(Registered Number: 07611628)

LME Clear Limited

Directors’ report and financial statements

31 December 2021

LME Clear Limited

Directors and independent auditors

Directors

The Directors of LME Clear Limited (the Company or LME Clear) who were in office during the year and up to the date of signing the financial statements were:

J Carruthers	(appointed 1 January 2022)
M J Chamberlain	
A J W Farnham	
M L Humphery	(resigned 31 December 2021)
R Lamba	(resigned 31 December 2021)
R C K Leung	
M Strimer (Chairman)	
A J Stuart	
S K W Yiu	
C Young	

Registered office

10 Finsbury Square, London EC2A 1AJ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside, London SE1 2RT

LME Clear Limited

Strategic report

The Directors present their Strategic report on the Company for the year ended 31 December 2021. This report should be read in conjunction with the Directors' report on pages 8 to 11.

Overview

The Company is incorporated in the United Kingdom, and is an indirect subsidiary of Hong Kong Exchanges and Clearing Limited (HKEX), a leading global financial market operator.

Principal activities

The Company is a Recognised Clearing House under the Financial Services and Markets Act 2000 and authorised in accordance with the on-shored UK version of the European Market Infrastructure Regulation (EMIR). The Company acts as a central counterparty (CCP) for exchange contracts traded on The London Metal Exchange (the LME). The clearing service principally provides counterparty risk mitigation services for the Company's clearing members (hereinafter referred to as members and the term "member" shall be construed accordingly).

Review of the business

Since the onset of the COVID-19 pandemic in 2020, the Company's priority has been to maintain an orderly market and effective clearing operations in light of continued remote working in 2021. As well as the Company's own operational concerns, strong focus was also maintained on members – in particular those members managing credit losses as a result of the pandemic. Members maintained their margins and no credit risks evolved into material issues.

From a business development perspective, initiatives have progressed well. The LME launched six new cash settled futures contracts in July 2021, for which the Company provides clearing services. These new contracts included a lithium contract to serve the needs of the growing battery materials sector, additional aluminium products, and additional steel contracts to complement the existing suites. Four of the contracts have seen active trading to date.

The Company has continued to work with the LME on the planning and development of new trading platform and data services, and the possibility of market structure reform – including the potential to move to realised variation margining in the future. In January 2021, the LME published a discussion paper on future market structure that considered proposals to facilitate modernisation of the LME and to create a metals market that is fit for the future, adapting to the needs of its evolving customer base and expectations from wider stakeholders. The proposals aimed to achieve increased transparency and a structurally fairer and more efficient marketplace, building on the groundwork of the principles identified in the LME's 2017 Strategic Pathway.

Following market feedback on the discussion paper, the LME re-opened the Ring for trading the LME Official Price on 6 September 2021. The LME Closing Price will remain electronically determined via LMEselect. The LME and LME Clear also announced their intentions to further enhance the electronic Closing Price methodology and formed the Closing Price Working Group, comprising a broad range of market users, to ensure that the methodology continues to best reflect customer needs. LME and LME Clear also announced their intention to introduce a set of solutions to enhance electronic liquidity, taking on board the feedback received from discussion paper respondents. LME and LME Clear also committed to undertake a feasibility study into a possible hybrid contingent / realised variation margining (RVM) methodology and to make further enhancements to off warrant stock reporting.

There have been no significant regulatory developments affecting the Company in 2021. The Company will continue to closely monitor and engage with UK authorities as they implement changes to financial regulations in a post-Brexit environment.

Reform and replacement of benchmark interest rates such as GBP LIBOR and other inter-bank offered rates (IBORs) has become a priority for global regulators in recent years. LME Clear does not use these rates in the preparation of its financial statements or in determining its charges for margin and default fund deposits and accordingly is unaffected by these reforms.

Strategic report (continued)

Review of the business (continued)

Collateral, margins and risk management have all operated within the agreed parameters and tolerance, in line with the Company's Risk Appetite Statement, and will continue to be underpinned by robust policies, frameworks and controls.

Key performance indicators (KPIs)

Member satisfaction, the delivery of cost effective services and critical system availability remain important measures of performance for the Company. There were no critical system outages in the year. Management employs commercial KPIs including clearing volume and capital ratios.

In respect of capital, the key performance indicator is compliance with regulatory capital requirements set in accordance with the on-shored UK version of EMIR. The Company held sufficient capital to meet its requirements throughout the year.

Financial KPIs	**2021** **$ 000's**	**2020** **$ 000's**	**Increase / (decrease)**
Revenue and other income	98,787	102,470	(4)%
Operating expenses	61,671	57,317	8%
Earnings before interest, tax, depreciation and amortisation	44,416	50,559	(12)%
Profit before tax	37,298	44,382	(16)%
Profit after tax	30,184	36,108	(16)%
Net assets	240,184	248,479	(3)%
Margin deposits from clearing participants	12,067,379	9,892,211	22%
Related non-financial KPIs			
Average daily volumes (ADV) (000's; chargeable, excluding administrative trades)	547	571	(4)%

The fall in ADV was primarily driven by a downturn in global commodity markets as a result of the COVID-19 pandemic. Operating expenses increased largely due to the appreciation of the British pound. Accordingly, profits have reduced as operating expenses have increased and revenues have fallen.

No final dividend is proposed in respect of 2021 (2020: $nil). The Company paid an interim dividend of $35,000,000 during the year (2020: $30,000,000).

Strategy

The Company's strategy continues to focus on clearing the existing contracts traded on the LME. In addition, the Company will seek to clear any new products developed by the LME and to diversify its clearing services to existing and prospective members.

The Company continues to work alongside the LME on strategic market initiatives such as those outlined in the business review section above.

The Company also continues to work with HKEX to build a leading global multi asset class exchange and associated clearing business to capitalise on new opportunities arising from the further development of China's financial markets.

Strategic report (continued)

Business environment

The Company's outlook for the 2021 financial year should be viewed against the backdrop of the Company's continued operation in a highly regulated, competitive and technology-intensive environment. The Company will continue to offer robust and resilient clearing services and improve its offering to its members.

Key areas of focus throughout 2021 were (i) the impact on COVID-19 on the LME and its members, and mitigating associated risks, and as well as (ii) the ongoing European Union (EU) equivalence discussions for UK CCPs. Further information regarding equivalence considerations for the Company is set out in the next section.

Principal risks and uncertainties

As a CCP the Company is the counterparty to every matched trade. It acts as a buyer to every seller and the seller to every buyer and as a result it recognises derivative instruments in respect of both sides of the trade. During the life of a trade the Company processes all cash flows, marks the trade to market and calls collateral in the form of variation and initial margin in relation to the risk of the portfolio, this process is called clearing. If either party defaults on the trade the Company owns the defaulter's risk and becomes accountable for its liabilities. In the event of default the collateral held by the Company is used to fulfil the failed organisation's obligations, which ensures that the party on the other side of the trade is not negatively impacted by the default.

The Company's activities as a CCP expose it to a number of risks, including market risk, credit risk and liquidity risk. The Company manages these risks through various control mechanisms which are discussed in detail in note 16 to the financial statements. Central to the CCP's risk process is its ability to collect high quality liquid collateral from its members as support for their positions. Cash collateral collected from clearing participants is invested in high quality liquid assets to minimise liquidity risk. The Company mitigates foreign exchange risk by investing cash collateral in the same currency in which it is received.

The management views the principal risks and uncertainties that face the Company as those inherent to the provision of clearing services.

UK CCP equivalence

The principal risk facing the Company as a result of the equivalence decision is that it would not be able to provide clearing services for those members that reside within the EU. LME Clear is currently recognised by ESMA as a Tier 1 third country CCP and is therefore able to provide clearing services to its EU members. The European Commission announced in February 2022 that it has extended this equivalence decision for a further three years to 30 June 2025; it also announced a targeted consultation on ways to improve the attractiveness of EU CCPs and reduce exposure to systemic third-country CCPs.

COVID -19

The COVID-19 pandemic has continued to pose challenges to the Company during 2021, which saw continued home working for much of the year and a period of hybrid working from September to December 2021.

Staff welfare and morale has been central to the Company's business continuity response to COVID-19. The Company has built on the experience of 2020 and continued to focus on ensuring staff feel supported and have the appropriate equipment to work effectively from home. The Company has implemented measures to maintain staff morale and inclusiveness over the period including the launch of LMEself, an employee-led network focused on mental health and disability and the provision of enhanced wellness weeks where sessions on mindfulness training, physical wellbeing, healthy eating, neurodiversity awareness and menopause awareness training were held.

Maintaining the operational resilience of the key trading and clearing systems has been a priority for the Company, with a focus on ensuring the robustness of the existing infrastructure, strengthening its cyber-defences, and enhancing the Company's remote working capability.

LME Clear Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Operational resilience

With the ever-increasing reliance placed on technology, the Company acknowledges the need to promote and maintain high degrees of operational and system resilience. In addition, cyber risk is on the rise with financial services companies among the most heavily targeted. In order to mitigate the risks the Company continues to focus on its people, processes and technology. The Company assesses the risks in its processes on an ongoing basis and seeks to continually improve processes and technology to mitigate those risks. The Company has an operational incident process to manage incidents and to ensure required improvements are identified which may then result in changes to processes or technology.

The Company continues to make technology investments, including cyber security detection and response, as well as application upgrades to the LMEmercury clearing platform. To assist it in maintaining high levels of operational and systems resilience the Company maintains a dual data centre approach. In 2021 LME Clear achieved its second consecutive year of 100% system uptime.

The Company's operational resilience program commenced in 2019. The governance structure and the important business services have been agreed and approved at senior management level and work has continued on developing the framework during the year. In 2021 the Bank of England (BoE) set out rules to Financial Market Infrastructures for building their operational resilience frameworks, following prior consultation papers on the subject. The BoE has set 31 March 2022 as the date by which the framework should be in place and the Company anticipates meeting that deadline.

Regulation and compliance

The Company closely monitors regulatory developments, arising from the EU or overseas, that could impact its business. The Company also maintains an active interest and involvement where appropriate in regulatory matters arising in the UK and other global locations. The implementation of a demanding and still-evolving regulatory agenda and other market developments means that regulatory and compliance risk are key risks.

Section 172 Companies Act 2006

All Directors are collectively responsible for the success of the Company and take their duties and responsibilities, including those set out in section 172(1) of the Companies Act 2006, seriously. When making decisions, the Board of Directors seek to take the course of action that it considers will lead to the success of the Company over the long term, and this includes considering a broad range of stakeholders.

The Board therefore recognises the importance of effective stakeholder engagement in driving the Company's strategic focus of clearing the contracts traded on the LME. Effective stakeholder engagement enables Directors to identify key emerging themes and trends in the markets that are served by the Company.

The Company's key stakeholders include HKEX, Company employees, clearing members, regulators and suppliers.

The Company uses a variety of approaches to engage with its stakeholders throughout the year, including scheduled meetings, member townhalls and Company notices. Thematic results from these interactions with stakeholders are periodically presented to the Directors, primarily by senior management who lead such engagements.

Senior management, and ultimately, the Board of Directors, closely monitor stakeholder-focused metrics, such as member satisfaction, the delivery of cost effective services and critical system availability. As noted earlier in the Strategic report, these remain important measures of performance for the Company.

Stakeholder engagement and business relationships

Clearing members

Ongoing member engagement is integral to the Company's governance framework. The Company engages with its membership base and has established a number of advisory committees (Advisory Committees). A number of the members have representatives who are members of certain Advisory Committees. During 2021, the Advisory Committees provided valued input and advice to Company Directors and senior management.

Suppliers

The Directors take the Company's relationships with its suppliers seriously. This continued to be a key area of focus during 2021, with Board and senior management focus on a number of key initiatives.

The Board also reaffirmed the Company's commitment to ensuring that there is no modern slavery in its organisation or supply chains. A Board-approved Modern Slavery Policy is in place, and this reflects the Company's commitment to acting ethically and with integrity.

Regulators

The Company maintains a regular dialogue with the BoE as well as those regulators with which it has overseas licenses, engaging on relevant matters such as Board and management changes, capital requirements and proposed new products or services.

HKEX

The Company maintains close links with its ultimate parent company. A number of the Company's Directors also hold directorships of HKEX or sit on the HKEX Management Committee, certain key management personnel represent the Company at the HKEX Management Committee and there are regular meetings between HKEX management and staff and the Company's employees at all levels across the business.

Employee engagement

The Board recognises that engagement with Company employees is fundamental to the Company meeting its objective to deliver innovative clearing and settlement services for traded transactions, primarily as the clearing house for the LME. Engagement with employees is undertaken primarily by senior management, through townhalls, a variety of employee forums and regular surveys.

Managing the wellbeing and morale of employees during the COVID-19 pandemic has been a key priority for senior management and the Board during 2021. Company employees were invited to participate in regular employee wellbeing surveys, in order to monitor, report and address any wellbeing concerns and take forward any finding to further improve morale and support productivity. Results of these surveys were communicated to employees, together with initiatives introduced to address the findings. The Board also reviewed the results and made decisions to benefit employee wellbeing as a result of these surveys. The LME also conducted its bi-annual People Survey during the second half of the year. The results have been shared with employees and the Board and its findings will feed into continued engagement initiatives in 2022.

With support from the Board and senior management, the Company has continued to build on its diversity and inclusion strategy during 2021. The Company remains committed to the target set under the Women in Finance Charter, whereby it aims to have 40% of senior management roles filled by women by 2025. Various employee networks and forums continue to raise awareness of, and engagement with, diversity among Company employees.

The Board believes that transparency around gender pay gap reporting continues to play an important role in understanding and addressing the gender-based inequality that persists in our wider society in which the Company operates. The gender pay gap report published in 2021 showed that progress continues to be made whilst acknowledging that there is still more to do.

Throughout 2022, the Board will continue to review and challenge how the Company can improve engagement with its employees and other stakeholders.

Strategic report (continued)

Equal opportunities

The Company is an active equal opportunities employer, which promotes an environment free from discrimination, and where everyone receives equitable treatment and career development regardless of age, disability, sex, gender, gender reassignment, pregnancy, race (which includes colour, nationality and ethnic or national origins), sexual orientation, religion, or belief or because someone is married or in a civil partnership among other diverse attributes. All decisions relating to employment practices are objective, free from bias and based on merit. The Company continues to build on its diversity and inclusion strategy and, as part of this, is committed to further enhancing its equal opportunities monitoring.

The Company gives full and fair consideration to applications for employment made by disabled people, and encourages and assists the recruitment, training, career development and promotion of disabled people. The Company also endeavours to retain employees who become disabled during the course of their employment. This includes a commitment to making reasonable adjustments to the employee's working environment where a physical feature or a provision, criterion or practice puts a disabled person at a substantial comparative disadvantage.

The arrangements outlined above are set out in a Company policy, which is subject to periodic review.

Charitable activities

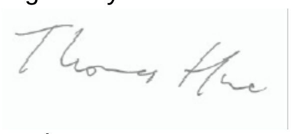
The Company is committed to its charitable initiatives and engages with a variety of charitable causes at both a corporate and individual employee level. The Company's approach, priorities and objectives with regard to charitable activities are primarily led by the Charity Committee, which operates under delegation from the Board.

During the year, the Company made charitable donations amounting to $59,000 (2020: $41,000). From 2019 to 2021, the Company, together with the LME, was partnered with The Connection, a homelessness charity located in the centre of London, which works with approximately 4,000 homeless people every year to support them in moving away from, and staying off the streets of London. As well as assisting with fundraising for the charity, through sponsored sporting feats and challenges, the Company’s staff were able to participate in a limited amount of volunteer work up until the start of the pandemic. Over the course of 2021 the Company’s donations helped fund The Bridge, a new accommodation centre born out of the COVID-19 lockdowns, which has kept London’s homeless community safe during the pandemic.

In 2021 the Company selected a new charity partner, Inspire!, an education business partnership, based in Hackney. Inspire! works with organisations and individuals across London to make a positive impact on local schools and young people’s lives.

The Strategic report was approved by the Board of Directors on 18 February 2022.

Signed by order of the Board of Directors by:



T.Hine
Company Secretary
18 February 2022
LME Clear Limited
Registration number 07611628

LME Clear Limited

Directors' report

The Directors submit their annual report to the sole shareholder together with the audited financial statements for the year ended 31 December 2021.

Incorporation

The Company is a private company limited by shares. It was incorporated in the United Kingdom on 21 April 2011. It is domiciled in the UK and registered in England and Wales.

Results and dividend

The profit before tax for the year ended 31 December 2021 was $37,298,000 (2020: $44,382,000) and after accounting for taxation was $30,184,000 profit (2020: $36,108,000).

The Directors do not propose the payment of a final dividend (2020: $nil). The Company paid an interim dividend of $35,000,000 in the year (2020: $30,000,000).

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are listed on page 1.

Directors' indemnity and insurance

The Company's Articles of Association provide an indemnity (the Indemnity) for each Director of the Company. The Indemnity, which constitutes a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006, was in force during the 2021 financial year and remains in force. Directors' and officers' insurance cover is also maintained for Directors of the Company.

Future developments

The Company has continued to work with the LME on the planning and development of new trading platform and data services, and to engage with stakeholders on future market structure reform – including the potential to move to realised variation margining in the future. The new trading platform and associated technology upgrades will be delivered in 2023.

The Company will continue to invest in its core clearing and technology services to ensure it remains competitive and continues to offer innovative and cost-effective clearing services for members. key initiatives in this regard include the planned delivery of value at risk (VaR) margining and potential introduction of RVM margining.

The Company announced in January 2022 that the Chief Executive Officer (CEO), Adrian Farnham, will be appointed as the Interim CEO of LME with effect from 1 May 2022, following the departure of the LME CEO, Matthew Chamberlain. The Company intends to appoint an Interim LME Clear CEO prior to this date.

Financial risk management

Information in respect of the Company's objectives, approach and exposure in respect of foreign exchange risk, price risk, cash flow and fair value interest rate risk, sovereign risk, credit risk and liquidity risk management is provided in note 16 to the financial statements.

Climate risk management

The Company considers climate risk to be an emerging risk that may have an impact on its operations, market, members and clients in the medium term. The Company has assessed that climate risk does not have any impact on the preparation of its financial statements for 2021. The Company will publish its climate commitments including its roadmap to carbon net zero in 2022.

Directors' report (continued)

Capital risk management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it continues to provide returns for the shareholder and benefits for other stakeholders;
- To support the Company's stability and growth;
- To provide capital for the purpose of strengthening the Company's risk management capability; and
- To ensure the Company complies with all regulatory requirements.

The Company holds capital resources in the form of share capital, retained earnings and reserves and actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future expected capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Company is regulated by the Bank of England as a Recognised Clearing House under the Financial Services and Markets Act 2000, and under the on-shored UK version of EMIR.

The BoE's capital rules require that the Company must maintain liquid assets and net shareholders' funds in excess of its regulatory capital requirement, Liquid assets are represented by the Company's own cash and cash equivalents together with financial assets measured at amortised cost. Net shareholders' funds comprises total equity less intangible and fixed assets, trade and other receivables and any amounts due from group undertakings.

The Company's regulatory capital requirement amounts to $123,660,000 (2020: $125,200,000). This includes a contribution to the default fund of $22,900,000 (2020: $23,200,000). This contribution to the default fund is allocated on a pro-rata basis as follows as at 31 December 2021: LME base and ferrous metals $22,754,000 (2020: $21,800,000) and LMEprecious $146,000 (2020: $1,400,000). In addition, the Company's capital resources must be in the form of share capital, retained earnings and reserves, reduced by intangible assets and retained losses.

Employee engagement

Disclosures regarding action taken by the Company to engage with its employees have been included in the Employee engagement section of the Strategic report.

Disabled persons disclosures

A statement describing the company's policy on the hiring, continuing employment and career development of disabled persons has been included in the equal opportunities section of the Strategic report.

Charitable activities

Disclosures regarding the Company's charitable activities have been included in the Charitable activites section of the Strategic report.

Streamlined energy and carbon reporting

<u>Carbon dioxide emissions</u>

The Company has calculated its carbon footprint using 2019 as its base year (due to the abnormalities caused by COVID-19 of 2020 and 2021). This was prepared in line with the Greenhouse Gas ("GHG") Protocol Corporate Standard. The operational areas that were studied included:

- The Company's use of LME's offices and apportioned facilities at 10 Finsbury Square;
- Business travel by employees;
- Employee commuting and working from home; and
- Data centres and capital goods.

Streamlined energy and carbon reporting (continued)

Carbon dioxide emissions (continued)

The three largest contributors to the Company's GHG emissions (by operational areas) in the 2019 base year were business travel (47%), data centres (17%) and employee commuting (14%).

GHG emissions as per the Greenhouse Gas Protocol Corporate Standard

GHG emissions by scope in metric tonnes (carbon dioxide equivalent)	**2019**
Scope 1 (direct combustion of fuels and company owned vehicles)	-
Scope 2 (emissions from electricity purchased for own use)	59
Scope 3 (indirect emissions from business travel)	491
	550

In 2021 the Company collected data on energy use and business travel. The Company uses the UK Government GHG conversion factors for reporting.

UK greenhouse gas emissions and energy use	**2021**	**2020**
Energy consumption used to calculate emissions (kWh)	**457,442**	**170,984**
Emissions in metric tonnes (carbon dioxide equivalent)		
Scope 1 (direct combustion of fuels and company owned vehicles)	-	-
Scope 2 (emissions from electricity purchased for own use)	6.3	39.9
Scope 3 (indirect emissions from business travel)	57.5	24.9
	63.8	**64.8**

During the year the Company emitted 0.008 metric tonnes carbon dioxide equivalent per metre squared of office space (2020: 0.06 metric tonnes per metre squared).

Scope 2 emissions reduced in 2021 as a result of the Company's offices at 10 Finsbury Square moving to electricity supply from renewable sources. Scope 3 emissions increased as a result of business travel recommencing following the end of the strictest COVID-19 social distancing measures, although remaining at a much lower level than the 2019 base year.

Work is underway to create a formal roadmap to indicate the Company's emission reduction strategy. The Company intends to announce its carbon net zero goal and route forward in 2022.

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

LME Clear Limited

Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements (continued)

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Directors' confirmations

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

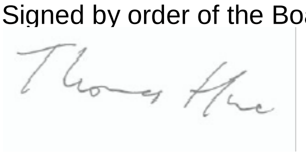
Going concern

In determining the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the Strategic report (see pages 2 to 7).

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. It was noted that the Company remained profitable during the year despite the COVID-19 pandemic and the associated downturn in the global commodities markets. The Company holds capital in excess of regulatory requirements and is forecast to be profitable and cash generating for the foreseeable future. Accordingly the going concern basis for preparing the financial statements is considered appropriate.

The Directors' report was approved by the Board of Directors on 18 February 2022.

Signed by order of the Board by:



T. Hine
Company Secretary
18 February 2022
LME Clear Limited

Independent auditors' report to the members of LME Clear Limited

Report on the audit of the financial statements

Opinion

In our opinion, LME Clear Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the Annual Report), which comprise: the Statement of financial position as at 31 December 2021; the Statement of profit or loss and other comprehensive income, the Statement of cash flows, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern. Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of LME Clear Limited (continued)

Report on the audit of the financial statements (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

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

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

Independent auditors' report to the members of LME Clear Limited (continued)

Report on the audit of the financial statements (continued)

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Bank of England's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management, internal audit and those charged with governance;
- Review of internal audit reports and minutes of meetings of those charged with governance in so far as they related to the financial statements;
- Review of correspondence with, and reports to regulators;
- Identifying and testing journal entries, including those posted to unusual account combinations, adjustments posted after year-end, backdated journals and those posted by unexpected users;
- Challenging assumptions and judgements made by management in their accounting estimates, in particular in relation to the capitalisation of software costs and impairment assessments of intangible assets; and
- Review of the financial statement disclosures and testing to supporting documentation.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors’ report to the members of LME Clear Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors’ remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Claire Sandford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 February 2022

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2021

	Note	2021 $ 000's	2020 $ 000's
Clearing and settlement fees		62,152	64,798
Other revenue		6,211	10,357
Interest income		30,424	48,381
Interest expense		-	(21,066)
Net interest income		30,424	27,315
Revenue and other income	3	**98,787**	**102,470**
Operating expenses	4	(61,671)	(57,317)
Other gains / (losses)		182	(771)
Profit before tax		**37,298**	**44,382**
Taxation	5	(7,114)	(8,274)
Profit for the year		**30,184**	**36,108**
Cash flow hedges		(78)	(251)
Changes in fair value of financial assets measured at fair value through other comprehensive income		(785)	258
Taxation		169	(19)
Other comprehensive expense, net of tax[1]		**(694)**	**(12)**
Total comprehensive income		**29,490**	**36,096**

[1] Other comprehensive income / (expense) comprises only items that have been or subsequently will be reclassified to profit and loss

No final dividend is proposed in respect of 2021 (2020: $nil). The Company paid interim dividends of $35,000,000 in the year (2020: $30,000,000).

All of the profits and comprehensive income included above are derived from continuing operations.

The notes on pages 20 to 50 are an integral part of these financial statements.

LME Clear Limited

Statement of financial position
As at 31 December 2021

	Note	2021 $ 000's	2020 $ 000's
Assets			
Non-current assets			
Intangible assets	6	15,666	19,242
Property, plant and equipment	7	356	666
Financial assets measured at amortised cost		39,340	-
Deferred tax asset	8	597	545
		55,959	**20,453**
Current assets			
Trade and other receivables	9	7,735	8,008
Cash and cash equivalents	10	12,990,897	10,981,656
Financial assets measured at amortised cost		-	104,199
Financial assets measured at fair value through other comprehensive income	12	360,619	391,387
Derivative financial assets	12	11,726,622	11,979,052
Taxation receivable		558	175
		25,086,431	**23,464,477**
Liabilities			
Current liabilities			
Trade and other payables	11	6,524	7,409
Derivative financial liabilities	12	11,726,622	11,979,052
Members' contribution to clearing house funds	12	1,095,846	1,359,421
Margin deposits from clearing participants	12	12,067,379	9,892,211
Amounts due to fellow undertaking	17	5,759	1,235
		24,902,130	**23,239,328**
Net current assets		**184,301**	**225,149**
Non-current liabilities			
Deferred tax liability	8	76	123
Net assets		**240,184**	**245,479**
Equity			
Share capital	13	178,701	178,701
Foreign currency translation reserve		(1,363)	(1,363)
Hedging reserve		(78)	-
Revaluation reserve		(671)	114
Retained earnings		63,595	68,027
Total equity		**240,184**	**245,479**

The notes on pages 20 to 50 are an integral part of these financial statements.

These financial statements, including the notes on pages 20 to 50 were approved by the Board of Directors and signed on its behalf by:

A J W Farnham

A J W Farnham
Director
18 February 2022

LME Clear Limited

Statement of changes in equity
For the year ended 31 December 2021

	Note	Share capital	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
		$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
At 1 January 2021		**178,701**	**(1,363)**	**-**	**114**	**68,027**	**245,479**
Profit for the year		-	-	-	-	30,184	**30,184**
Other comprehensive expense – cash flow hedge, revaluation reserve and tax charge		-	-	(78)	(785)	169	**(694)**
Total comprehensive income / (expense)		-	-	**(78)**	**(785)**	**30,353**	**29,490**
Transactions with shareholder - Interim dividend	15	-	-	-	-	(35,000)	**(35,000)**
Tax credit to equity reserves	5	-	-	-	-	215	**215**
At 31 December 2021		**178,701**	**(1,363)**	**(78)**	**(671)**	**63,595**	**240,184**

For the year ended 31 December 2020

	Note	Share capital	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
		$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
At 1 January 2020		**178,701**	**(1,363)**	**251**	**(144)**	**61,637**	**239,082**
Profit for the year		-	-	-	-	36,108	**36,108**
Other comprehensive income – cash flow hedge, revaluation reserve and tax charge		-	-	(251)	258	(19)	**(12)**
Total comprehensive income / (expense)		-	-	**(251)**	**258**	**36,089**	**36,096**
Transactions with shareholder - Interim dividend	15	-	-	-	-	(30,000)	**(30,000)**
Tax credit to equity reserves	5	-	-	-	-	301	**301**
At 31 December 2020		**178,701**	**(1,363)**	**-**	**114**	**68,027**	**245,479**

The notes on pages 20 to 50 are an integral part of these financial statements.

LME Clear Limited

Statement of cash flows
For the year ended 31 December 2021

	Note	2021 $ 000's	2020 $ 000's
Cash flows from operating activities			
Cash inflow from operating activities	14	2,054,700	2,471,134
Effects of foreign exchange movements		155	(771)
Tax paid		(7,213)	(12,553)
Net cash inflow from operating activities		**2,047,642**	**2,457,810**
Cash flows from investing activities			
Purchase of intangible assets	6	(3,401)	(5,589)
Purchase of property, plant and equipment	7	-	(46)
Net cash outflow from investing activities		**(3,401)**	**(5,635)**
Cash flows from financing activities			
Dividends paid to shareholder	15	(35,000)	(30,000)
Net cash outflow from financing activities		**(35,000)**	**(30,000)**
Net increase in cash and cash equivalents		**2,009,241**	**2,422,175**
Cash and cash equivalents at the beginning of year		10,981,656	8,559,481
Cash and cash equivalents at the end of year	10	**12,990,897**	**10,981,656**

The notes on pages 20 to 50 are an integral part of these financial statements.

LME Clear Limited

Notes to the financial statements

1 Significant accounting policies

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

1.1 Basis of preparation

The Company's financial statements have been prepared on a going concern basis in accordance with UK-adopted international accounting standards.

The Company's financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value, and on the basis of the principal accounting policies set out below.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These estimates and assumptions are based on historical experience and other factors that are considered to be relevant. The areas involving a higher degree of judgement or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

1.2 New and amended standards adopted by the Company

In 2021, the Company has adopted the following new/revised international accounting standards which were effective for accounting periods beginning on or after 1 January 2021. These amendments were adopted with effect from 1 January 2021 and have had no financial impact on the Company and no impact on the disclosures.

i) Amendments to IFRS7, IFRS4 & IFRS 16 – 'Interest rate benchmark reform – phase 2'

1.3 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2021 and not adopted early

The following standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning 1 January 2021 and therefore have not been applied in preparing these financial statements.

i) Amendment to IAS 1 – 'Presentation of financial statements'

ii) Amendment to IAS 8 – 'Accounting policies'

iii) Amendment to IAS 12 – 'Income taxes'

iv) Amendment to IFRS 16 – 'Leases'

v) Annual Improvements to IFRSs 2018-2020 Cycle

These amendments and improvements are not expected to have a material impact on the financial statements of the Company.

1 Significant accounting policies (continued)

1.4 Revenue and other income recognition

Revenue and other income excludes value added tax and other sales taxes, and is recognised in the Statement of profit or loss and other comprehensive income on the following basis:

i) Fees for the clearing of trades between members transacted on the London Metal Exchange (LME) are recognised in full on the trade match date.

ii) Fees for settlement transactions are recognised upon completion of the settlement.

iii) Other revenue comprises:

- Membership fees are recognised on a straight-line basis over time as the performance obligation is satisfied.
- Reporting fees in respect of LMEwire are recognised when the related services are rendered.
- Non-cash collateral fees are charged in connection with custody of non-cash collateral provided by clearing members and are included in other revenue. Recognition is on an accruals basis as the performance obligation is satisfied.

iv) Net interest income comprises:

- Interest income is income earned from short term investments and interest charged to clearing members. Interest charged is based on the LME Clear deposit rate. Interest income is recognised on a time apportionment basis using the effective interest rate method.
- Interest expense is interest payable to clearing members. Interest payable is based on the LME Clear deposit rate. Interest expense is recognised on a time apportionment basis using the effective interest rate method.

Deferred revenue (the terminology “contract liability” under IFRS 15 – ‘Revenue from contracts with customers’ is presented as deferred revenue) is recognised when the customers pay considerations before the Company transfers control of the goods or satisfies a performance obligation. This represents the unsatisfied performance obligations at year end resulting from long-term contracts.

1.5 Staff costs and other expenses

The Company awards shares under the HKEX Group Share Award Scheme (Share Award Scheme), under which the Company receives services from employees as consideration for share awards granted under the Share Award Scheme (Awarded Shares). The fair value of the employee services received in exchange for the Awarded Shares is recognised as employee share-based compensation expense.

The total amount to be expensed is determined by reference to the fair value of the Awarded Shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the vesting periods, with a corresponding credit to equity.

The corresponding credit is recorded as a capital contribution in the Company’s financial statements and an increase to investment in subsidiaries in HKEX's financial statements, with a corresponding credit to employee share-based compensation reserve. Any reimbursement by the Company to HKEX is offset against the capital contribution.

1 Significant accounting policies (continued)

1.5 Staff costs and other expenses (continued)

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount the Company expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Other expenses are charged to the Statement of profit or loss and other comprehensive income as incurred.

1.6 Intangible assets

Intangible assets consist of computer software-related projects capitalised when the development stage of the project is completed and the asset can be put into use. Development costs that are directly attributable to the design and testing of identifiable and unique systems controlled by the Company are recognised as intangible assets when the following criteria are met:

i) it is technically feasible to complete the system so that it will be available for use;

ii) management intends to complete the system and use or sell it;

iii) there is an ability to use or sell the system;

iv) it can be demonstrated how the system will generate probable future economic benefits;

v) adequate technical, financial and other resources to complete the development and to use or sell the system are available; and

vi) the expenditure attributable to the system during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Costs incurred in configuring or customising software in a cloud computing arrangement can only be recognised as intangible assets if the activities create to an intangible asset that the Company controls and the intangible asset meets the recognition criteria. Those costs that do not result in intangible assets are expensed as incurred, or, in certain circumstances, over the expected renewable terms of the cloud computing arrangement. Costs associated with maintaining computer systems are recognised as expenses as incurred.

System development costs recognised as assets are amortised on a straight line basis over their estimated useful lives, which do not exceed five years.

The Company selects its amortisation rates based on expected economic lives, taking into account the expected rate of technological developments, market requirements, obsolescence and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Company’s circumstances. Residual values and economic lives are reviewed at each balance sheet date. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Capitalised assets under development which are not yet ready for use are not amortised but are reviewed for impairment at each balance sheet date.

1 Significant accounting policies (continued)

1.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. They are depreciated when they are available for use at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight line basis. The residual values and useful lives are reviewed at the balance sheet date.

Computer systems and equipment (hardware) - three years.

Furniture, fixtures and fittings - three to five years.

1.8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank balances and other short-term highly liquid investments and reverse repurchase arrangements that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value with original maturities of three months or less.

Reverse repurchase agreements are recorded in the Statement of financial position within cash and cash equivalents, reflecting the nature of these arrangements as short-term highly liquid investments as defined in the previous paragraph. Securities purchased under these agreements and that are resold at a specified future date are not recognised in the Statement of financial position.

1.9 Hedge accounting

The Company designates certain financial instruments as cash flow hedges in respect of highly probable forecast transactions such as payroll costs.

At the point of designation of each hedge, the Company documents the relationship between the hedging instrument and hedged item(s) as well as its risk management objectives and strategy for undertaking hedge accounting. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instrument is highly effective in offsetting changes in the cash flows of hedged items.

The instruments used for hedging purposes are set out at note 12. Movements on the hedging reserve in other comprehensive income are shown in note 12. All hedged items will be settled within 12 months and therefore hedged instruments are recorded as current assets.

The effective portion of changes in the fair value of financial instruments that are designated as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of profit or loss and other comprehensive income within other gains / (losses).

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss and are recognised in the Statement of profit or loss and other comprehensive income within the relevant cost category.

When a hedging instrument no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of profit or loss and other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of profit or loss and other comprehensive income within other gains / (losses).

1 Significant accounting policies (continued)

1.10 Financial assets

The Company classifies its financial instruments into the following categories:

i) those measured at fair value through profit or loss; or

ii) those measured at fair value through other comprehensive income; and

iii) those measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies debt investments only in the event that its business model for managing those investments changes.

Financial assets are classified as current assets unless they are expected to mature or be disposed of after twelve months from the end of the reporting period, in which case they are included in non-current assets. Financial assets derived from margin deposits or members' contributions to clearing house funds are classified as current assets as they will be liquidated whenever required.

a) Financial assets measured at fair value through profit or loss

Assets are classified as financial assets measured at fair value through profit or loss (FVPL) if they do not meet the conditions to be measured at fair value through other comprehensive income or amortised cost. Derivative financial instruments (see further detail in note 1.11) are classified as FVPL financial assets when their fair values are positive.

At initial recognition, the Company measures a FVPL financial asset at its fair value. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

b) Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and is not designated as at fair value through profit or loss:

i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, the Company measures a FVOCI financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets measured at FVOCI are subsequently measured at fair value. Other changes in carrying amounts are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit and loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the Statement of profit or loss and other comprehensive income.

Impairment
The Company assesses on a forward looking basis the expected credit losses associated with its assets measured at fair value through other comprehensive income. Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls.

1 Significant accounting policies (continued)

1.10 Financial assets (continued)

In measuring expected credit losses, the Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

For financial assets measured at fair value through other comprehensive income, the Company recognises a provision for impairment losses equal to 12-month expected credit losses unless there has been a significant increase in the credit risk of the financial assets since initial recognition, in which case the provision for impairment losses is measured at an amount equal to lifetime expected credit losses.

Expected credit losses are measured at each reporting date to reflect changes in the financial asset's credit risk since initial recognition. Any change in the expected credit loss amount is recognised as an impairment loss or reversal of impairment loss in the Statement of profit or loss and other comprehensive income, with a corresponding adjustment to the carrying amount.

c) Financial assets measured at amortised cost

Assets are classified under financial assets measured at amortised cost if they satisfy both of the following conditions:

i) the assets are held within business model whose objective is to hold assets in order to collect contractual cash flows; and

ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade and other receivables are also classified under this category.

Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. The amortised cost is reduced by loss allowance for expected credit losses. Interest income, foreign exchange gains and losses and impairment are recognised in the Statement of profit or loss and other comprehensive income. Any gains and losses on de-recognition are recognised in the Statement of profit or loss and other comprehensive income.

Impairment
The Company assesses on a forward looking basis the expected credit losses associated with its financial assets measured at amortised cost.

For receivables due from customers, the Company applies the simplified approach permitted by IFRS 9 – 'Financial instruments', which requires expected lifetime losses to be recognised from initial recognition of the receivables. Expected credit losses of receivables are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

1 Significant accounting policies (continued)

1.10 Financial assets (continued)

Expected credit losses are re-measured at each reporting date to reflect changes in the financial assets credit risk since initial recognition. Any change in the expected credit loss amount is recognised as an impairment loss or reversal of impairment loss in the Statement of profit or loss and other comprehensive income, with a corresponding adjustment to the carrying amount.

The gross carrying amount of a financial asset is written off (partially or in full) to the extent that there is no realistic prospect of recovery. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in the Statement of profit or loss and other comprehensive income in the period in which the recovery occurs.

1.11 Derivative financial assets and liabilities

Derivative financial instruments include forward, futures and options contracts, comprising the outstanding derivatives contracts between the Company and its members, as the Company is the central counterparty (CCP) to all contracts traded on the LME.

Derivatives are initially recognised at fair value on the date contracts are entered into and are subsequently re-measured at their fair values. Derivatives are categorised as held for trading with changes in fair value recognised in Statement of profit or loss and other comprehensive income. All derivatives outstanding on the reporting date are classified as financial assets measured at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

Since the asset and liability positions of the Company arising through its activities as a CCP are matched, the same amount is recorded for both the assets and liabilities with the fair value gain and losses recognised, but offset, in the Statement of profit or loss and other comprehensive income.

Derivative financial assets and liabilities are offset and the net amount reported in the Statement of financial position when 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.

1.12 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are initially recognised at fair value, and subsequently measured at amortised cost.

1.13 Members’ contributions to clearing house funds

Members’ contributions to the clearing house funds (default funds) are included under current liabilities. Liabilities held in this category are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest rate method.

Non-cash collateral (i.e. securities) received from clearing members is not recognised on the Statement of financial position.

1 Significant accounting policies (continued)

1.14 Margin deposits and cash collateral from clearing members

The Company receives margin deposits from its clearing members as collateral in connection with the outstanding derivatives contracts between the Company and its members. The obligation to refund the margin deposits is disclosed as margin deposits from clearing members under current liabilities. Liabilities held in this category are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest rate method.

1.15 Current and deferred tax

Tax charge for the year comprises current and deferred tax. Tax is recognised in the Statement of profit or loss and other comprehensive income.

a) Current tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the United Kingdom. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

b) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the current tax losses can be utilised.

1.16 Foreign currencies

The financial statements are presented in US dollars, which is the Company's presentation and functional currency.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into USD at the rates of exchange ruling on the Statement of financial position date. Transactions in foreign currencies are recorded at the prevailing foreign exchange rates at the date of the transaction. Exchange differences are recorded in other gains / (losses) in the Statement of profit or loss and other comprehensive income.

1.17 Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is more likely than not that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

1.18 Share capital

Ordinary shares are classified as equity.

1.19 Dividends

The dividend distribution to the Company's sole shareholder is recognised as a liability in the Company's financial statements in the period in which the dividend is approved by the Company's shareholder.

2 Critical accounting estimates and assumptions

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events.

In connection with the preparation of the financial statements, management has made assumptions and estimates about future events and applied judgements that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. The assumptions, estimates and judgements are based on historical experience and other factors that management believes to be relevant at the time the financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgements to ensure that the financial statements are presented fairly and in accordance with international accounting standards.

Intangible assets

As described in notes 1.6 and 6, the Company incurs significant expenditure on the development of software and implementation of systems. The judgements regarding capitalisation and impairment, and the estimation of the useful life of the assets have a material impact on these financial statements.

The Company follows the accounting policy described in note 1.6.

The Company has carefully considered the following judgements:

i) whether costs meet the capitalisation criteria under IAS 38 'Intangible Assets'; and

ii) whether the asset is impaired.

The Company estimates the useful life of its software to be five years for trading systems and three years for non-trading systems based on the expected technical obsolescence of the asset. However the actual useful life may be shorter or longer. If the actual useful life is determined to be shorter, the amortisation charged to the Statement of profit or loss and other comprehensive income will be adjusted.

Deferred taxation

As described in notes 1.15 b) and 8, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available. The Company follows the accounting policy described in note 1.15 b). The Company has made a judgement that the deferred tax asset will be recoverable using the estimated future taxable income based on the Company's approved budget which forecasts continued taxable income.

Impairment of financial assets

As described in notes 1.10 and 12, expected credit losses of receivables are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors. The Company follows the accounting policy described in note 1.10.

3 Revenue and other income

Timing of revenue recognition	2021 $ 000's	2020 $ 000's
At a point in time	75,025	88,383
Over time	23,762	14,087
	98,787	**102,470**

4 Operating expenses

Operating expenses comprise the following:

	2021 $ 000's	2020 $ 000's
Wages and salaries	21,821	19,284
Social security costs	2,105	2,339
Other pension costs	811	762
Share based payments	1,698	1,910
Legal and professional fees	656	934
Depreciation	310	310
Amortisation	6,808	5,867
Impairment of intangible assets	169	314
Technology costs	6,406	5,772
Other costs	20,887	19,825
Total	**61,671**	**57,317**

During the year the Company obtained the following services from the Company's external auditors at costs as detailed below:

	2021 $ 000's	2020 $ 000's
Statutory audit of the Company's financial statements	287	255
Audit related assurance services	27	215
	314	**470**

The number of permanent employees (excluding directors) was:

	2021	2020
At 31 December	67	68
Monthly average for the year	70	68

5 Taxation

	Note	2021 $ 000's	2020 $ 000's
Income tax			
Current year		7,109	8,562
Adjustments in respect of prior years		3	32
Foreign exchange		43	(180)
Total current tax		**7,155**	**8,414**
Deferred tax			
Deferred tax for the current year		(18)	(127)
Adjustments in respect of prior years		(2)	(1)
Change in tax rate		(21)	(12)
Total deferred tax	**8**	**(41)**	**(140)**
Taxation charge		**7,114**	**8,274**

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 19% (2020: 19%) and the taxation charge for the year are explained below:

	2021 $ 000's	2020 $ 000's
Profit before tax	**37,298**	**44,382**
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2020 19%)	7,087	8,433
Foreign exchange	43	(180)
Taxation on share schemes	(1)	2
Expenses not deductible / income not taxable	5	-
Adjustments in respect of prior years	1	31
Change in tax rate	(21)	(12)
Taxation charge	**7,114**	**8,274**

Tax credited to equity:	2021 $ 000's	2020 $ 000's
Current tax - share options	(336)	(93)
Deferred tax - share options	115	(208)
Deferred tax – prior year	6	-
Taxation credit	**(215)**	**(301)**

6 Intangible assets

For the year ended 31 December 2021	Capitalised software in use $ 000's	Capitalised software under development $ 000's	Total $ 000's
Costs			
At 1 January 2021	68,115	3,962	72,077
Additions	-	3,401	3,401
Impairment charge	-	(169)	(169)
Transfer	1,878	(1,878)	-
At 31 December 2021	**69,993**	**5,316**	**75,309**
Accumulated amortisation			
At 1 January 2021	(52,835)	-	(52,835)
Charge for the year	(6,808)	-	(6,808)
At 31 December 2021	**(59,643)**	**-**	**(59,643)**
For the year ended 31 December 2020			
Costs			
At 1 January 2020	60,378	6,424	66,802
Additions	-	5,589	5,589
Impairment charge	-	(314)	(314)
Transfer	7,737	(7,737)	-
At 31 December 2020	**68,115**	**3,962**	**72,077**
Accumulated amortisation			
At 1 January 2020	(46,968)	-	(46,968)
Charge for the year	(5,867)	-	(5,867)
At 31 December 2020	**(52,835)**	**-**	**(52,835)**
Net book value			
At 31 December 2021	**10,350**	**5,316**	**15,666**
At 31 December 2020	15,280	3,962	19,242

Amortisation of intangibles is recognised in operating expenses in the Statement of profit or loss and other comprehensive income. An impairment charge has been recorded in the year in connection with software development projects for which completion and deployment will no longer occur.

7 Property, plant and equipment

For the year ended 31 December 2021	Computer hardware $ 000's	Furniture, fixture and fittings $ 000's	Total $ 000's
Costs			
At 1 January 2021	2,255	6	2,261
Additions	-	-	-
Transfers	-	-	-
At 31 December 2021	**2,255**	**6**	**2,261**
Accumulated depreciation			
At 1 January 2021	(1,589)	(6)	(1,595)
Charge for the year	(310)	-	(310)
At 31 December 2021	**(1,899)**	**(6)**	**(1,905)**
For the year ended 31 December 2020			
Costs			
At 1 January 2020	1,280	935	2,215
Additions	46	-	46
Transfers	929	(929)	-
At 31 December 2020	**2,255**	**6**	**2,261**
Accumulated depreciation			
At 1 January 2020	(1,279)	(6)	(1,285)
Charge for the year	(310)	-	(310)
At 31 December 2020	**(1,589)**	**(6)**	**(1,595)**
Net book value			
At 31 December 2021	**356**	**-**	**356**
At 31 December 2020	**666**	**-**	**666**

Depreciation of property plant and equipment is recognised in operating expenses in the Statement of profit or loss and other comprehensive income.

8 Deferred tax asset / (liability)

The movements in the deferred tax asset during the year are shown below:

	Fixed and intangible assets $ 000's	Employee benefits $ 000's	Share options $ 000's	Cash flow hedge $ 000's	Revaluation reserve $ 000's	IFRS 9 transitional adjustment $ 000's	Total $ 000's
At 1 January 2020	**(80)**	**-**	**247**	**-**	**-**	**-**	**167**
Adjustments in respect of prior years credited / (charged)							
- to profit or loss	-	1	-	-	-	-	1
- to other comprehensive income	-	-	-	(48)	27	(81)	(102)
Effects of changes in tax rates credited /(charged)							
- to profit or loss	(9)	-	21	-	-	-	12
- to equity	-	-	2	-	-	-	2
Other credits /(charges)							
- to profit or loss	59	(1)	69	-	-	-	127
- to other comprehensive income	-	-	-	48	(49)	10	9
- to equity	-	-	206	-	-	-	206
At 31 December 2020	**(30)**	**-**	**545**	**-**	**(22)**	**(71)**	**422**
Adjustments in respect of prior years credited / (charged)							
- to profit or loss	-	-	2	-	-	-	2
- to equity	-	-	(6)	-	-	-	(6)
Effects of changes in tax rates credited /(charged)							
- to profit or loss	7	-	14	-	-	-	21
- to equity	-	-	1	-	-	-	1
- to other comprehensive income	-	-	-	5	15	(15)	5
Other credits /(charges)							
- to profit or loss	60	-	(42)	-	-	-	18
- to other comprehensive income	-	-	-	15	149	10	174
- to equity	-	-	(116)	-	-	-	(116)
At 31 December 2021	**37**	**-**	**398**	**20**	**142**	**(76)**	**521**

Deferred taxation is calculated in full on temporary differences under the liability method.

The deferred tax assets and liabilities have arisen as a consequence of movements in fixed assets, movements in revaluation reserve, adoption of IFRS 9 and share options. $389,000 of the deferred tax asset and $10,000 of the deferred tax liability will be realised in 2022, with the remaining balances being realised in more than 12 months.

8 Deferred tax asset / (liability) (continued)

Factors that may affect future tax charges

The Company will receive tax relief on the same basis as amortisation of intangible assets.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Current and deferred tax

The Finance Act 2020 retained the UK corporation tax rate at 19% from 1 April 2020 onward instead of reducing to 17%, the previously enacted rate. The Finance Act 2021 received Royal Assent on 10 June 2021; as a result the UK corporation tax rate applicable to the Company will increase from 19% to 25% effective 1 April 2023.

	2021 $ 000's	2020 $ 000's
Deferred tax asset	597	545
Deferred tax liability	(76)	(123)
Net deferred tax asset	**521**	**422**

9 Trade and other receivables

	2021 $ 000's	2020 $ 000's
Accrued income	7,076	7,567
Prepayments	659	476
Other receivables	-	(35)
	7,735	**8,008**

The maximum exposure to credit risk at the reporting date is the book value of the accrued income and other receivable balances above. The Company holds cash and non-cash collateral as security as described further in note 10.

As at 31 December 2021 expected lifetime losses were $nil (2020: $nil).

The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of customers to settle receivables. There has been no history of default since launch in 2014.

In respect of forward-looking information, the Company takes into account the results of its regular credit assessments of its clearing members and it has default mechanisms which allow it to reclaim any outstanding trade and other receivables. Accordingly, taking these factors into account, the loss provision is $nil (2020: $nil).

10 Cash and cash equivalents

The cash and cash equivalents represent cash on hand and short term investments.

	2021 $ 000's	2020 $ 000's
Cash at bank	30,847	21,777
Short term investments		
- reverse repurchase agreements	12,960,050	10,959,879
	12,990,897	**10,981,656**

$12,960,050,000 (2020: $10,959,879,000) of short term investments are fully collateralised by or are comprised of sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Company's Risk Committee.

A significant component of cash and cash equivalents comprise amounts initially received from clearing members in cash as initial and variation margin, and as contributions to the default funds. In compliance with the on-shored UK version of EMIR, these amounts are held in accounts separate from the Company's own resources.

The Company's own cash and cash equivalents comprise $188,292,000 (2020: $120,949,000) of cash and cash equivalents, of which $22,900,000 is restricted as the Company's own resources to be used in the default waterfall. This contribution to the default fund is allocated on a pro-rata basis as follows as at 31 December 2021: LME base and ferrous metals $22,754,000 (2020:$21,800,000) and LMEprecious $146,000 (2020: $1,400,000).

As of 31 December 2021, the Company held £8,800,000 cash at bank (2020: £nil), equivalent to $11,919,000 (2020: $nil) designated as hedging instruments. Further details are set out in note 12.

11 Trade and other payables

	2021 $ 000's	2020 $ 000's
Social security and other taxes	2,974	3,240
Other payables	91	940
Accruals and deferred income	3,459	3,229
	6,524	**7,409**

With the exception of deferred income, trade and other payables totalling $3,261,000 have contractual payment terms of less than three months (2020: $2,877,000).

12 Financial instruments and hedge accounting

Fair value measurements

The following table presents the carrying value of financial assets and financial liabilities measured at fair values according to the levels of the fair value hierarchy defined in IFRS 13: Fair value measurement, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

12 Financial instruments and hedge accounting (continued)

	At 31 Dec 2021		
	Level 1	**Level 2**	**Total**
	$ 000's	**$ 000's**	**$ 000's**
Financial assets measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	11,726,622	11,726,622
	-	**11,726,622**	**11,726,622**
Financial assets measured at fair value through other comprehensive income:			
Debt securities	360,619	-	360,619
	360,619	**-**	**360,619**
Financial liabilities measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	11,726,622	11,726,622
	-	**11,726,622**	**11,726,622**
Net financial assets	**360,619**	**-**	**360,619**

	At 31 Dec 2020		
	Level 1	**Level 2**	**Total**
	$ 000's	**$ 000's**	**$ 000's**
Financial assets measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	11,979,052	11,979,052
	-	**11,979,052**	**11,979,052**
Financial assets measured at fair value through other comprehensive income:			
Debt securities	391,387	-	391,387
	391,387	**-**	**391,387**
Financial liabilities measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	11,979,052	11,979,052
	-	**11,979,052**	**11,979,052**
Net financial assets	**391,387**	**-**	**391,387**

During 2021 and 2020, no financial assets or financial liabilities were classified under Level 3 and there were no transfers of instruments between Levels 1 and 2.

The value of level 2 instruments is derived from the spot process of underlying contracts or similar.

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

12 Financial instruments and hedge accounting (continued)

Fair value of financial assets and financial liabilities not reported at fair values

The carrying amounts of short-term receivables (i.e. trade and other receivables, cash and cash equivalent and amounts due from group undertakings) and short-term payables (e.g. trade and other payables, and amounts due to group companies) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

Impairment

The Company has assessed that the impairment for financial assets measured at fair value through other comprehensive income and those measured at amortised cost is $26,000 (2020: $35,000).

The expected credit loss was measured using the probability of default of these financial assets which are investments in debt securities. The debt securities were of investment grade and had a weighted average credit rating of AAA. They had no history of default and there was no unfavourable current and forecast general economic conditions as at the reporting dates. The probability of default of these assets was estimated to be 0.0066% (2020: 0.007%).

Offsetting financial assets and financial liabilities

The Company reports financial assets and financial liabilities on a net basis on the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Company applies offsetting by settlement date and by member account to its open derivative contracts as at each reporting date.

As a CCP, the Company sits in the middle of members' transactions and holds initial and variation margin amounts as a collateral against the default of a clearing member. A further amount of cash collateral is held comprising the default funds. Whilst these amounts are not available for offset on the Statement of financial position, in the event of default these balances would reduce the Company's exposure further under the Rules of the clearing house. Default funds of $1,095,846,000 (2020: $1,359,421,000) and margin funds of $12,067,379,000 (2020: $9,892,211,000) are held by the Company and have maturities of less than three months.

The following table shows the impact of netting arrangements on all financial assets and liabilities that are reported net on the balance sheet.

As at 31 December 2021				**Related amounts not offset in the Statement of financial position**		
	Gross amounts recognised	**Gross amounts offset**	**Net amount presented in the Statement of financial position**	**Financial (liabilities) / assets other than cash collateral**	**Cash collateral received**	**Total**
	$ 000's	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**
Derivative financial						
- assets	194,063,876	182,337,254	11,726,622	(5,065,034)	(6,661,588)	-
- liabilities	(194,063,876)	(182,337,254)	(11,726,622)	5,065,034	-	(6,661,588)

12 Financial instruments and hedge accounting (continued)

As at 31 December 2020	Gross amounts recognised	Gross amounts offset	Net amount presented in the Statement of financial position	Related amounts not offset in the Statement of financial position: Financial (liabilities) / assets other than cash collateral	Related amounts not offset in the Statement of financial position: Cash collateral received	Total
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
Derivative financial						
- assets	200,755,362	188,776,310	11,979,052	(4,987,557)	(6,991,495)	-
- liabilities	(200,755,362)	(188,776,310)	(11,979,052)	4,987,557	-	(6,991,495)

Hedge accounting

A proportion of the Company's sterling cash has been designated as a cash flow hedge of foreign exchange risks associated with the cash flows of highly probable forecast transactions relating to the Company's staff costs.

As at 31 December 2021 the hedging instruments totalled £8,800,000 (2020: £nil), equivalent to $11,919,000 (2020: $nil).

Movements in the hedging reserve during the year are shown below:

	2021	2020
	$ 000's	$ 000's
At 1 January	-	251
(Loss) / gain on hedging instruments recognised in other comprehensive income	(115)	331
Reclassified to profit or loss:		
- wages and salaries	27	(582)
Reclassified to Statement of financial position		
- Intangible assets	10	-
At 31 December	**(78)**	**-**

No ineffectiveness was recognised during 2021 (2020: $nil).

13 Share capital

	2021 $ 000's	2020 $ 000's
Total share capital	178,701	178,701

The Company has 107,500,001 (2020:107,500,001) ordinary shares in issue. There is no restriction on the number of shares to be issued.

14 Cash flows from operating activities

Reconciliation of profit before tax to net cash inflow / (outflow) from operating activities:

	2021 $ 000's	2020 $ 000's
Profit before tax	37,298	44,382
Adjustments for:		
Depreciation and amortisation	7,118	6,177
Impairment of intangible assets	169	314
Increase in intercompany payable	4,524	918
Effects of foreign exchange movements	(155)	771
Decrease / (increase) in financial assets measured at amortised cost	64,859	(23,027)
Decrease in financial assets measured at fair value through profit and loss or other comprehensive income	29,983	1,237
Other non-cash movements	(77)	7
Decrease in accounts receivable	273	2,555
Decrease in accounts payable, accruals and other liabilities	(885)	(2,961)
Increase in margin deposits and default fund	1,911,593	2,440,761
Cash inflow from operating activities	**2,054,700**	**2,471,134**

15 Dividends paid to shareholder

The Company paid an interim dividend of $35,000,000 in 2021 (2020: $30,000,000).

16 Financial risk management

The Company's activities expose it to some financial risks: market risk (including foreign exchange risk, interest rate risk, and market price risk), sovereign risk, liquidity risk and credit risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's performance.

a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Company is exposed to market risk primarily through its financial assets and financial liabilities.

The Company's investment policy is to prudently invest all funds managed by the Company in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

The Company's Investment Policy, is approved by the Board and reviewed annually. Investment restrictions and guidelines form an integral part of risk control. The Company's investment policy is designed to ensure diversification of investments across a range of highly rated financial institutions and to minimise risk through the use of risk based limits. The majority of investments take the form of reverse repurchase agreements against high quality sovereign securities. No investments are made for speculative purposes. In addition, specific limits are set to control risks (e.g. liquidity, credit requirement, counterparty concentration, maturity and interest rate risks) of the investments.

(i) Foreign exchange risk management

Foreign exchange risk is the risk that the value or cash flows of an asset, liability or highly probable forecast transaction denominated in foreign currency (ie, a currency other than the functional currency of the Company) will fluctuate because of changes in foreign exchange rates. The Company may invest in non-USD securities from time to time.

The Company is exposed to foreign currency risk arising from payments of various expenditures (predominately in GBP, a significant component of which is staff costs) and investments and bank deposits denominated in foreign currencies (mainly EUR). Its risk management policy is to forecast the amount of GBP payments and to retain some GBP bank deposits to cover future expenditure or convert from USD to GBP as soon as deemed appropriate.

The Company primarily receives margin from members in USD, but also holds margin in other currencies – EUR, GBP, JPY and CNH. Margin received from members is invested primarily through reverse repurchase arrangements against high quality government securities. Where the securities are not denominated in USD the Company requires an additional haircut to cover the notional foreign exchange risk that would arise in the event of the non-return of the USD cash.

The Company's derivative asset and liability positions are denominated in the Company's core clearing currencies – which are equal and opposite positions and as a result there is no net foreign exchange exposure for the Company on these positions.

16 Financial risk management (continued)

a) Market risk (continued)

(i) Foreign exchange risk management (continued)

The tables below summarise the Company's financial assets and financial liabilities denominated in foreign currencies:

	At 31 December 2021					
	$ 000's EUR	$ 000's HKD	$ 000's GBP	$ 000's JPY	$ 000's CNH	$ 000's Total
Cash and cash equivalents	119,331	-	1,599,414	28,087	94	1,746,926
Trade and other receivables	18	-	162	8	-	188
Total assets	119,349	-	1,599,576	28,095	94	1,747,114
Trade and other payables	(48)	-	(4,538)	-	-	(4,586)
Amounts due to parent / fellow subsidiaries	-	(223)	(5,200)	-	-	(5,423)
Margin deposits and default fund	(119,050)	-	(1,578,955)	(28,019)	(9)	(1,726,033)
Total liabilities	(119,098)	(223)	(1,588,693)	(28,019)	(9)	(1,736,042)
Total assets / (liabilities)	**251**	**(223)**	**10,883**	**76**	**85**	**11,072**
Notional effect if exchange rates change by +/- 10%	**+/-25**	**+/-22**	**+/-1088**	**+/-8**	**+/-9**	**+/-1108**

	At 31 December 2020					
	$ 000's EUR	$ 000's HKD	$ 000's GBP	$ 000's JPY	$ 000's CNH	$ 000's Total
Cash and cash equivalents	7,146	-	675,689	18,541	92	701,468
Trade and other receivables	-	-	157	4	(1)	160
Total assets	7,146	-	675,846	18,545	91	701,628
Trade and other payables	(2)	(611)	(5,457)	-	(3)	(6,073)
Amounts due to parent / fellow subsidiaries	-	(220)	(1,601)	-	-	(1,821)
Margin deposits and default fund	(6,865)	-	(669,438)	(18,462)	(6)	(694,771)
Total liabilities	(6,867)	(831)	(676,496)	(18,462)	(9)	(702,665)
Total assets / (liabilities)	**279**	**(831)**	**(650)**	**83**	**82**	**(1,037)**
Notional effect if exchange rates change by +/- 10%	**+/-28**	**+/-83**	**+/-65**	**+/-8**	**+/-8**	**+/-104**

Notes to the financial statements (continued)

16 Financial risk management (continued)

a) Market risk (continued)

(ii) Interest rate risk management

The Company is exposed to interest rate risk arising from the cash and investment balances it maintains, the margin and default fund balances it holds from clearing members. The Company determines the returns paid on member liabilities with reference to a spread against external overnight benchmark rates, as such the investment risk relates to the difference between the rate received on its investments and the amount it determines is payable to members with reference to the overnight benchmark rates. The Company retains the ability to adjust the spread in the event of its investment activity departing from the benchmark rates.

The following table shows the average interest rates for the year applicable to each relevant category of interest bearing financial instrument held at the Statement of financial position date:

Financial assets / (liabilities)	**Amount (USD)**	**Average contractual interest rate receivable by / (payable) from the Company**	**Notional effect if interest rates change by +/- 10%**
At 31 December 2021	**$ 000's**	**%**	**$ 000's**
Short term deposits (reverse repurchase agreements)			
- USD (own funds)	167,127	0.06%	10
- GBP (own funds)	19,770	(0.50)%	(10)
- USD (margin deposits and default fund)	11,075,138	0.08%	886
- GBP	1,578,955	(0.51)%	(805)
- EUR	119,050	(1.61)%	(192)
Financial assets measured at fair value through other comprehensive income (USD)	360,619	0.43%	155
Financial assets measured at amortised cost (USD)	39,340	0.21%	8
Margin deposits and default fund			
- USD	(11,437,035)	0.13%	(1,487)
- GBP	(1,578,955)	(0.14)%	221
- EUR	(119,050)	(1.01)%	120
- JPY	(28,018)	(0.32)%	9
- CNH	(167)	7.18%	(1)
At 31 December 2020	**$ 000's**	**%**	**$ 000's**
Short term deposits (reverse repurchase agreements)			
- USD (own funds)	114,198	0.18%	21
- GBP (own funds)	5,654	(0.35)%	2
- USD (margin deposits and default fund)	10,163,717	0.21%	2,134
- GBP	669,438	(0.33)%	221
- EUR	6,865	(2.00)%	14
Financial assets measured at fair value through other comprehensive income (USD)	391,387	0.74%	288
Financial assets measured at amortised cost (USD)	104,199	0.47%	49
Margin deposits and default fund			
- USD	(10,556,707)	(0.12)%	1,267
- GBP	(653,816)	(0.30)%	196
- EUR	(6,712)	(1.00)%	7
- JPY	(18,280)	(0.33)%	6
- CNH	(158)	6.4%	1

16 Financial risk management (continued)

a) Market risk (continued)

(iii) Market price risk management

As a CCP the Company has a balanced position in all cleared contracts and runs no significant market price risk unless a clearing member defaults as described at the 'Clearing and settlement-related risk management' section below. The Company has limited exposure to market price risk arising from fluctuations in the value of market-traded securities; all purchased securities are debt securities and are held to collect the contractual cashflows and therefore the Company's business model minimises market price risk.

b) Sovereign risk

Distress amongst sovereigns through market concerns over the level of government debt and the ability of certain governments to service their debts over time could have adverse effects on the Company's cleared products, margin, collateral, investments, clearing membership and the financial industry as a whole.

The Company has specific risk frameworks that manage sovereign risk for both clearing and margin collateral, and all clearing members are monitored regularly against a suite of stress scenarios. In addition, investment limits and counterparty and clearing membership monitoring frameworks are sensitive to changes in ratings and other financial market indicators, to ensure the Company is able to measure, monitor and mitigate exposure to sovereign risk and respond quickly to anticipated changes.

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities. The Company employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Company to ensure that all liabilities due and known funding requirements could be met.

Surplus cash of the Company is invested in high quality short term investments, and the investments of the Company are kept sufficiently liquid to meet the operating needs and possible liquidity requirements of the clearing house funds and members' margin. Other than certain derivative financial assets and liabilities and certain floating rate notes, all financial instruments of the Company have contractual maturities of less than three months.

As a result of the Company's position as the central party to each cleared trade the maturity of derivative assets will perfectly match the maturity of derivative liabilities and as a result the Company has minimal liquidity risk from derivatives.

d) Credit risk management

(i) Investment and accounts receivable-related risk management

The Company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Company's derivative financial assets and accounts receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Company limits its exposure to credit risk by rigorously selecting the counterparties (i.e., deposit-takers, bond issuers and debtors) and by diversification.

16 Financial risk management (continued)

d) Credit risk management

(i) Investment and accounts receivable-related risk management (continued)

At 31 December 2021, the cash and cash equivalents held for members' margin, the clearing house funds and corporate funds held were all held only with banks with a minimum rating of Baa1 (Moody's). All investments are subject to concentration limits for counterparty, sovereign and maturity approved by the Board as part of the Investment Policy.

The Company mitigates its exposure to risks relating to accounts receivable from its members by requiring the members to meet the Company's established financial requirements and criteria for admission as members. The Company is obliged to return this non-cash collateral upon request when the members' collateral obligations have been substituted with cash collateral or otherwise discharged. The Company is permitted to sell or pledge such collateral in the event of the default of a member. Any non-cash collateral lodged at central securities depositories or custodians is subject to a lien or pledge for the services they provide in respect of the collateral held.

In addition, the Company holds non-cash collateral in the form of debt securities and gold bullion in respect of initial and variation margin posted by clearing participants. The fair value of this collateral was $971,000,000 as at 31 December 2021 (2020: $2,241,000,000).

The Company also holds securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the investment counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was $13,535,000 as at 31 December 2021 (2020: $11,482,000,000). The collateral held was not recorded on the Statement of financial position as at 31 December 2021. The collateral held, together with certain on-balance sheet debt securities amounting to $399,959,000 as at 31 December 2021 (2020: $496,000,000) have been pledged to the Company's investment agent and custodian banks under security arrangements for the settlement and depository services they provide in respect of the collateral and investments held.

(ii) Clearing and settlement-related risk management

In the normal course of business, the Company will offer to act as the buying and selling counterparty to trades between participants, on acceptance of the Company's offer by each party two cleared contracts are formed, one between the Company and the buyer and between the Company and the seller. As a result, the Company has considerable market risk and credit risk since the members' ability to honour their obligations in respect of their trades may be adversely impacted by economic conditions affecting the commodities markets. If the members default on their obligations on settlement, the Company could be exposed to potential risks not otherwise accounted for in these financial statements.

The Company mitigates its exposure to risks described above by requiring the members to meet the Company's established financial requirements and operational and other criteria for admission as a clearing member. All clearing members are required to deposit initial margin to cover the positions that they hold and also to contribute to the default fund set up by the Company to cover losses in excess of initial margin. The Company has an obligation to contribute $22,900,000 of capital as a 'skin-in-the-game' amount which must be fully utilised before it can draw on the default fund contributions from the non-defaulting members. If these loss-absorbing resources were fully utilised the Company then has the right to call upon surviving members to contribute up to a further three replenishments of the default

16 Financial risk management (continued)

d) Credit risk management

(ii) Clearing and settlement-related risk management (continued)

fund for additional defaults. For each additional replenishment the Company is obliged to also contribute a further amount equal to the $22,900,000 'skin-in-the-game'.

If a member were to default the Company has arrangements and resources in place to ensure that it can respond in an orderly and efficient way. Firstly, the Company would seek transfer (port) client positions and hedge the remaining positions of the defaulting member and then find a new counterparty to take on the remaining positions to return the Company to a matched book of contracts.

The Company is able to draw upon the defaulting member's initial margin and other assets including the defaulting party's contribution to the Default fund held in order to cover the costs of returning to a matched book of contracts. Due to the Company's margin policies the probability of the amounts owed by a defaulting member exceeding the amount of margin held is statistically very small. However, if the collateral posted by the defaulter was insufficient to meet the amount owed, the Company can then draw upon the remaining resources in the default waterfall process including its own capital contribution (skin-in-the-game), the remaining Default Fund and rights of replenishment.

(iii) Exposure to credit risk

At 31 December, the maximum exposure to credit risk of the financial assets of the Company were equal to their carrying amounts.

(iv) Financial assets that were past due but not impaired

At 31 December 2021 there were no assets that were past due but not impaired (2020: $nil).

(v) Fair values of financial assets and financial liabilities not reported at fair values

The carrying value of trade receivables and payables approximates their fair values due to their short-term nature.

17 Transactions with related parties

Directors

During the financial year, no contracts were entered into by the Company in which any of the Directors had a material interest.

There are no other related party transactions other than those disclosed in these financial statements.

Pension fund

The Company is a participating employer in the London Metal Exchange 1989 Pension Scheme. The principal funds are those managed in the UK.

The contributions in respect of the Company's pension scheme are disclosed in note 4.

17 Transactions with related parties (continued)

Parent and group subsidiaries

During the years ended 31 December 2021 and 31 December 2020 the Company undertook the following transactions with other related parties.

The London Metal Exchange	**2021**	**2020**
	$ 000's	**$ 000's**
Intra group licensing fee	(10,000)	(10,000)
Payroll costs for Company employees paid by LME	(11,190)	(13,886)
Shared services – staff-related	(8,656)	(9,880)
IT related services	(3,111)	(2,417)
Facilities costs	(665)	(683)
Other costs	(350)	(643)
	(33,972)	**(37,509)**

Total monies collected by the Company as agent and paid to LME in 2021 were $184,657,000 (2020: $181,492,000).

Hong Kong Exchanges and Clearing Limited	**2021**	**2020**
	$ 000's	**$ 000's**
Expenses in relation to share based payments	(1,689)	(1,886)
Insurance costs	(84)	(41)
Other costs	(59)	(65)
IT Costs	(76)	-
	(1,908)	**(1,992)**

Gangsheng Technology Services (Shenzhen) Limited	**2021**	**2020**
	$ 000's	**$ 000's**
IT related staff costs	(222)	(99)

For the years ended 31 December 2021 and 31 December 2020 the balances with other related parties were as follows:

	2021		**2020**	
	$ 000's	**$ 000's**	**$ 000's**	**$ 000's**
	Owed by:	Owed to:	Owed by:	Owed to:
The London Metal Exchange	-	5,527	-	1,033
Hong Kong Exchanges and Clearing Limited	-	195	-	193
Gangsheng Technology Services (Shenzhen) Limited	-	37	-	9
	-	**5,759**	**-**	**1,235**

No amounts due from related parties were past due or impaired. Amounts due to related parties have contractual payment terms of less than three months (2020: less than three months).

18 Key management compensation

Compensation for directors (included within the relevant costs in note 4) of the Company and the members of the executive committee, regarded as the key personnel who have authority for planning, directing and controlling the Company:

	2021 $ 000's	2020 $ 000's
Salaries and other short term benefits	3,586	3,466
Share based payments	1,240	1,337
Pensions	137	153
	4,963	**4,956**

19 Directors' emoluments

Directors' emoluments for the year included in staff costs are as follows:

	2021 $ 000's	2020 $ 000's
Aggregate emoluments	2,448	2,245
Company contributions paid to defined contribution pension scheme	5	5
Remuneration for loss of office	168	-
	2,621	**2,250**

There are no retirement benefits accruing to directors under the defined contribution scheme (2020: $nil).

Remuneration of highest paid director

	2021 $ 000's	2020 $ 000's
Aggregate emoluments	1,446	1,416
Company contributions paid to defined contribution pension scheme	5	5
	1,451	**1,421**

There are no retirement benefits accruing under the defined contribution scheme (2020: $nil).

20 Long term incentive plan

Employees of the Company are eligible to receive share awards under the Company's HKEXs Share Award Scheme. Following the decision to award an award sum (Awarded Sum) for the purchase of Awarded Shares to eligible employees and/or selected senior executives, the Awarded Shares are either purchased from the market or are awarded by re-granting the forfeited or unallocated shares held by the Company's Share Award Scheme. Before vesting the Awarded Shares are held in a trust set up by the Scheme.

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from scrip shares received under the scrip dividend scheme (dividend shares), and are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

Employee Share Awards vest progressively over the vesting period after the shares are granted, provided that the relevant awardees (i) remain employed by the Company (ii) are made redundant or (iii) are deemed to be "good leavers" or retired on reaching normal retirement age or suffers from permanent disability. Unless otherwise determined by the HKEX Board, the HKEX Remuneration Committee or the Chief Executive, the vesting period of Employee Share Awards granted was 3 years, and the shares would be vested in two equal tranches from the second to the third year after the shares are granted.

For awardees who do not meet the vesting criteria, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Scheme who may award such shares to the awardees, taking into consideration recommendations of the HKEX Board.

For Awarded Shares granted to the employees of the Company, the fair value of the employees' services received, measured by reference to the grant date fair value, is recognised over the projected vesting period, being the period for which the services from the employees are received and is charged to staff costs and related expenses. The corresponding credit is recorded as a capital contribution in the Company's financial statements and an increase to investment in subsidiaries in HKEX's financial statements, with a corresponding credit to employee share-based compensation reserve. Fair values of awarded shares are derived from quoted market prices on the date of purchase. Any reimbursement by the Company to HKEX is offset against the capital contribution.

During 2021, Awarded Sums amounting to $2,001,000 were granted to selected employees. At 31 December 2021, the purchase of shares to fulfil those awards had not yet been completed

Details of the awarded shares vesting in part or in full in 2021:

Date of award	Number of shares awarded	Average fair value per share $	Reference sum award $ 000's	Vesting period
31-Dec-18	65,371	29.68	-	7 Dec 2018 – 7 Dec 2021
31-Dec-19	66,195	32.59	-	12 Dec 2019 – 12 Dec 2022
31-Dec-20	30,617	56.57	-	9 Dec-2020 – 9 Dec-2023
31-Dec-21	-	-	2,001	7 Dec 2021 – 7 Dec 2024

20 Long term incentive plan (continued)

Movement in the number of awarded shares:

	2021	2020
Outstanding at 1 January	98,628	150,508
Awarded	30,617	-
Vested	(60,086)	(51,879)
Forfeited	(8,389)	-
Outstanding at 31 December	**60,770**	**98,629**

21 Immediate and ultimate controlling entity

HKEX Investment (UK) Limited, a company incorporated in England and Wales, is the Company's immediate parent company. The registered address of HKEX Investment (UK) Limited is 10 Finsbury Square, London, EC2A 1AJ.

Hong Kong Exchanges and Clearing Limited, a company incorporated in Hong Kong, is the ultimate controlling entity and is the largest and smallest group to consolidate these financial statements. The registered address of Hong Kong Exchanges and Clearing Limited is 8/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

22 Events after the reporting date

The Board approved an interim dividend of $9,000,000 (2020: $17,500,000) at its meeting in February 2022, to be paid in March 2022.
period