections: Letter from the CEO, About us and Governance and organisation;
- report from the Management Board;
- report of the Supervisory Board; and
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Management Board is responsible for the preparation of the other information, including the Report from the Management Board, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Management Board and the Supervisory Board for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the Company’s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the Company’s ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company’s financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

— identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtaining an understanding of internal control relevant to the audit 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 Company's internal control;

— evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board;

— concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;

— evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and

— evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amstelveen, 11 December 2019

KPMG Accountants N.V.

N.C. Paping RA

Rules on profit appropriation

As per article 24 of the Articles of Association of EuroCCP, the authority deciding over the allocation of profits (as determined by the adoption of the annual financial statements) and making distributions is vested in the General Meeting of Shareholders, with due observance of the limitations prescribed by law. A resolution to make a distribution will not be effective until approved by the Management Board. The Management Board may only refuse to grant such approval if it knows or reasonably foresees that after the distribution, EuroCCP would not be able to continue to pay its debts as they fall due.

Profit appropriation

The Management Board proposes that the net profit for 2018 totalling EUR 1.3 million be added to retained earnings.

Other information

EuroCCP is registered as a UK establishment of an overseas company at UK Companies House, with the office located in London. In 2018, EuroCCP had a representative office in Stockholm for almost the entire year, which was closed on 31 December 2018.