



# EMCF

*Annual Report 2010*

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## CLEARING SOLUTIONS FOR ALL TO SEE



# TABLE OF CONTENTS

<b>1</b>	<b>At a Glance</b>	<b>3</b>
<b>2</b>	<b>Letter from the CEO</b>	<b>5</b>
<b>3</b>	<b>Report from the Executive Board</b>	
	<i>3.1 About us</i>	<b>6</b>
	<i>3.2 Highlights</i>	<b>7</b>
	<i>3.3 Markets and drivers</i>	<b>8</b>
	<i>3.4 Strategy</i>	<b>11</b>
	<i>3.5 Financial results</i>	<b>11</b>
	<i>3.6 Technology</i>	<b>11</b>
	<i>3.7 People</i>	<b>12</b>
	<i>3.8 Outlook</i>	<b>13</b>
<b>4</b>	<b>Risk management</b>	<b>14</b>
<b>5</b>	<b>Governance</b>	<b>15</b>
<b>6</b>	<b>Financial Statements</b>	<b>16</b>
	<i>6.1 Balance sheet as at 31 December 2010</i>	<b>17</b>
	<i>6.2 Income statement for the year 2010</i>	<b>17</b>
	<i>6.3 Statement of changes in equity</i>	<b>18</b>
	<i>6.4 Cash flow statement for the year 2010</i>	<b>19</b>
	<i>6.5 Accounting principles</i>	<b>20</b>
	<i>6.6 Risk management</i>	<b>25</b>
	<i>6.7 Notes to the balance sheet as at 31 December 2010</i>	<b>28</b>
	<i>6.8 Notes to the income statement as at 31 December 2010</i>	<b>33</b>
<b>7</b>	<b>Other Information</b>	<b>37</b>

# 1. AT A GLANCE

## “CLEARING SOLUTIONS FOR ALL TO SEE”

European Multilateral Clearing Facility N.V. (EMCF) is Europe’s largest cash equities clearing company servicing 19 markets through 8 Multilateral Trading Facilities (MTFs) and exchanges.

We deliver transparent and predictable pricing to 58 clearing participants and employ the most advanced and prudent risk management practices in the industry.

### EMCF coverage as per December 2010

#### WHAT WE DO:

- Novation
- Netting
- Risk Management
- Settlement
- Reporting

## HIGHLIGHTS 2010

EMCF has continued to grow its market share through the quality of its services, its competitive pricing and the large number of exchanges and MTFs it covers. In 2010, on average it cleared around 3.2 million transactions per day, representing an average daily equity value of some EUR 22 billion.

**3.2 million** transactions cleared per day (+100%)

Close to **40%** market share

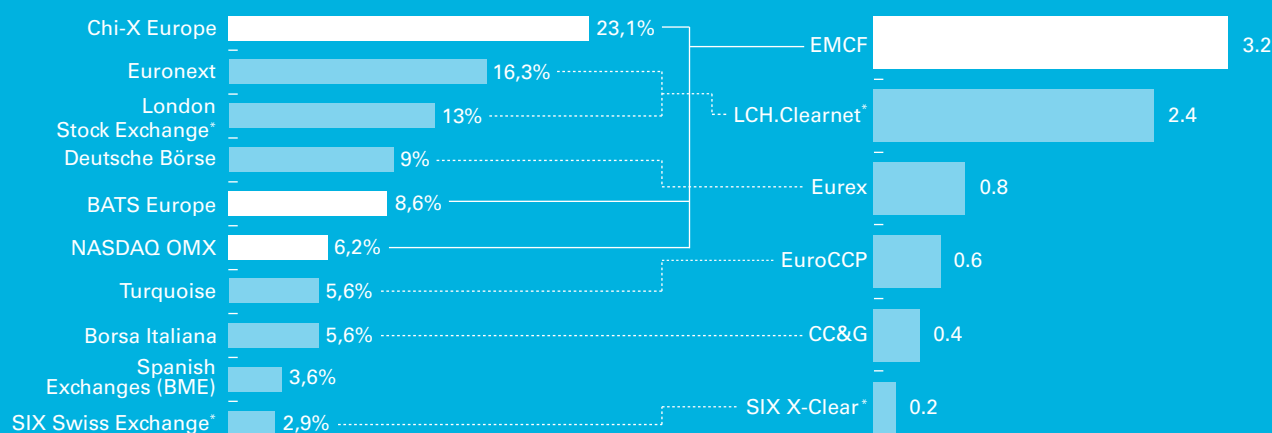
**1 new** trading venue

Major clearing **fee reduction**

Net revenue of EUR 27.6 million (+60%)

TRADING PLATFORM MARKET SHARE  
2010 (% cash equities trades)

AVERAGE CLEARED TRADES PER DAY  
2010 (M)



\* LSE competitive clearing volumes attributed to LCH, Six Swiss Exchange volumes attributed to X-Clear.  
Source: FESE, EMCF, Spring Associates analysis.

## 2. LETTER FROM THE CEO



*Dear Reader,*

I am very happy to again be able to report on a very good year for EMCF. In 2010, as in previous years, our clearing model proved its worth in transparency, robustness and reliability, resulting in a strong financial performance. In 2010, another MTF, The Order Machine ("TOM") opted for the services of EMCF, however, unfortunately EMCF witnessed as well the closing of Nasdaq OMX Europe as per 1 July 2010.

This strong performance was driven by a continued expansion of market trading activity. On 7 May 2010, EMCF processed in one single day, an all time high of 7.7 million contracts traded on the platforms and exchanges we clear for.

The continued expansion and the increase of EMCF's market share (approximately 40% of all exchange/ MTF traded European equity volume) is, as always, a consequence of the success of the platforms and exchanges we serve.

In 2010, a number of improvements were developed and implemented related to our business model. EMCF established full operational independence from ABN AMRO Bank N.V., parent company of our main shareholder ABN AMRO Clearing Bank N.V. Formerly outsourced services (like IT hosting and HR services) are all in sourced by EMCF. As a final step within this

project, EMCF physically moved to a new office in Amsterdam.

Although turnover showed further steady growth in 2010, EMCF, listening to the market participants, again significantly lowered its clearing fees in the course of 2010, bringing further benefits to all parties involved. It goes without saying that also in 2010, a lot of time and effort has been spent on the interoperability project. EMCF has worked closely together with regulators and other CCPs, and has filed its request for approval of the model in early August. The way in which EMCF intends to interoperate, in particular in respect of risk mitigation and secure collateral exchange between CCPs, was presented to our clients in late 2010.

It gives me great satisfaction to look back on our achievements in 2010 and the continued growth of our company and clearing model. I would like to stress that the success of EMCF is not an individual achievement but a success of all parties within our market model. We saw a more than impressive organic growth within the platforms we service, with a strong and leading role by Chi-X and BATS, and a high degree of professionalism within our participant base. I would hereby like to thank the teams of our partner MTFs and exchanges, our participant base and the whole EMCF team for its contribution and dedication to the success of EMCF.

In 2011 I look forward to working closely with our clients and benefiting from the considerable market opportunities that lie ahead for us all.

A handwritten signature in black ink, appearing to read 'Jan Booij'. The signature is stylized with a long horizontal stroke and a vertical stroke crossing it near the end.

**Jan Booij**  
CEO

# 3. REPORT FROM THE EXECUTIVE BOARD

## 3.1 ABOUT US

Launched in 2007, EMCF became Europe's largest cash equities clearing company in 2009. It remained in this #1 position in 2010. It clears close to 40% of all (on exchange and MTF traded) European equity volumes and averages over 3.2 million transactions per day.

EMCF delivers CCP Services in 19 European markets through 8 Multilateral Trading Facilities (MTF) and exchanges: Chi-X Europe, BATS Europe, NASDAQ OMX Nordic exchange and NASDAQ OMX Europe (until 1 July 2010, when it ceased its operations), Quote MTF, Burgundy and TOM. Today, EMCF serves 58 European financial service providers as clearing participants.

EMCF offers CCP services to clearing participants who in turn provide clearing services to trading participants that are trading on MTFs and regular exchanges. These services include novation, gross trade netting, settlement, settlement fails management, margining and risk management.

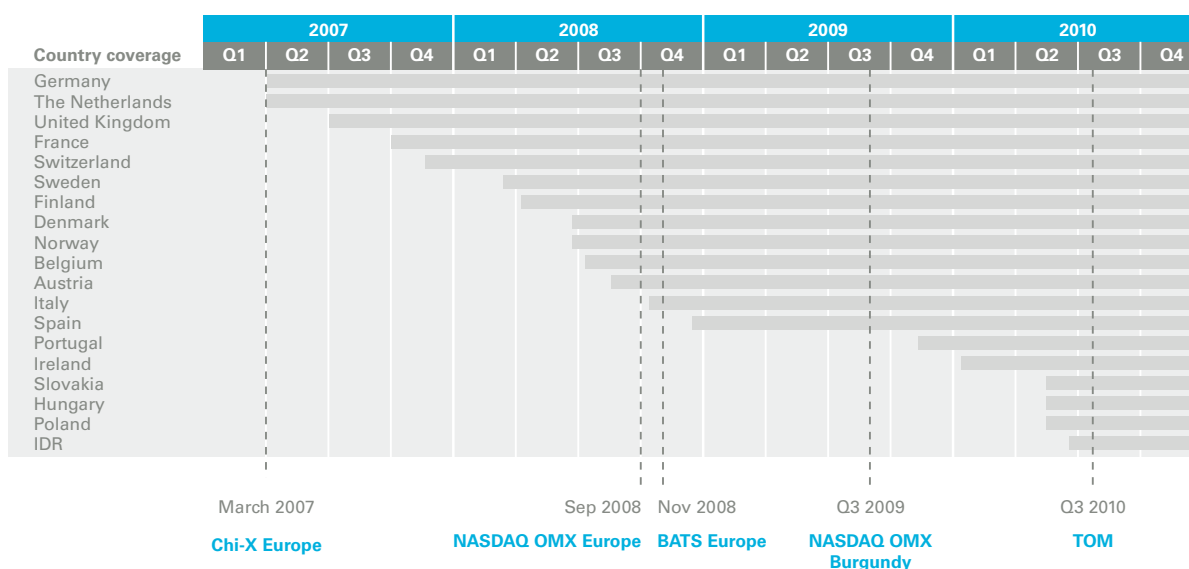
The EMCF CCP offering aims to provide transparent and predictable pricing, listening to its customers. There are no hidden charges in the EMCF model, such as testing fees, membership fees, collateral or corporate action handling fees.

EMCF employs the most advanced and prudent risk management practices in the industry, giving clients the confidence that risks are managed in a competent and timely manner.

EMCF is regulated by the Dutch Central Bank (De Nederlandsche Bank; DNB) and by the Dutch Authority for Financial markets (Autoriteit Financiële Markten; AFM); EMCF is a Recognized Overseas Clearing House (ROCH) under the rules of the Financial Services Authority (FSA) in the United Kingdom. Its registered office is in Amsterdam, the Netherlands.

EMCF is approved by the Finnish Ministry of Finance to act as Clearing House in Finland on a cross border basis. Furthermore, EMCF is also an approved foreign clearing centre, approved by the Danish Financial Supervisory Authority.

Launch dates of trading venues and countries serviced by EMCF, 2007-2010



### 3.2 HIGHLIGHTS 2010

In 2010, EMCF again proved its leadership in equity clearing in Europe by maintaining its top position in a fast growing market. Being in continuous control of the ever expanding turnover, EMCF validates its business model in pricing, technology and risk management, bringing considerable benefits to the market in general and clients and business partners (Clearing Participants, MTFs and exchanges) in particular.

The net revenue in 2010 was EUR 27.6 million (+60%) and the profit before tax was EUR 13.8 million (+55%). Although turnover showed further steady growth in 2010, EMCF, listening to the market participants, again significantly lowered its clearing fees in the course of 2010, bringing further benefits to all parties involved. In that respect it must also be noted that the largest part by far of the profit over 2010, was made in the first half of the year (approx. EUR 9.3 million), before the major clearing fee revision.

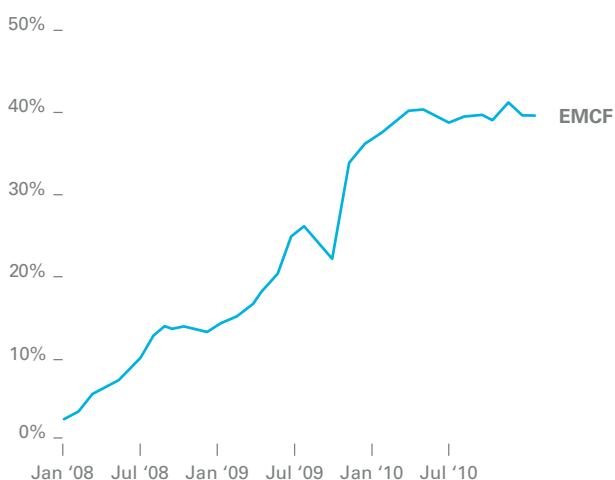
The reason for the continued growth in volumes was

through the organic growth of our existing platforms, again experiencing a significant increase in trading volumes, and the expansion into new markets and MTFs. The continued expansion and the increase in market share was as always driven by the success of the platforms and exchanges we serve, led by Chi-X and BATS and is also due to the quality of our service, our highly competitive pricing and the increasing number of exchanges and MTFs we service.

Unfortunately, for the first time in its existence, EMCF witnessed the closing of one of the MTFs it serviced. On 1 July 2010 NASDAQ OMX Europe ceased its operations as a pan-European MTF.

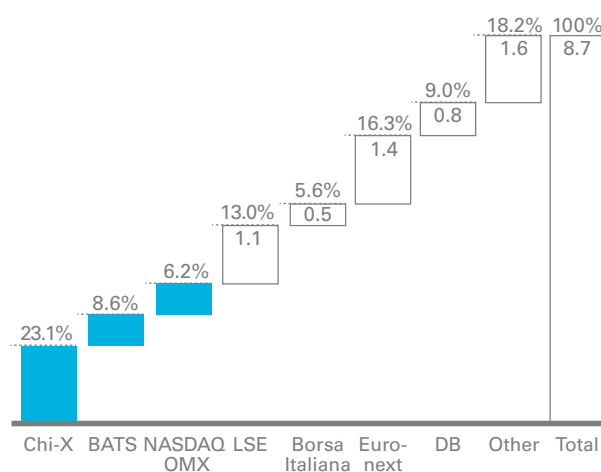
As was decided soon after the launch in October 2009 of the CCP clearing project in the Nordic markets, EMCF opened a representative office in Stockholm in February 2010. With this, EMCF again proved its policy to listen to its customers and showed the many Nordic market participants its continued commitment to their markets and their interests.

**CCP Market shares of European on-exchange equity trades\*.**  
Jan. 2008 - Dec. 2010 (%)



\* Electronic order book trades, excludes investment fund trades and negotiated deals. Source: FESE, WFE, Spring Associates analysis

**Daily number of transaction sides, 2010**  
(M)



## INTEROPERABILITY

A lot of time and effort was spent on the interoperability project. Together with three other European CCPs, EMCF has worked on a general framework for interoperability between CCPs that fulfils the joint regulatory requirements as voiced by the overseers of the 4 CCPs involved. In the background, discussions have also been influenced by the European Market Infrastructure Regulation (hereinafter EMIR) consultation process that also addresses interoperability. EMIR seems to include both the possibility of interoperability and the right of access to trade feeds, but equally seems to offer the possibilities of frustration of interoperability through a complex supervisory framework involving many regulators.

The way in which EMCF intends to interoperate, in particular in respect of risk mitigation and secure collateral exchange between CCPs, was presented to our clients in late 2010. These presentations mentioned the establishment of an EMCF Interoperability Fund and the way in which EMCF would source interoperability margin.

However, next to advocating the benefits, EMCF has also consequently echoed its concerns about interoperability. Only interoperability with full and equal access to trade feeds for CCPs leads to true competition and true choice for market participants. In this way, it can contribute to the consolidation of CCP business in Europe. EMCF would welcome such competition because our operational quality and our low cost base will enable us and our customers to benefit from it.

In view of recent merger and acquisition activity of major exchanges, however, EMCF does not see any real prospect for sharing trade feeds. This means that entering into live interoperability under the circumstances prevailing today, would essentially be a one-way street that would not promote competition and progress.

## CARVE OUT

The carve out project, initiated by EMCF to establish full

operational independence from ABN AMRO Bank N.V. (being the parent company of our main shareholder ABN AMRO Clearing Bank N.V.), ran for most of the year and was finalised in November 2010.

It included the moving of all automated processes to new dedicated hardware, placed in newly contracted and independent data centres (including backup facilities for business continuity purposes), the creation and implementation of new IT technical and support responsibilities within the EMCF organization, the rerouting of data feed facilities and, finally, the physical moving of all EMCF staff to new offices in Amsterdam. The magnitude of this project and the time and effort spent on this, can not be underestimated, given the role and position of EMCF as part of the financial infrastructure in Europe and the fact that every aspect of the business and processing of EMCF were affected by this.

Thanks to the dedication and professionalism of the EMCF staff, and the rigorous planning and control of this project, it was completed without any major problems or consequences for MTFs and Clearing Participants.

## CLEARING FEE REVISION

In view of the continued growth in turnover and listening to its customers, on the 1 July 2010, EMCF again and considerably lowered its clearing fees for all Clearing Participants and introduced a volume discount schedule to bring even more benefits to the larger users of its services.

With this step, EMCF firmly positioned itself again as the most competitive CCP in respect of the overall costs per transaction.

## 3.3 MARKETS AND DRIVERS

Looking at 2010, we have observed a slight shift in the trends and developments as compared to the years before. The fierce competition in the European equity trade and post-trade environment remained, resulting

in a further decline of post-trade prices and the first MTF that decided to discontinue its operations as part of a new strategic orientation. Looking at the European landscape of trade and post-trade service providers, it is still believed that consolidation in one way or another is necessary and unavoidable. However, when looking at the way these service providers now tend to face the competitive challenges, it seems that more and more institutions involved are attempting to incorporate more parts of the value chain within the same group or company and to protect their own interest rather than opening up to the market and compete in all transparency on service and price. At the same time, equity trading volumes have continued to grow, still due to the same factors as before: algorithmic trading, lower transaction sizes and decreasing costs due to technological progress, among other factors. Further growth is expected as trading and post trade costs continue to fall to lower levels and market liquidity increases further.

EU legislative authorities are aiming to get a firmer grip on the markets as can be seen from initiatives like

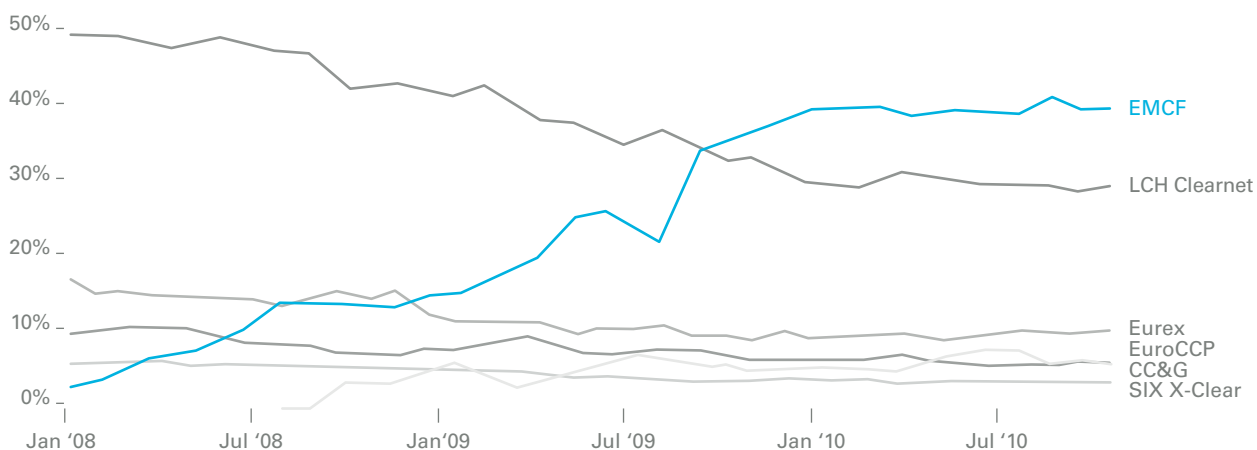
EMIR, the consultation on CSD and harmonisation of settlement, the MiFID revision, the proposals for the securities law directive and lawmaking for close-out netting.

Our commitment remains to provide a low cost, transparent clearing solution across multiple European markets, combined with robust risk management systems and practices.

### WESTERN EUROPE

The Western European market still holds enough potential to further increase our market share through the combined strength of the quality of services and prices of EMCF itself and the continued efforts and success of the MTFs we serve. Based on valid business cases and customer demand, it stands to reason that creating more CCPs is not the solution that will help the market in any way regarding overall costs (collateral, connectivity, etc.) or further fragmentation and increased (settlement and other) risks.

CCP Market shares of European on-exchange equity trades\*. Jan 2008 - Dec 2010 (%)



### **NORDIC REGION**

Launched at the end of 2009, the central counterparty clearing (CCP) services in the Nordic region have now settled in the markets and have delivered on their promise to reduce costs and risk and to help increase trading volumes of equities on the NASDAQ OMX exchanges in Copenhagen, Helsinki and Stockholm.

### **CENTRAL AND EASTERN EUROPE**

Although the introduction and start of these markets suffered a set back with the new strategic orientation of the initiating MTF, EMCF still sees potential for growth in a number of key markets in Central and Eastern Europe (CEE). As far as EMCF is concerned, it is ready to provide CCP services for equities traded in the Polish, Hungarian and Czech stock markets.

### **SOUTHERN EUROPE**

Building on the recognition of the opportunities in these markets, we have seen an increased interest here, namely in Spain. The Spanish market is in the process of changing its rules and practices to further align them with other European markets. EMCF is actively participating in these discussions and intends to continue to play a role in the development of the Spanish market.

### **TOM STARTS**

The Order Machine (TOM), an innovative and pioneering best execution service for stock exchange orders, has started its business using the post-trade services of EMCF, in Q3 of 2010.



### 3.4 STRATEGY

The transition in 2010, positions EMCF for standalone growth and further expansion in 2011. The pricing changes in July 2010 have improved the competitive position of EMCF and considerably lowered the costs of trading and clearing for EMCF participants. For 2011, EMCF strategy is focused on organic growth and client focus, through the following elements:

- **Growth:** The robust technology and flexible organisation make a good candidate to extend EMCF to other exchanges and MTFs. EMCF will extend its CCP offering to exchanges that seek a flexible and scalable CCP solution.
- **Level playing field:** Its low cost base and multiple connectivity gives EMCF a competitive positioning to grow its business in a level playing field. EMCF has been one of the first firms pushing for a true level playing field in Europe and will continue to do so.
- **Product extension:** The EMCF clearing platform is a flexible system that enables real time integrated risk management across a multiproduct portfolio. With partnering platforms, EMCF will extend its product range to products other than the current scope (cash equities, IDRs, ETFs and ETCs).
- **Technology:** Successful completion of the switch to standalone systems has made EMCF more flexible to cope with the complex data management processes. EMCF will continue to build and expand its IT capabilities and processing capacity.

### 3.5 FINANCIAL RESULTS

EMCF's commitment to transparency and price leadership in the market continued to deliver record results also in 2010, with a net income of EUR 27.6 million (+60%), net interest expense of EUR 0.8 million, and net commission and fees of EUR 28.4 million (+63%).

Profits before tax rose from EUR 8.9 million in 2009 to EUR 13.8 million (+55%) and net profits followed the same increasing trend, from EUR 6.6 million to EUR 10.3 (+55%), generated by growth in our operational activities. Again, it must be noted that the major part of

the profit was realised in the first half of the year (EUR 9.3 million), before the significant reduction in clearing fees that was implemented as per 1 July 2010.

EMCF cleared approximately 851 million transactions in 2010, doubling the number of the transactions cleared during 2009 (equal to 413 million). As a result, net commission and fees increased 63% to EUR 28.4 million in 2010 from EUR 17.4 million the previous year.

Operating and administrative expenses were EUR 13.8 million.

Operating activities generated a net cash flow of EUR 69 million during 2010.

Operating inflow is represented by demand deposits due to credit institutions (EUR 18 million), demand deposits due to customers (EUR 14 million), due from banks/customers (EUR 21 million) and net changes in all other operational assets and liabilities (EUR 2 million). Financing activities generated an outflow of EUR 6.6 million, representing dividend related to 2009 and paid during 2010. Cash outflow generated by investing activities amounted to EUR 2 million, representing purchases of property, equipment and intangible assets, as part of the "carve-out" from ABN AMRO Bank N.V.

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

### 3.6 TECHNOLOGY

State-of-the-art technology to support straight through processing of equity transactions is key to EMCF's ability to provide its central counterparty services at low cost. The clearing and settlement and risk management applications form the core of its IT infrastructure.

The year 2010 was a landmark year from an IT perspective: the entire IT infrastructure and operation was "carved-out" from the ABN AMRO Bank N.V. datacenters and IT organization.

The EMCF IT operation was outsourced to the parent company from the start of EMCF's service in March 2007. EMCF systems and applications were physically located in the ABN AMRO Bank N.V.'s data centers and

were managed and monitored by ABN AMRO Bank N.V. IT professionals. As EMCF's importance as part of the European financial infrastructure evolved, it strived to become independent from third party providers, including its parent company.

Preparations for the IT carve-out began at the end of 2009 with the Supervisory Board approval of the IT carve-out plan and the related investments. The execution of the plan followed immediately afterwards with the selection of two independent data centers to host the EMCF systems, the building of a fiber glass ring by two independent fiber connectivity providers, connecting the two data centers, and the purchase and installation of all the necessary network equipment, systems and software licenses.

A dedicated IT team was formed to implement the IT infrastructure physically. That same team has remained responsible for the daily IT operations and monitoring since the initial set up.

The systems and applications landscape has been changed considerably to reduce complexity and costs. The application that receives the transaction messages from the trading venues has been migrated to a Linux platform and has been upgraded to become high-available. The generic and functionality-rich software that routes messages between the various systems has been eliminated by simplifying the message flow between the systems and by adding functionality elsewhere in the chain. The clearing software was substantially enhanced to interface directly with the Swift infrastructure and to enable processing of Swift format settlement messages. The risk management software has also been ported to a Linux platform.

An important milestone in the carve-out project was the start of the operation of the external user acceptance environment out of the new data center. That service started according to plan in early July.

The production environment has been migrated in three steps to minimize the risk per step. The Swift infrastructure in the new datacenters has been taken in production at the end of October. Traffic has been

directed to the ABN AMRO Bank N.V. data centers for further processing using temporary connections. After extensive individual testing with each trading venue and with each clearing participant concerned, all external connections were switched to the new datacenters in the first week of November. In a third and final step the clearing and settlement and risk management software and corresponding data were moved successfully to the new environment by mid November.

Office automation facilities were provided by the parent company prior to the carve-out. An independent third party supplier was selected to provide these facilities in the new situation. EMCF staff migrated in small groups to the new environment during the months June to November. The consciously chosen stepwise approach contributed to the smooth transition.

EMCF adhered to the use of "software-as-a-service" for most of its non-core processes. This very cost effective approach has been implemented for office automation, accounting, human resource management, customer relationship management, configuration, change, incident and project management.

An IT control framework has been put in place in parallel to the technical implementation. This framework emphasizes configuration management, change and incident management.

The entire project has been closely monitored by the external auditor. The EMCF regulators have followed the project from the start and have given their approval for each of the three migration steps.

The new infrastructure, its operation and its monitoring have worked well since its start in October and November 2010.

### 3.7 PEOPLE

The EMCF team comprises 35 dedicated professionals (by end 2010) who are committed to the success of the business by delivering a high-quality and personalised offering to clients. EMCF provides these services

while employing sound risk management, business development towards new markets and trading venues and continued improvement of IT software and processing.

EMCF strives to be an attractive employer. Our goal is to create a professional and pleasant work environment that contributes to developing motivated, dedicated and creative employees, which is ultimately important for the company's continued success.

We want to maintain a lean and flat organisation, enabling us to quickly respond to regulatory changes, changes in the marketplace and requests from both Clearing Participants and trading venues.

### 3.8 OUTLOOK

The pricing change in July 2010 has reduced the costs of clearing for our participants by approximately 50%. This has greatly improved the competitive positioning of EMCF but it has had a negative impact on revenue potential. EMCF expects volumes of the platforms serviced by EMCF to grow as a result of the pricing change, but it is unlikely that volume growth will compensate the pricing changes.

The regulatory environment for CCP clearing is subject to change with the introduction of EMIR. EMIR will introduce uniform regulatory requirements across Europe.

The status of interoperability is interlinked with the draft proposals and entry into force of EMIR. Interoperability will have significant impact on the market conditions for CCPs in Europe. EMCF has been a vocal proponent of interoperability on a true level playing field for CCPs in Europe. EMCF will continue to push for a harmonised level playing field in Europe.

EMCF is in the process of installing a risk committee. The risk committee will represent clients in risk related management decisions. With the installation EMCF wants to reconfirm its commitment for user participation in the CCP in line with the draft requirements of the EMIR legislation.

# 4. RISK MANAGEMENT

Risk management is at the heart of EMCF's business model and forms a crucial and integral part of our systems, procedures and day to day focus.

For a detailed description of EMCF's risk management policies and practices, we refer to risk management chapter in this report.

# 5. GOVERNANCE AND OWNERSHIP

We believe good corporate governance plays an essential part in ensuring our sustainable growth within a global economy. We are therefore committed to achieving full independence of our corporate governance systems and our operating model and have sought to achieve greater diversification of the shareholder base.

The current shareholder base of EMCF is as follows:

- ABN AMRO Clearing Bank N.V. (77 %)
- ABN AMRO Bank N.V. (1 %)
- OMX AB (22%)

The parent company is exploring other opportunities to diversify our shareholder base through the addition of more parties, such as large banks and flow providers.

## SUPERVISORY BOARD

The EMCF Supervisory Board includes two members from ABN AMRO Bank N.V., one Independent Member and two members from NASDAQ OMX, as a result of its ownership stake. In 2010, it comprised the following members:

- Jan Bart de Boer, Chairman (ABN AMRO Bank N.V.)
- Andrej Bolkovic (ABN AMRO Bank N.V.), since mid-2010
- Erik Jens (ABN AMRO Bank N.V.), until mid-2010
- Hans-Ole Jochumsen (Nasdaq OMX Nordic OY)
- Andras Vajlok (Nasdaq OMX Nordic OY), since mid-2010
- Henrik Paulson (Nasdaq OMX Nordic OY), until mid-2010
- Peter Bezemer, Independent Member

## EXECUTIVE BOARD

The Executive Board consists of:

- Jan Booij, Chief Executive Officer
- Albert-Jan Huizing, Chief Information Officer

The Executive Board is supported by the other management team members Arnoud Siegmann (Risk Management), Willem Mooijer (Sales and CRM), Theo Houwink ten Cate (Legal and Compliance) and Björn Svensson (EMCF's Nordic office), with a combined

experience in excess of 70 years in equities and derivatives clearing.

## STRUCTURE AND REGULATION

EMCF, the Dutch Central Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM) have entered into an agreement in 2007 whereby the parties have agreed upon the voluntary supervision of EMCF by these Dutch regulators. In this agreement, the parties agreed that the supervision would remain in force until legislation regarding CCPs will come into force.

*Amsterdam, 20 May 2011*

*Jan Booij, Chief Executive Officer*

*Albert-Jan Huizing, Chief Information Officer*



*From left to right: Jan Booij, Andras Vajlok, Peter Bezemer, Hans-Ole Jochumsen, Jan Bart de Boer, Andrej Bolkovic, Theo Houwink ten Cate, Albert-Jan Huizing.*

# 6. FINANCIAL STATEMENTS FOR THE YEAR 2010

## 6.1 BALANCE SHEET AS AT 31 DECEMBER 2010

BEFORE PROPOSED PROFIT APPROPRIATION (X EUR 1,000)

	Note	2010	2009
<b>ASSETS</b>			
Cash and cash equivalents	1	156,751	100,700
Due from customers	2	12,402	33,442
Property and equipment	3	1,227	-
Intangible assets	4	792	60
Other assets	5	3,589	4,546
<b>Total assets</b>		<b>174,761</b>	<b>138,748</b>
<b>Contingent assets</b>	<b>6</b>	<b>53,699</b>	<b>24,486</b>
<b>LIABILITIES</b>			
Due to banks	7	120,155	101,833
Due to customers	8	32,245	18,326
Current and deferred income tax liabilities	9	-	884
VAT and other tax payables	10	136	69
Accrued interest, expenses and other liabilities	11	3,949	3,004
<b>Total liabilities</b>		<b>156,485</b>	<b>124,116</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	12	5,000	5,000
Retained earnings		9,632	3,000
Dividend		-6,632	-
Result of the year		10,276	6,632
<b>Total Equity</b>		<b>18,276</b>	<b>14,632</b>
<b>Total Liabilities and Shareholders' equity</b>		<b>174,761</b>	<b>138,748</b>
<b>Contingent liabilities</b>	<b>13</b>	<b>1,056</b>	

## 6.2 INCOME STATEMENT FOR THE YEAR 2010

(X EUR 1,000)

	Note	2010	2009
<b>INCOME</b>			
Interest income		505	487
Interest expense		-1,320	-652
Net interest income	14	-815	-165
Other (un)realised gains and losses	15	-64	-34
Net commissions and fees	16	28,458	17,451
Other income/loss	17	15	-85
<b>Total income</b>		<b>27,594</b>	<b>17,167</b>
<b>Net revenues</b>		<b>27,594</b>	<b>17,167</b>
<b>EXPENSES</b>			
Staff expenses	18	-2,526	-1,483
Other operating and administrative expenses	19	-11,296	-6,782
<b>Total expenses</b>		<b>-13,822</b>	<b>-8,265</b>
Result before taxation		13,772	8,902
Taxation	20	-3,496	-2,270
<b>Net profit</b>		<b>10,276</b>	<b>6,632</b>

## 6.3 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(X EUR 1,000)

	Share capital	Retained earnings	Result of the year	Total 2009
Opening balance as at 1 January 2009	5,000	-	3,000	8,000
Profit appropriation	-	3,000	-3,000	-
Result for the year	-	-	6,632	6,632
<b>Closing balance as at 31 December 2009</b>	<b>5,000</b>	<b>3,000</b>	<b>6,632</b>	<b>14,632</b>

	Share capital	Retained earnings	Result of the year	Total 2010
Opening balance as at 1 January 2010	5,000	3,000	6,632	14,632
Profit appropriation	-	6,632	-6,632	-
Dividends	-	-6,632	-	-6,632
Result for the year	-	-	10,276	10,276
<b>Closing balance as at 31 December 2010</b>	<b>5,000</b>	<b>3,000</b>	<b>10,276</b>	<b>18,276</b>

## 6.4 CASH FLOW STATEMENT FOR THE YEAR 2010

(X EUR 1,000)

Part of the EMCF's Carve-Out project was the acquisition of EMCF's own assets (mostly related to IT), which forms part of the net cash from investing activities. Due to the nature of the activities, the funding is short term and included in the operating activities.

	2010	2009
<b>Cash flow from operating activities</b>		
<b>Cash and cash equivalents – Balance as at 1 January</b>	<b>100,700</b>	<b>61,030</b>
Profit before taxation	13,772	8,902
<b>Adjustment to reconcile profit to net cash generated by operating activities:</b>		
Depreciation and amortisation	169	3
<b>Changes in operating assets and liabilities:</b>	<b>55,377</b>	<b>34,598</b>
Due from customers	21,040	-16,857
Due to banks	18,323	55,825
Due to customers	13,919	7,204
Net changes in all other operational assets and liabilities	2,095	-11,574
<b>Cash generated by operating activities</b>	<b>69,318</b>	<b>43,503</b>
Income taxes paid	-4,508	-2,412
<b>Net cash generated by operating activities</b>	<b>64,810</b>	<b>41,091</b>
Purchases of property and equipment	-1,313	-
Purchases of intangible assets	-814	-
<b>Net cash from investing activities</b>	<b>-2,127</b>	<b>-</b>
Dividends paid	-6,632	-1,421
<b>Cash flow from financing activities</b>	<b>-6,632</b>	<b>-1,421</b>
<b>Change in cash and cash equivalents</b>	<b>56,051</b>	<b>39,670</b>
<b>Cash and cash equivalents as at 31 December</b>	<b>156,751</b>	<b>100,700</b>
<b>Supplementary disclosures of operating cash flow information</b>		
Interest income received	484	1,248
Interest expense paid	-1,266	-666

## 6.5 ACCOUNTING PRINCIPLES

### GENERAL

EMCF prepared its financial statements in accordance with IFRS – including International Accounting Standards ('IAS') and Interpretations – at 31 December 2010, as adopted by the European Union and with part 9 of book 2 of the Dutch Civil Code.

Where accounting policies are not specifically mentioned below, reference should be made to the IFRSs as adopted by European Union.

The accounting policies used to prepare the 2010 financial statements are consistent with those applied for the year ended 31 December 2009.

EMCF has a registered office in Amsterdam, The Netherlands. The company was incorporated on February 28, 2007 as 99% owned subsidiary of previously named Fortis Bank Global Clearing N.V. (hereinafter ABN AMRO Clearing Bank N.V.) in Amsterdam and 1% of previously named Fortis Bank Nederland N.V. (hereinafter ABN AMRO Bank N.V.). Early in 2009, a change in the company's ownership was significant in determining the governance structure of EMCF: during January, OMX AB acquired 22% of the share of ABN AMRO Clearing Bank N.V. in EMCF.

Currently, EMCF is a 77% owned subsidiary of ABN AMRO Clearing Bank N.V. (AACB) in Amsterdam, 1% of the shares are held by ABN AMRO Bank N.V. and 22% of the shares are held by OMX AB.

The financial statements of EMCF are incorporated within the consolidated financial statements of ABN AMRO Clearing Bank N.V. as well as the consolidated financial statements of ABN AMRO Bank N.V.

All amounts in the tables of these financial statements are denominated in thousands of euros, unless otherwise stated.

ABN AMRO Group N.V. renewed and deposited the full 403 declaration with respect to EMCF on 30 June 2010 with the trade register of the Chamber of Commerce in Amsterdam, replacing the previous 403 declaration. In the Netherlands, EMCF is placed under the supervision of the Dutch regulators by an agreement

(the "Private Law Agreement") signed by and between EMCF, "Autoriteit Financiële Markten" (AFM), and "De Nederlandsche Bank" (DNB).

EMCF is not engaged in any proprietary trading, operates at arm's length of ABN AMRO Bank N.V. and provides Central Counter Party services to clearing participants. The services offered include, but are not limited to: novation, gross trade netting, settlement, margining and fails and buy-in management. Clearing participants, in turn, offer clearing services to trading participants that trade on MTFs and Regular Exchanges.

On 22 February 2010, European Multilateral Clearing Facility Nordic Branch (Nordic Branch) was incorporated in Stockholm (Sweden) for servicing Nordic client base. The 2010 financial statements of the Nordic Branch are nominated into Swedish Krona and translated into the presentation currency of EMCF, namely euro and further included into these financial statements.

### CHANGES IN ACCOUNTING POLICIES

New and amended IFRS applicable and possibly relevant to EMCF are displayed below.

On 4 November 2009, the IASB issued a revised version of IAS 24, Related Party Disclosures. The document simplifies the disclosure requirements for government related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011 - with earlier application permitted. EMCF does not early adopt the revised version of the standard; the standard has no impact on EMCF.

On 12 November 2009, the IASB issued IFRS 9, Financial Instruments, to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. Mandatory adoption of IFRS 9 is on 1 January 2013. EMCF does not early adopt IFRS 9.

For 2010, the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) did not issue any new and revised Standards and Interpretations that apply to EMCF's annual accounts.

#### **NEW AND AMENDED IFRSs NOT YET EFFECTIVE IMPROVEMENTS TO IFRSs**

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of EMCF during this financial year:

- IAS 1 Presentation of Financial Statements
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement

#### **IMPROVEMENTS TO IFRSs (ISSUED IN MAY 2010)**

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 7 Financial Instruments: Disclosures
  - IAS 1 Presentation of Financial Statements
  - IAS 27 Consolidated and Separate Financial Statements
  - IFRIC 13 Customer Loyalty Programmes
- EMCF however, expects no significant impact from the adoption of the amendments on its financial position or performance.

## **PRINCIPLES**

#### **FUNCTIONAL CURRENCY**

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

#### **FOREIGN CURRENCY TRANSACTIONS**

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.

#### **FOREIGN CURRENCY TRANSLATION**

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 income statement as foreign currency gains (losses) except for those non-monetary items whose fair value change is recorded as a component of shareholders' equity.

The income statement and cash flow statement of entities whose functional currency is not denominated in euro are translated into the presentation currency (the euro) at 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 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 trade date, which is the date on which EMCF becomes a party to the contractual provisions of the instrument.

#### **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; recoverable amount is based on mark-to-market of client position vis-à-vis future obligations of EMCF in its function as Central Counter Party;
- estimation of present obligations resulting from past events in recognition of provisions;
- determination of expected useful life of intangible assets and amortization method applied.

### 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

EMCF reports cash flows from operating activities using the indirect method, whereby 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 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. Dividends paid are classified as cash flows from financing activities.

### CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

EMCF classifies financial assets and liabilities based on the business purpose of entering into these transactions. All maturities are shorter than three months. If this is not the case, they will be separately disclosed in the notes to these financial statements.

### FINANCIAL ASSETS

Financial assets comprise cash and cash equivalents, loans (due from customers) and receivables (other assets).

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 income statement depend on the IFRS classification of the financial assets being:

- cash and cash equivalent
- loans and receivables

Financial assets are recognised on the date at which they are originated and are initially measured at transaction price (fair value of the consideration). Subsequently, they are measured at fair value, the amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.

### MEASUREMENT OF IMPAIRED ASSETS

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 income statement. Financial assets are impaired when it can be demonstrated objectively that a loss has occurred after initial recognition and that the loss event has impact (that can be reliably estimated) on future cash flow of the asset.

For year ended 31 December 2010, EMCF has no impaired assets.

### FINANCIAL LIABILITIES

Financial liabilities comprise due to banks and due to customers (demand deposits).

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

## BALANCE SHEET ITEMS

### FINANCIAL ASSETS

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise freely available balances with central banks and other financial institutions and instruments, readily convertible into known amounts of cash, 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 include loans originated by EMCF 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 EMCF are initially recorded at transaction price and subsequently measured at fair value: the amortised cost using the effective interest method, less provisions for impairment.

#### 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 income statement 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 year-end.

By year ended 31 December 2010, EMCF's fixed assets are represented by 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 income statement when the expenditure is incurred.

Expenditures that enhance or extend the benefits of fixed assets beyond their original use are capitalised and subsequently depreciated.

Useful life for EMCF's property and equipment is 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). By year ended 31 December 2010, EMCF's intangible assets are represented mainly by acquired software. 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 amortization and accumulated impairment losses. It is amortised using the straight-line method over the estimated useful life of three years.

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

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

## FINANCIAL LIABILITIES

### DUE TO BANKS AND DUE TO CUSTOMERS

Due to banks and due to customers are classified as demand deposits.

Demand deposits are initially measured at transaction price and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.

Balances with clearing members (clearing fund) are

included in due to banks and due to customers upon initial recognition.

#### **OTHER LIABILITIES**

Other liabilities arising from normal course of business are initially recognised and recorded at cost.

#### **CURRENT INCOME TAX LIABILITIES**

Current income tax payables for current and prior periods are measured at the amount expected to be paid to relevant taxation authorities.

The tax rates and tax legislation used to compute the amount are those in vigor as at the balance sheet date.

#### **PENSION LIABILITIES**

EMCF provides a defined benefit (career average) plan to all its employees. These benefits are insured as per 1 July 2010 with Zwitterleven. Based on local funding the contract is fully insured and fully financed (guarantee contract).

For the employees that were transferred per 1 July 2010 from ABN AMRO Bank N.V., a transitional period before entering the new pension plan with Zwitterleven has been agreed. Their pension benefits between 1 July 2010 and 1 January 2011 have been insured with the pension fund of ABN AMRO Bank N.V. Per 1 January 2011 this group of employees is switched to the new insured plan with Zwitterleven.

#### **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 established for certain guarantee contracts for which EMCF is responsible to pay upon default of payment. 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.

#### **TRANSACTIONS WITH RELATED PARTIES**

In the normal course of business, EMCF 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 comprise of ABN AMRO Clearing Bank N.V. in Amsterdam, ABN AMRO Bank N.V., ABN AMRO group companies and OMX AB.

Since 2008, ABN AMRO Bank N.V. has charged EMCF for centralised services in Amsterdam, based on contractual agreements. The transactions performed are based on normal market conditions and relate mainly to 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.

#### **INCOME STATEMENT ITEMS**

##### **INTEREST INCOME AND EXPENSE**

Interest income and interest expense are recognised for all interest bearing instruments in the income statement 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 as services provided, are generally recognised as revenue as the services are provided. If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is not considered as a derivative, the commitment fee is recognised as revenue on a time proportion basis over the commitment period.

Commission revenue is recognised when the performance obligation is complete.

The specific settlement fees charged by settlement agents are passed on to the clients.

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**

Starting 1 July 2010, EMCF employs its own staff on a permanent basis.

Previously to 1 July 2010, activities on behalf of the company were carried out by staff of the parent company.

### **INCOME TAX EXPENSE**

Income tax payable on profits is recognised as an expense based on the applicable tax laws in each jurisdiction, in the period in which profits arise. 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.

## **6.6 RISK MANAGEMENT**

EMCF's Risk Management systems are the responsibility of our Risk Management Department based on policies and procedures established by the Executive Board.

### **1. INTRODUCTION**

EMCF's activities in the CCP post-trade clearing space expose the company to the following financial risks:

1. Credit risk
2. Liquidity risk
3. Market risk
4. Operational risk

### **2. RISK MANAGEMENT FRAMEWORK**

The handling of the day to day risk management discipline within the company is dedicated to the EMCF Risk Management Department. Based on the risk methodologies and policies approved by the Executive Board of EMCF, EMCF Risk Management Department's objectives are to monitor, manage and control the risk exposures of EMCF within acceptable parameters as stipulated by the Executive Board of EMCF, which has overall responsibility for the Risk Management function within the Company. The Head of EMCF Risk Management has a functional reporting line to the Supervisory Board of EMCF as well as a reporting line to the Head of Global Risk Management of ABN AMRO Clearing Bank N.V., as majority shareholder of EMCF.

#### **2.1 CREDIT RISK**

EMCF is exposed to credit risk in relation to the current or prospective impact on EMCF's earnings and capital as a result of a Clearing Participant's failure to comply with a financial or contractual obligation.

Credit risk to EMCF arises from its commitment to

guarantee the settlement obligations of all clearing participants' securities transactions. In the event of a Clearing Participant default, EMCF is required to deliver cash or securities to the other Clearing Participants without receiving that cash or those securities from the defaulting Clearing Participant(s). As guarantor, EMCF is confronted with the risk of having to buy those deliverables or sell the receivables in the market.

EMCF has mitigated these risks through prudent and careful monitoring of the credit exposures it faces in relation to each Clearing Participant (see Market Risk Section). EMCF accepts both cash and non-cash collateral where it is noted that haircuts have been imposed for collateral. The specific haircuts have been laid down in EMCF's Regulation Collateral. Both cash and non-cash collateral are being held at a commercial bank account in the name of the client. EMCF has a pledge over the account held by the client.

At 31 December 2010, the value of the collateral pledged to EMCF in this way was EUR 1,115 Million and there were no clearing participant defaults in the year ending 31 December 2010. Per 31 December 2009, the value of the collateral pledged to EMCF was EUR 829 Million.

#### Failed trades

Besides potential defaults of Clearing Participants, the main credit risk faced by EMCF is exposure against Clearing Participants in case a trade fails to settle. To mitigate these risks, EMCF charges a fail fee to discourage late settlements. This fee covers the cost for EMCF. In the event that a trade still fails to settle after a certain period of time, EMCF will start up a buy-in process for which the costs are carried by the failing Clearing Participant.

#### 2.2 LIQUIDITY RISK

EMCF is faced with liquidity risk where EMCF is lacking liquidity and is unable to meet its payment obligations at any point in time, without incurring unacceptable costs or losses or risking damage to EMCF's reputation.

EMCF continuously manages the liquidity obligations which are covered through ample committed and uncommitted liquidity facilities. These facilities are allocated to intraday settlement requirements and the facilities at the end of 2010 are assessed as adequate by the Executive Board of EMCF.

During 2010 the usage of intraday liquidity facilities has not materially increased.

#### 2.3 MARKET RISK

One of the predominant functions of EMCF is to provide continuity of the market places it serves. As the default of a Clearing Participant can potentially threaten this continuity, EMCF operates a stringent framework that is designed to mitigate this risk.

This requires the holding of collateral from the Clearing Participants to cover the margin requirements, holding assets provided by Clearing Participants by way of a contribution to the Clearing Fund and through EMCF's financial resources, including EMCF's own capital and additional financial resources provided by its parent companies.

The EMCF risk framework consists of four layers:

- 1) Membership requirements;** only qualified firms will be accepted as a Clearing Participant of EMCF.
- 2) Collateral;** EMCF requires Clearing Participants to deposit collateral on accounts pledged to EMCF in order to meet the margin requirements on the open positions.
- 3) Clearing fund;** in the unlikely event that a Clearing Participant goes into default and the collateral of the Clearing Participant is not enough to cover the liquidation cost of the portfolio of the Clearing Participant, the clearing fund provides an additional significant buffer.
- 4) EMCF's own capital and EMCF's parent's capital through the joint liability undertaking as per Art. 2:403 of the Dutch Civil Code declaration;** when the clearing fund is exhausted, EMCF's capital and EMCF's parent's liability will be called upon.

Layer 1 provides assurance that all Clearing Participants are qualified to be accepted as Clearing Participants, whereas layer 2 provides assurance that the portfolio of the Clearing Participant can be liquidated in case of a default under normal or mildly extreme circumstances without additional costs to the other Clearing Participants. Layer 3 provides assurance that in case the circumstances turn extreme, there will still be enough funds to cover for a potential default. Finally, layer 4 provides protection in case the other layers of protection fail, however the scheme is designed not to have to call upon layer 4.

To calculate the amount of margin to be held by a Clearing Participant, EMCF uses an internally developed ABN AMRO Clearing Bank N.V. risk management methodology called Correlation Haircut (CoH). CoH calculates the market risk of a Clearing Participant's equity positions on an intraday and end of day basis. CoH calculates the maximum theoretical loss of the portfolio and is based upon a 99.7% confidence level (three standard deviations) and assumes a three-day time horizon, thereby taking into account the correlation between the components of the portfolio.

#### **Intraday risk management**

Intraday, EMCF recalculates the margin requirement every three to five minutes, using the most up to date positions and prices. EMCF has the authority and the operational ability to demand additional collateral at any time, wherever there is a significant intraday margin deficit.

EMCF provides a real time cleared trade feed to its clearing participants to enable them to also perform intra day or real time risk management in respect of their clients.

#### **Clearing Fund**

All Clearing Participants are required to maintain sufficient contribution in the EMCF Clearing Fund where the amounts and percentages of the respective contribution per Clearing Participant are stipulated in the Regulation Clearing Fund. On a daily basis, stress tests are performed where portfolios are stressed along various stress scenarios. These stress tests can go as

far as anticipating a market move of 40% across the whole portfolio of equities. The results of the stress tests are used to affirm that the EMCF risk framework is adequate at all times. The outcome of these stress tests is reported monthly to the EMCF regulators.

The size of the EMCF Clearing Fund has increased by 55% during 2010, which is mainly attributed to the increase of the minimum contributions of general clearing participants and the change of the percentual contribution parameter.

#### **Foreign exchange risk**

The foreign exchange risk run by EMCF in the case of a defaulting CP is mitigated by charging margin on foreign exchange positions. Accordingly, these positions are included in the continuous CoH calculations.

That aside, the only foreign exchange risk EMCF runs, is having to pay non-settlement related invoices in other currencies than the euro. This risk is fairly insignificant for EMCF's business and it has therefore been decided not to be hedged until further notice.

#### **2.4 OPERATIONAL RISK**

Operational risk is monitored and controlled by two complementary departments. Firstly, operational risk is dealt with by EMCF Business Control department. It initiates and coordinates the implementation of risk-reducing, mitigating actions, as decided by the Executive Board of EMCF. Key risk indicators are used to monitor this process.

Secondly, the Operational Risk Department (ORMA) within ABN AMRO Bank N.V. performs assessments of operational risk for EMCF. The activities of this team include loss data collection, modeling economic and regulatory capital (AMA-approach) and event risk self-assessments. A yearly review of the EMCF business is performed by the ORMA team to inform the EMCF Executive Board about its risk profile. The operational risk capital set aside for EMCF was calculated on the AMA basis in 2010.

EMCF did not incur any material operational losses in 2010.

## 6.7 NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2010

(X EUR 1,000)

### ASSETS

#### 1. CASH AND CASH EQUIVALENTS

	2010	2009
<b>Cash and cash equivalents</b>	<b>156,751</b>	<b>100,700</b>

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 88 million relates to the balance of clearing participants. This balance will be available only pursuant to the rules of the clearing fund.

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

	2010	2009
Cash and cash equivalents with Central Banks	11,215	
Cash and cash equivalents with related party companies	104,735	74,504
Cash and cash equivalents with third party companies	40,801	26,196
<b>Closing balance as at 31 December</b>	<b>156,751</b>	<b>100,700</b>

#### 2. DUE FROM CUSTOMERS

	2010	2009
<b>Due from customers</b>	<b>12,402</b>	<b>33,442</b>

This item includes all accounts receivables from customers that relate to business operations (fully collateralised by stock) and do not belong to cash and cash equivalents.

#### 3. PROPERTY AND EQUIPMENT

	2010	2009
<b>Property and equipment</b>	<b>1,227</b>	<b>-</b>

The property and equipment consist of equipment and motor vehicles, leasehold improvements and IT equipment.

	Leasehold improvement	Equipment and motor vehicles	IT equipment	2010 Total	2009 Total
Cost as at 1 January	-	-	-	-	-
Additions	164	179	970	1,313	-
<b>Closing balance as at 31 December</b>	<b>164</b>	<b>179</b>	<b>970</b>	<b>1,313</b>	<b>-</b>
Accumulated depreciation at 1 January	-	-	-	-	-
Depreciation expense	-3	-4	-79	-86	-
<b>Accumulated depreciation as at 31 December</b>	<b>-3</b>	<b>-4</b>	<b>-79</b>	<b>-86</b>	<b>-</b>
<b>Closing balance as at 31 December</b>	<b>161</b>	<b>175</b>	<b>891</b>	<b>1,227</b>	<b>-</b>

Leasehold improvement is depreciated over 5 years and IT equipment over 3 years. Most of the equipment and motor vehicles is depreciated over 5 years.

#### 4. INTANGIBLE ASSETS

	2010	2009
<b>Intangible assets</b>	<b>792</b>	<b>60</b>

The intangible assets consist mostly of acquired software that is not an integral part of the hardware and it is amortized in 3 years. The tables below show the components of intangible assets at 31 December.

Software at cost as at 1 January	63	-
Acquired software at cost – additions	814	63
<b>Closing balance as at 31 December</b>	<b>877</b>	<b>63</b>
Accumulated amortization as at 1 January	-3	-
Amortization expense	-82	-3
<b>Closing balance as at 31 December</b>	<b>-85</b>	<b>-3</b>
<b>Closing balance as at 31 December</b>	<b>792</b>	<b>60</b>

## 5. OTHER ASSETS

	2010	2009
<b>Other assets</b>	<b>3,589</b>	<b>4,546</b>

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

	2010	2009
Accrued interest income	42	21
Fees receivable from clients	164	1,617
Prepayments and accruals	3,248	2,908
Income tax receivable	127	-
Other	8	-
<b>Closing balance as at December 31</b>	<b>3,589</b>	<b>4,546</b>

## 6. CONTINGENT ASSETS

	2010	2009
<b>Contingent assets</b>	<b>53,699</b>	<b>24,486</b>

The details of contingent assets by 31 December 2010 are presented below.

	2010	2009
Non-cash contribution to the clearing fund (bonds)	40,000	19,486
Non-cash contribution to the clearing fund (letters of credit)	6,800	4,000
Guarantee received	6,899	1,000
<b>Total contingent assets</b>	<b>53,699</b>	<b>24,486</b>

The non-cash contribution to the clearing fund is available only pursuant to the rules of the clearing fund.

## LIABILITIES

### 7. DUE TO BANKS

	2010	2009
<b>Due to banks</b>	<b>120,155</b>	<b>101,833</b>

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

	2010	2009
Demand deposits due to banks	120,155	101,833
<b>Closing balance as at 31 December</b>	<b>120,155</b>	<b>101,833</b>

This item comprises balances of clearing participants (banks) for the Clearing Fund amounting to EUR 55 million.

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

	2010	2009
Demand deposits due to related party banks	67,739	62,526
Demand deposits due to third party banks	52,416	39,307
<b>Closing balance as at 31 December</b>	<b>120,155</b>	<b>101,833</b>

### 8. DUE TO CUSTOMERS

	2010	2009
<b>Due to customers</b>	<b>32,245</b>	<b>18,326</b>

The components of due to customers at 31 December are as follows:

	2010	2009
Demand deposits due to customers	32,245	18,326
<b>Closing balance as at 31 December</b>	<b>32,245</b>	<b>18,326</b>

This item comprises balances of clearing participants (customers) to the clearing fund.

The demand deposits are all due to third party customers.

### 9. CURRENT AND DEFERRED INCOME TAX LIABILITIES

	2010	2009
<b>Current and Deferred income tax liabilities</b>	<b>-</b>	<b>884</b>

In 2010 the tax rate in the Netherlands was not subject to any modification, staying at the same rate of 25.5%, as in 2009. By year ended 31 December 2010 EMCF has no deferred tax.

## 10. VAT AND OTHER TAX PAYABLE

	2010	2009
<b>VAT and Other tax payable</b>	<b>136</b>	<b>69</b>

EMCF is part of ABN AMRO Bank N.V. fiscal VAT unity, to which EMCF is delivering quarterly VAT return forms and further settling the payables. As at 31 December the composition of VAT and other tax payable is as follows:

<b>VAT payable</b>	<b>136</b>	<b>69</b>
<b>Closing balance as at 31 December</b>	<b>136</b>	<b>69</b>

## 11. ACCRUED INTEREST, EXPENSES AND OTHER LIABILITIES

	2010	2009
<b>Accrued interest, expenses and other liabilities</b>	<b>3,949</b>	<b>3,004</b>

As at 31 December the composition of accrued interest and other liabilities is as follows:

Accrued interest charges	99	44
Payables	173	10
Accruals	2,338	1,545
Fail fee	3	1,211
Salary related payables	637	-
Other	699	194
<b>Closing balance as at 31 December</b>	<b>3,949</b>	<b>3,004</b>

## 12. SHAREHOLDERS' EQUITY

	2010	2009
<b>Shareholders' equity</b>	<b>18,276</b>	<b>14,632</b>

At year end 2010, authorised share capital amounts to EUR 15 million distributed over 14,999 ordinary shares and 1 preference share convertible into an ordinary share, each having a nominal value of EUR 1,000.

Issued and paid-up share capital of EMCF amounted to EUR 5 million distributed over 5,000 shares having a nominal value of EUR 1,000: 3,850 shares were held by ABN AMRO Clearing Bank N.V., 50 shares by ABN AMRO Bank N.V. and 1,100 shares by OMX AB.

Share capital	5,000	5,000
Retained earnings	9,632	3,000
Dividend	-6,632	-
Result of the year	10,276	6,632
<b>Shareholders' equity</b>	<b>18,276</b>	<b>14,632</b>

### 13. CONTINGENT LIABILITIES

	2010	2009
<b>Contingent liabilities</b>	<b>1,056</b>	-

Contingent liabilities are consisting of the commitments relevant to new office premises rental agreement EMCF entered into during the second part of 2010, as a consequence of the carve-out process. The minimum rental term of the office premises is 3 years, starting 15 October 2010.

## 6.8 NOTES TO THE INCOME STATEMENT FOR THE YEAR 2010

(X EUR 1,000)

### 14. NET INTEREST INCOME

	2010	2009
<b>Net interest income</b>	<b>-815</b>	<b>-165</b>

This item includes interest income and interest expense from banks and customers.

	2010	2009
Interest income	505	487
Interest expense	-1,320	-652
<b>Net interest income</b>	<b>-815</b>	<b>-165</b>

The interest income item can be split as follows:

	2010	2009
Interest income related party companies	339	357
Interest income third party banks	166	26
Interest income third party customers	-	104
<b>Total interest income</b>	<b>505</b>	<b>487</b>

The interest expense item can be split as follows:

	2010	2009
Interest expense related party companies	-753	-344
Interest expense third party customers/banks	-567	-308
<b>Total interest expense</b>	<b>-1,320</b>	<b>-652</b>

### 15. OTHER UNREALISED GAINS AND LOSSES

	2010	2009
<b>Other unrealised gains and losses</b>	<b>-64</b>	<b>-34</b>

This item consists mainly of foreign exchange differences on monetary items.

## 16. NET COMMISSIONS AND FEES

	2010	2009
<b>Net commissions and fees</b>	<b>28,458</b>	<b>17,451</b>

The Commissions and fees item can be split as follows:

	2010	2009
Commission income	42,522	27,176
Commission expense	-14,064	-9,725
<b>Net commissions and fees</b>	<b>28,458</b>	<b>17,451</b>

The components of fee and commission expenses are:

	2010	2009
Net commissions securities	28,474	17,496
Net commissions - other	-16	-45
<b>Net commissions and fees</b>	<b>28,458</b>	<b>17,451</b>

A new fail fee model came into vigour at the beginning of 2010: fail fees are built up based only on actual costs incurred during the current period.

Of the net commissions and fees item the following amounts were:

	2010	2009
Net commissions and fees related party companies	-1,211	-799
Net commissions and fees third party customers/banks	29,669	18,250
<b>Net commissions and fees</b>	<b>28,458</b>	<b>17,451</b>

## 17. OTHER INCOME/LOSS

	2010	2009
<b>Other income/loss</b>	<b>15</b>	<b>-85</b>

The details of the other income/loss are presented below:

	2010	2009
Operational Income	40	30
Operational Loss	-25	-115
<b>Total Income</b>	<b>15</b>	<b>-85</b>

## EXPENSES

	2010	2009
Expenses	13,822	8,265

Expenses can be split as follows:

## 18. STAFF EXPENSES

	2010	2009
Staff expenses	2,526	1,483

Salary related cost amounted in 2010 to EUR 2.5 million. Until 30 June 2010, all employees were directly employed by the parent company, which allocated the costs amounting to EUR 1 million to EMCF.

Starting 1 July 2010, all EMCF employees were offered an EMCF employment contract, as part of the "carve out" project in progress. The salary costs for the second part of the year are EUR 1.5 million.

Details of staff expenses are presented below:

	2010	2009
Salaries and wages	1,586	1,210
Social security charges	175	107
Pension expenses	268	93
Bonus expenses	430	-
Other	67	73
<b>Total staff expenses</b>	<b>2,526</b>	<b>1,483</b>

## 19. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2010	2009
<b>Other operating and administrative expenses</b>	<b>11,296</b>	<b>6,782</b>

Details of other operating and administrative expenses are presented below:

	2010	2009
Technology and system costs	5,758	3,044
External staff	3,555	1,484
Audit, legal and compliance expenses	383	1,053
Consultancy	432	458
Travel and representation expenses	203	202
Rental expenses	284	130
Depreciation and amortization	169	3
Other	512	408

The audit professional fees expense amounted EUR 80 thousand (2009: EUR 81 thousand).

The remuneration to the Executive Board in 2010 was EUR 226 thousand (2009: nil). Members of EMCF Executive Board participated in the remuneration, options and bonus scheme operated by the ABN AMRO Bank N.V. until 30 June 2010.

The remuneration to the Supervisory Board was nil in 2010 (2009: EUR 36 thousand).

The average number of full time employees in 2010 was 19 (2009: 15).

## 20. TAXATION

	2010	2009
<b>Taxation</b>	<b>3,496</b>	<b>2,270</b>

The details of the current income tax expense are presented below:

	2010	2009
Current tax expenses for the current period	3,512	2,270
Adjustment recognised in the period for current tax of prior periods ("-" is profit in this particular situation)	-16	-
<b>Total income tax expenses</b>	<b>3,496</b>	<b>2,270</b>

## LEGAL PROCEDURES

EMCF is not involved in court procedures.

*Amsterdam, 20 May 2011*

### Executive Board:

Jan Booij  
Albert-Jan Huizing

### Supervisory Board:

Jan Bart de Boer  
Andrej Bolkovic  
Hans-Ole Jochumsen  
Andras Vajlok  
Peter Bezemer

# 7. OTHER INFORMATION

## INDEPENDENT AUDITOR'S REPORT

To: the Executive Board of European Multilateral Clearing Facility N.V.

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2010 of European Multilateral Clearing Facility N.V., Amsterdam, which comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report, in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## OPINION

In our opinion, the financial statements give a true and fair view of the financial position of European Multilateral Clearing Facility N.V. as at 31 December 2010 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

*Amstelveen, 20 May 2011*

**KPMG ACCOUNTANTS N.V.**  
**M.A. Hogeboom RA**

#### **POST-BALANCE SHEET DATE EVENTS**

European Multilateral Clearing Facility Nordic Branch (set-up in Stockholm, Sweden in February 2010) was changed into a Representative Office in January 2011, in order to better fulfill its activity purpose, namely servicing Nordic client base.

#### **RULES ON PROFIT APPROPRIATION AS SET OUT IN THE ARTICLES OF ASSOCIATION**

The profit shown in the Profit and Loss Account as adopted by the General Meeting of Shareholders has been placed at the disposal of the General Meeting of Shareholders.

#### **PROFIT APPROPRIATION**

The Board of Directors proposes to add the net profit for 2010 totaling EUR 10.3 million to the Retained Earnings.



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