

LCH

CRR2 Pillar 3 Disclosures Report

For the year ended 31 December 2023



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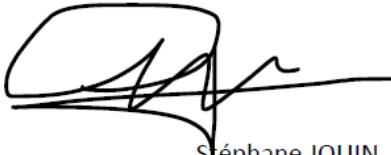
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AFFIRMATION LETTER

Stephane Jouin, as the Chief Financial Officer of LCH SA, hereby attests that the information presented in this report has been established while ensuring that the information is accurate and provides a comprehensive view of LCH risk profile. The report has been reviewed and validated by the LCH SA Audit Committee on July 2th 2024 .

This Pilar III communication has been established based on the periodical supervisory reporting which are produced and submitted to the authorities in accordance with regulation (EU) 2021/451 and in compliance with prudential requirements and methodologies established by regulation (EU) 575/2013 as amended.

Paris as of July 2nd, 2024



Stéphane JOUIN
LCH SA Chief Financial Officer

1. KEY PRUDENTIAL METRICS

1.1 Disclosure of key metrics and overview of risk-weighted exposure amounts

The following table, as stated by EBA ITS, discloses regulatory ratios and indicators to which LCH SA is eligible. LCH SA has not been required to produce neither the Leverage Ratio nor Net Stable Funding Ratio since CRR2 application, on June 28th 2021.

Figures exhibited are sourced from regulatory reporting (COREP) as of December 31.2023 and previous quarterly returns.

As credit institution, LCH shall respect Pillar I CRR capital requirements that are normative requirements calculated based on methodologies described in the CRR. Their objective is to ensure that credit institutions maintain sufficient capital to absorb losses emanating from their risk taking activities. LCH SA still respects the capital ratio by covering 38.43% of its risk weighed assets, largely above the 10.5% threshold required by CRR2. The level was almost equivalent to last year, at 38.45%.

The Liquidity Coverage Ratio (LCR) focuses on the short-term resilience of the liquidity risk profile and requires LCH SA to hold an adequate stock of unencumbered high quality liquid assets (liquidity buffer) that can be converted into cash easily and immediately in private markets to meet its liquidity needs (net liquidity outflows) for a 30-calendar day liquidity stress scenario. Regulation (EU) No 575/2013 (CRR) and No 876/2019 (CRR 2) supplemented by Commission Delegated Regulation (EU) 2018/1620 with regards to liquidity coverage requirements for credit institutions set out the detailed rules for the calculation of the LCR. LCH SA respects largely the liquidity requirement with 308.75% ratio, above the admitted ratio of 100%. Ratio has increased since last year since SA was recommended by external independent reviewers to apply the 25% factor (vs 80% previously) to operational deposits as mentioned in the regulation EU n 2015-61.

Table 1: Key metrics of LCH SA as of 31.12.2023

<i>In millions of euros</i>	31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022
Available own funds (amounts)					
Common Equity Tier 1 (CET1) capital	239.4 €	226.0 €	223.8 €	223.7 €	223.3 €
Tier 1 capital	239.4 €	226.0 €	223.8 €	223.7 €	223.3 €
Total capital	239.4 €	226.0 €	223.8 €	223.7 €	223.3 €
Risk-weighted exposure amounts					
Total risk-weighted exposure amount	623.0 €	636.2 €	617.3 €	619.3 €	580.8 €
Capital ratios (as a percentage of risk-weighted exposure amount)					
Common Equity Tier 1 ratio (%)	38.43%	35.53%	36.26%	36.11%	38.45%
Tier 1 ratio (%)	38.43%	35.53%	36.26%	36.11%	38.45%
Total capital ratio (%)	38.43%	35.53%	36.26%	36.11%	38.45%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
Additional CET1 SREP requirements (%)	0%	0%	0%	0%	0%
Additional AT1 SREP requirements (%)	0%	0%	0%	0%	0%
Additional T2 SREP requirements (%)	0%	0%	0%	0%	0%
Total SREP own funds requirements (%)	8%	8%	8%	8%	8%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0%	0%	0%	0%	0%
Institution specific countercyclical capital buffer (%)	0%	0%	0%	0%	0%
Systemic risk buffer (%)	0%	0%	0%	0%	0%
Global Systemically Important Institution buffer (%)					
Other Systemically Important Institution buffer					
Combined buffer requirement (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Overall capital requirements (%)	10.50%	10.50%	10.50%	10.50%	10.50%

<i>In millions of euros</i>	31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022
CET1 available after meeting the total SREP own funds requirements (%)	30,42%	27.52%	28.25%	28.12%	33.95%
Liquidity Coverage Ratio					
Total high-quality liquid assets (HQLA) (Weighted value - average)	27,678.8 €	29,105.7 €	31,945.6 €	31,561.0 €	35,090.9 €
Cash outflows - Total weighted value	11,115.4 €	12,116.9 €	12,288.41€	13,150.9 €	33,668.2 €
Cash inflows - Total weighted value	2,150.5 €	2,353.6 €	2,325.1 €	3,483.8 €	6,795.1 €
Total net cash outflows (adjusted value)	8,964.9 €	9,763.3 €	9,963.3 €	9,667.1€	26,873.0 €
Liquidity coverage ratio (%)	308.75%	298.11%	320.63%	326.48%	130.58%

1.2 LCH SA COMPLIANCE

The Banque Centrale de Compensation, known under its commercial name “LCH SA” is a clearing house 100% owned by LSEG Group through LCH Group Ltd. LCH Group Ltd acquired the 11% remaining part of LCH SA’s Shares in July 2023.

LCH SA is located in Paris and is regulated in the following manner:

- Authorised as a central counterparty to offer services and activities in the Union in accordance with the European Markets Infrastructure Regulation (EMIR). As a Clearing House, it is regulated by the French Authorities, L’Autorité des Marchés Financiers (AMF), L’Autorité de Contrôle Prudentiel et de Résolution (ACPR), and Banque de France. It is also supervised by a college of 18 European regulators (Emir College) plus ESMA.
- Registered as Credit Institution. As such, it is directly regulated by ACPR and indirectly supervised by the ECB.
- Registered as a Derivatives Clearing Organization with the Commodity Futures Trading Commission (CFTC), USA for its CDS business.
- Registered as a Clearing Agency with the Securities Exchange Commission (SEC), USA (since December 29th, 2016).
- Recognised as a foreign central counterparty by the Swiss Financial Market Supervisory Authority (FINMA) in May 2017.
- Designated as a Securities and Settlement System by the French Authorities to the European Commission
- Authorised by the Japan Financial Services Agency (JFSA) as a foreign clearing organization operation in France to engage in the business equivalent to financial instruments obligation.
- Exempted from the requirement to be recognized as a Clearing Agency/House by both Ontario Securities Commission (OSC) and Autorité des marchés financiers Québec (AMF Québec) (November 2019).
- Authorised to continue offering clearing services to its UK members by the AMF and Bank of England (BoE) – LCH SA to enter the Temporary Recognition Regime (TRR) for 3 years as of the effective Brexit date

Oversight by other regulators in jurisdictions in which business is carried out. LCH SA also has a branch in Amsterdam and a representative office in Porto. This international presence means that LCH SA is subject to additional regulatory supervision by the banking authority of The Netherlands.

LCH SA is subject to Basel III requirements on a standalone basis. This Pillar 3 disclosure document covers the disclosures of LCH SA.

1.3 CRR overview

Since January 2014, LCH has applied the new Basel 3 Regulation implemented in the European Union via a directive (CRD4) and a regulation (CRR). The general framework defined by Basel 3 is structured around three pillars:

- Pillar 1 sets the minimum solvency requirements and defines the rules that banks must use to measure risks and calculate the related capital requirements, according to standard or more advanced methods.
- Pillar 2 concerns the discretionary supervision implemented by the competent authority, which allows them – based on a constant dialogue with supervised credit institutions – to assess the adequacy of capital requirements as calculated under Pillar 1, and to calibrate additional capital requirements taking into account all the risks to which these institutions are exposed.
- Pillar 3 encourages market discipline by developing a set of qualitative or quantitative disclosure requirements which will allow market participants to better assess a given institution's capital, risk exposure, risk assessment processes and, accordingly, capital adequacy.

In terms of capital, the main measures introduced to strengthen banks' solvency were as follows: - the complete revision and harmonization of the definition of capital, in particular with the amendment of the deduction rules, the definition of a standardized Common Equity Tier 1 (or CET1) ratio, and new Tier 1 capital eligibility criteria for hybrid securities.

- The new capital requirements for the counterparty risk of market transactions, to factor in the risk of a change in CVA (Credit Valuation Adjustment) and to hedge exposures on the central counterparties (CCP);
- the set-up of capital buffers that can be mobilized to absorb losses in case of difficulties. The new rules require banks to create a conservation buffer and a countercyclical buffer to preserve their solvency in the event of adverse conditions. Moreover, an additional buffer is required for systemically important banks.;
- the set-up of restrictions on distributions relating to dividends (MDA - Maximum Distributable Amount), AT1 instruments and variable remuneration;

In addition to these measures, there will be measures to contain the size and, consequently, the use of excessive leverage. To this end, the Basel Committee has defined a leverage ratio, for which the definitive regulations were published in January 2014, and included in the Commission's Delegated Regulation (EU) 2015/62. The leverage ratio compares the bank's Tier 1 capital to the balance sheet and off-balance sheet items, with restatements for derivatives and pensions. Banks have been required to publish this ratio since 2015.

Moreover, some amendments to the European regulatory legislation have been adopted in May 2019 (CRR2/CRD5). Most of the new provisions apply since June 2021. The new provisions concern the following aspects:

- NSFR: introduction of a new requirement on long-term funding (not applicable for LCH SA, as a CCP, in accordance with article 6(4) of CRR);

- Leverage ratio: a 3% minimum requirement plus an additional 50% buffer for the systemic entities; as banking-licensed CCP, LCH will be exempted from Leverage ratio from June 28, 2021 – art 6 of 2019/876 rules.
- Counterparty derivatives risk: the Basel method "SA-CCR" replaces the current "CEM" method to calculate the prudential exposure to derivatives using the Standardized approach.
- large exposures: the main change concerns the calculation of the Tier 1 regulatory limit (25%, instead of total capital), as well as the introduction of a cross-specific limit on systemic institutions (15%);
- TLAC: The ratio requirement for G-SIB is introduced in CRR. According to the Basel text, the G-SIB must have an amount of eligible capital and debt equal to the highest between 16% plus risk-weighted capital buffers and 6% of the leverage exposure in 2019, the ratio increasing to 18% plus risk-weighted cushions and 6.75% leverage in 2022 not applicable for LCH SA which is not a G-SIBs).

Regarding the implementation of market risk reform (FRTB), after the publication in January 2016 of the first revised standard and of Consultation in March 2018 on this subject, the Basel Committee published in January 2019 its final text: BCBS457. According to its previous publications, the Basel Committee confirms its implementation schedule (which does not challenge the European Union calendar below, with an entry into force no later than 1 January 2022).

As a reminder, in Europe, the CRR2 calendar will apply as follows:

- First, the FRTB reform will come into force as a disclosure requirement (September 2021 for the Standardized approach and 2023 for the IMA);
- FRTB's own funds requirements will then become mandatory in the coming CRR3 package (not before 2023).

In December 2017, the Group of Central Bank Governors, and Heads of Supervision (GHOS), the Basel Committee's oversight body, endorsed the last Basel 3 regulatory reforms. These new rules will take effect from 2022 with an overall output floor: the RWA will be floored to a percentage of the Standardized method (credit, market and operational). The output floor level will increase gradually, from 50% in 2022 to 72.5% in 2027. LCH SA applies the standard method to value credit, market and operational risks so impacts of the new rules will be strictly limited.

Throughout 2021, LCH SA complied with the minimum ratio requirements applicable to its activities.

1.4 Scope of application

The LCH Group structure is set out in the below chart on a simplified manner:

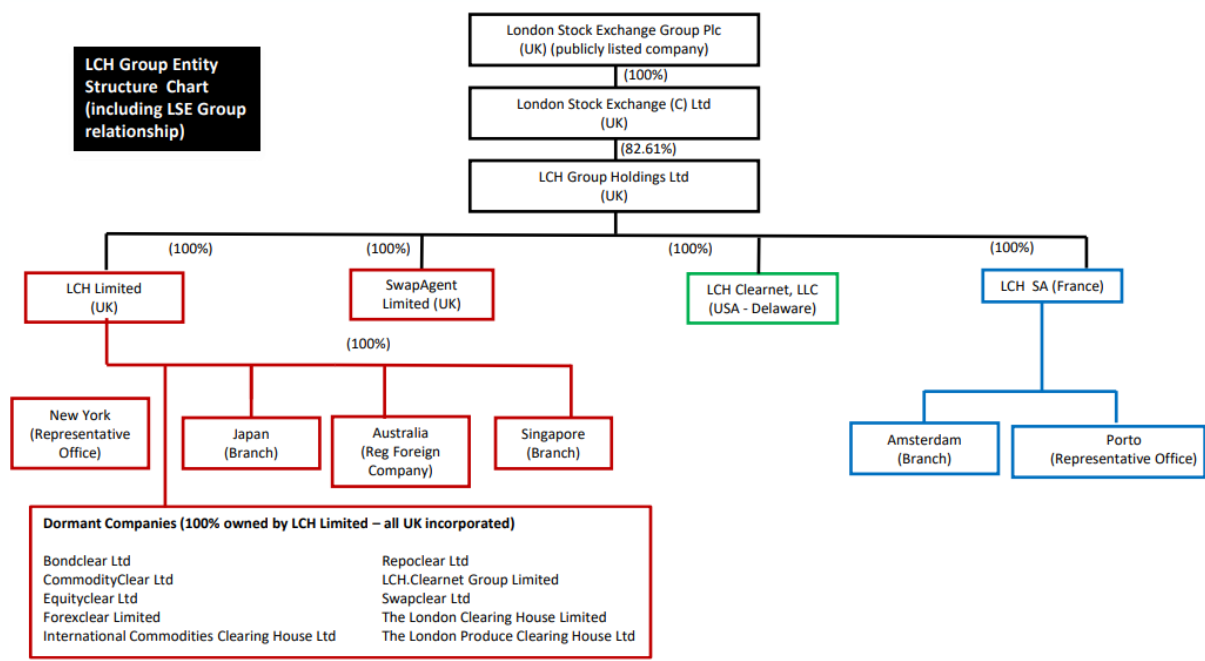


Table 2 LCH Group entity structure chart

Dormant companies are not disclosed.

The list of LCH regulators can be found on LCH’s website [Company Structure | LCH Group](#).

1.5 Risk governance

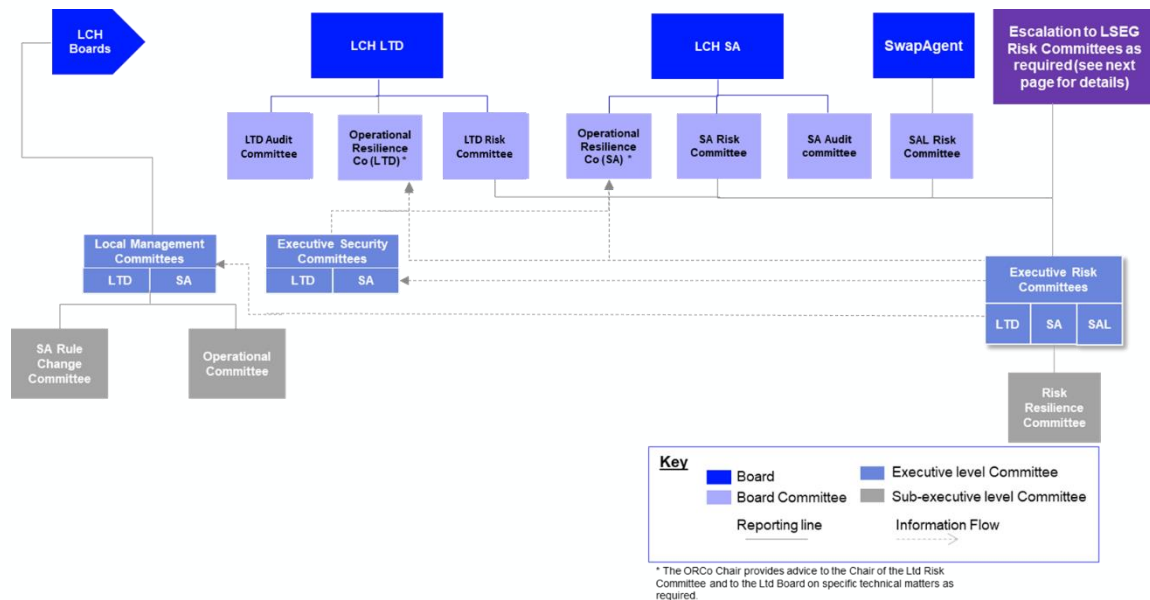
Governance structure

Overall responsibility for risk management rests with the Board. Day-to-day risk management responsibility is relegated to the Chief Risk Officer through the implementation of risk policies and procedures. Risk policies are approved at the Board level and reviewed at least annually. Amendments, updates, changes and revisions to risk policies are proposed by the relevant sub-committee of the Executive Risk Committee (“ERCo”) and reviewed by the ERCo and Risk Committees and approved by the Boards.

Key roles and responsibilities of committees

The here below chart set out an overview of the LCH Governance:

Table 3: LCH Group Risk governance



a. Board Risk Committees

Chaired by an Independent Non-Executive Director (“INED”), membership of each committee is comprised of other INEDs and risk expert representatives of the CCP’s clearing members and their clients. Further representatives from each CCP’s user community and senior CCP executives attend the meetings as risk experts in a non-voting capacity. Board Risk Committees meet at least six times a year.

The Board Risk Committees address matters concerning significant risks faced by the CCP’s operating subsidiaries and perform regular review of risk tolerance and all risk policies as well as regulatory issues and review of comprehensive risk reporting. Risk policies are ultimately subject to Board approval.

Under powers delegated by the Boards, the Chief Executive, and in turn the Chief Risk Officer of each subsidiary, has responsibility for all risk decisions taken within the framework of agreed risk policies, as supported by the ERCo and its sub-committees.

The CEO ensures consistency of the Company's activities with the objectives and strategy of the Company as determined by the Board, ensures that sufficient resources are devoted to risk management, and more generally, ensures that risks posed to the Company are duly addressed. The CEO is assisted in its role by the Local Management Committee, which is responsible for decisions relating to local management of the CCP. The LMC meets every two weeks. The members of the LMC are:

Permanent Members:

- SA Chief Executive Officer
- SA Chief Risk Officer
- SA Chief Financial Officer

- SA Chief Compliance Officer
- SA Chief Operating Officer
- Global Head of CDSClear and SA Head of EquityClear
- SA Head of Legal
- SA Head of CaLM and RepoClear

Non-voting attendees:

- SA Head of Internal Audit
- Company Secretary (or delegate)
- SA Head of Human Resources

The main areas of responsibilities of the LMC cover the activities of the CCP: risk management, strategy and business results, liquidity management, financial managements and reporting, operational management (including projects, IT, human resources, compliance and legal), Internal and external Audit and Governance.

b. Executive Risk Committee (“ERCo”)

Co-chaired by the Chief Risk Officer of both CCPs (SA and Ltd), the ERCo’s membership comprises heads of each clearing business as well senior risk management and compliance executives. It meets at least twice per month.

The ERCo oversees, monitors, reviews and challenges the management of all risks arising in pursuit of the stated business objectives and risk appetite pertaining to those risk types specified in the CCP’s Risk Governance Framework.

c. Risk Resilience Committee (“ResCo”)

A sub-committee of the ERCo, the ResCo is chaired by the Head of Resilience Risk and comprised of the subsidiary CROs and COOs, and other key people (e.g. CTO). It meets at least once per month.

The ResCo assists the ERCo by overseeing the implementation of the Resilience Risk policy and framework (e.g. Cyber risk and It Sec policy, Business Continuity risk), including reviews of Resilience Management Information, Detailed Operational Risk Assessment, loss and incident reports, core controls, key risk indicators, scenario analysis, and deep dive reviews.

d. Working Groups

Entreprise Risk Working Group (“ERWG”)

This Working Group has been set up in 2021. The chairman is the CRO deputy. The ERWG’s permanent members are: CRO, CCO, COO, the chairman of FAMWG and the chairman of RRWG. Other stakeholders from the first line risk and the second line risk can attend the working group depending on topics.

This working group is embedding the outcome of all the other working groups. It meets once per month. The aim of the ERWG is to allow a full oversight of the risks and open actions impacting the CCP coming from the Regulatory stream. The monitoring and review of periodic reports ahead of the ERCo will strengthen the monitoring of all regulatory actions. The ERWG will have an overview of actions across the CCP and at each month end, all relevant stakeholders (Market Risk, Resilience, Model Validation, Compliance, etc.) should provide an up-to-date file with all relevant actions and status to the ERWG chair and his team to allow aggregation prior to the session.

Financial Actions Monitoring Working Group (“FAMWG”)

The purpose of the Financial Actions Monitoring Working Group (the “FAMWG”) is to ensure that all financial actions are being adequately tracked, monitored and closed. Its role is to:

- Reviews progress of all actions. This includes reviewing the actions statuses and granting extensions.
- Determines the appropriate level governance required for closure where relevant and approves the closure of actions that are not in the scope of other committees.

The FAMWG is comprised of the key stakeholders from the first line risk, the second line risk, model validation and Compliance teams. It meets monthly.

Financial Risk Working Group (“FRWG”)

The FRWG comprised of the key stakeholders from the first line risk and the second line risk. It meets at least twice per month. The FRWG assists the ERCo by managing and monitoring the establishment and maintenance of a comprehensive system of market, credit, liquidity and collateral risk management including margin levels and models, stress testing, default fund adequacy and default management arrangements, and new product assessment. The relevant points are reported to the ERCo for approval or notification.

Credit Risk Working Group (“CRWG”)

The CRWG comprises of the key credit and membership officers to discuss all the credit risk topics (e.g. ICS review, counterparty risk policy). It meets at least twice per month. The relevant points are reported to the FRWG and the ERCo for approval or notification.

Resilience Risk Working Group (“SA RRWG”)

The purpose of the RRWG is to support the Resilience Committee (‘ResCo’) by discussing and debating the effectiveness of the Resilience Risk management across LCH SA and to provide recommendations to SA CRO/Deputy CRO on resilience matters.

Members Control Working Group (“MCWG”)

The purpose of the Members Control Working Group set up in 2022 is:

- To assist the RCM (“Responsible Contrôle des Membres”) in the monitoring of the clearing members’ control framework and proposes enhancements where required.
- To examine whether all required steps have been satisfactorily completed prior to the onboarding of new members.
- On a BAU basis to receive and examine all diligences performed on the compliance of members with the rules (Credit & Compliance diligences), reports on quantitative indicators (fails etc.), any adverse media information and sanctions regarding their capabilities to clear and reputational impact on the CCP, any breaches detected by the controls of the CCP.
- To analyze potential breaches and advise the RCM on any action to be taken vis a vis the member.
- To follow up any actions decided and to recommend any enhancement in the control framework.

Three lines of defense

The risk management framework is based on the Three Lines of Defense Model (“3LoD”) – a recognized best practice for effective risk management that ensures objectivity within the organization through segregation of roles. Under the 3LoD model, the application of the risk policies is primarily undertaken by the business functions as the first line of defense. The risk management team forms the second line of defense to provide independent assurance and monitoring of risk exposures arising from the various clearing activities against the board standards.

During Q4 2018, the Risk Management has started to implement 3LoD model on the resilience area. A second line risk resilience team on IT security and continuity has been implemented by the end of Q2 2019. This team also handles the default coordination as part of the wider crisis management/continuity aspects.

The organization of the first line and second line market risk tasks has been split to strengthen the 3 lines of defense organization. The third line of defense is internal audit, whose role is to review risk management practices and provide assurance to the Board.

Risk governance framework (RGF)

LCH SA has in place a risk governance framework approved and reviewed by the LCH SA Board in October 2023, which:

- Lists risks to which the LCH can potentially be exposed, together with a working definition of each risk type.
- Defines LCH's appetite or tolerance for each risk.
- Lists the minimum standards for each risk which the Board expects to be met, against which appetite can be measured.
- Designates the individuals/groups/committees who are responsible for measuring, monitoring and managing each risk type and.
- Describes the holistic Risk Management Framework to be used for Enterprise Risk Management and provides guidelines for the minimum information the Chief Risk Officer (CRO) must provide in the periodic evaluation of the Clearing House relative to the Board Statement of Risk Standards/Tolerance.

Due to considerations of systemic risk and the public nature of the LCH mission, the Risk Appetite of the group can broadly be described as low. LCH adheres to high-risk management standards.

Risks should be managed at business unit level but escalated if the impact and/or probability of occurrence is increasing.

The RGF identifies the key risks arising through pursuit of the company's strategic plan and maps them into a hierarchical taxonomy, comprising three Levels – 0, 1 and 2. In this risk taxonomy, at Level zero the Board recognizes five risk categories:

1. Financial & Model Risks associated directly with clearing activities,
2. Operational Resilience Risks,
3. Strategic Risks,
4. People & Culture Risks,
5. Regulatory Compliance, Legal and Corporate Disclosure Risks.

Within these categories there are thirty-two Level 1 Risks, and a number of Level 2 sub-risks have been identified for many of the Level 1 risks where additional granularity is appropriate.

The RGF risks are tailored to the specific risk types that might be faced by LCH SA in the performance of its specific function within the marketplace. The risks in the Risk Governance Framework (RGF) are not equal to the risk types as per Basel III but a translation is made to these risk types for the purposes of this report.

For each identified risk there is:

- An individual who is designated as being responsible for identifying, measuring and monitoring such risk.
- Clear guidance on the Standards expected.
- A specific risk policy approved by the Board or other relevant risk management documentation.

A holistic enterprise risk management framework is in place for the measurement and monitoring of all the risks within the risk universe of LCH SA. A quarterly Enterprise Risk and a dashboard is prepared for review by Senior Management, the Audit Committees and LCH SA Board.

Any risks, which are outside the risk appetite, will immediately be reported and an action plan will be put in place as to bring back the relevant risks within appetite.

The Board reviewed the RGF in October 2023. The key changes related to the RGF are the following:

Concerning the Risk Taxonomy and Risk Appetite:

- No changes to 5 Level 0 risk categories or 32 Level 1 risks.
- Level 2 risks:
 - Level 2 'Latent Market Risk' to be changed to 'Latent Price Risk'. This is to avoid duplication with the same name as the Level 1 risk this falls under. No change required to the definition of this Level 2 risk.
 - Further to feedback from the LCH Ltd Board during the 2023 annual review of the RGF in May, an appetite rating is proposed to be assigned to Level 2 'Customer Asset Segregation' (Very Low).

Concerning the Risk Severity Matrix:

- Statistical guidance (Remote 0-10%, Low 10-25%, Possible 25-50% and Likely 50%<) to be removed and replaced with a description for each probability/likelihood of risk occurring. In addition, the last likelihood category ('Likely') will be replaced with 'Expected'.

Concerning the Operational Resilience:

- Further to guidance received from the Bank of England that Operational Resilience is not a risk but an outcome, additional narrative is proposed to be inserted at the start of Section C2 to make this clear.
 - ✓ 'Operational Resilience risks' to be replaced with 'risks relating to Operational Resilience' throughout the RGF.

Concerning the Second Line Level 1 Risk Ownership:

- Changes to the ownership of certain Level 1 risks from a Second Line standpoint to clarify which of these are owned by the CRO, CCO and jointly owned by both.

Finally, as for Impact Definitions:

- Changes proposed to the 'Impact Definitions' table in Section D6 to try and ensure consistency with equivalent changes being made to the LSEG ERMF:
 - 'Customer/Member' category to reflect impact on internal and external customers as a result of disruption to Important Business Services and critical internal services.
 - Inclusion of a new category called 'Employee'.

1.6 Basel risk types & coverage

The below Basel risks are relevant for LCH.

(Counterparty) Credit risk

This is the risk that that a counterparty, (including members, issuers of securities eligible for collateral and investment purposes, and all intermediaries where there is exposure through payment, clearing and settlement processes), will be unable to meet fully its financial obligations when due, or at any time in the future Risk management approach and mitigations.

LCH SA has the following main credit exposures:

- Investment counterparties
- Clearing members (subject to the default waterfall)
- Interoperating CCPs
- Occasional overnight exposure because of settlement and payment activities (see settlement, payment and custodian risk)

This framework incorporates elements of the counterparty's financial profile, including funding, liquidity, capital and profitability, and a detailed operational capability assessment. The scoring framework is approved by Regulators and independently validated at least annually and is continuously monitored for performance.

A minimum credit score is set for joining any clearing service and for institutions to be eligible for investment or as interoperating CCPs, as well as all payment, settlement, and custodial intermediaries. Any changes that affect overall counterparty's ICS would be reported to the CRWG. Counterparties are subject to a formal review annually or on a more frequent basis depending on the ICS and/or exposure. Increased margins are applied to clearing members when their credit score deteriorates below the entry level. Other actions may include reduced credit tolerances and forced reduction of exposures. For non-member counterparties, action will be dependent on the functions provided by that counterparty; this will be reviewed on a case-by-case basis.

The internal ratings correspond to the probability of default whereby 1 represents a default remote counterparty and 10 is equivalent to a defaulting counterparty. This can be equated to the main rating agencies' methodology where 1 is equivalent to AAA/AA+ and 10 is equivalent to D (default rating). Risk exposures to members with an ICS of 6 or worse are generally covered by additional margins calculated as the higher of a margin multiplier or a percentage of stress test losses.

Counterparty Credit risk because of clearing member default is captured under Clearing Capital Risk. It is set to the size of the SITG to reflect the maximum amount of capital at risk.

Counterparty credit risk is assessed under the standard approach for the determination of Basel Ratios, as defined by Chapter 2, section 1 Art 111 and following of CRR.

(Treasury) Market risk

Treasury market risk and treasury credit risk (below) compose the investment credit risk. This is the risk arising from the investment of member collateral to manage daily liquidity needs, either through outright investments, cash deposits or the repo markets.

SA's investment portfolio is invested in accordance with the Investment Risk Policy which requires secure investment of a significant portion of the portfolio either via reverse repurchase agreements with credit and financial institutions, receiving high quality, liquid government, government guaranteed or supranational securities as collateral, by investing directly in such securities or by the placement of cash with central banks.

Interest bearing assets are generally invested for a longer term than the interest-bearing liabilities, whose interest rate is generally reset daily. This makes investment revenue vulnerable to volatility in overnight rates and shifts in spreads between overnight and term rates. SA aims to minimize its exposure to interest rate fluctuations. Since the return paid on member liabilities is generally reset to prevailing market interest rates on an overnight basis SA is only exposed for the time it takes to reset the interest rates on its investments and the shifts in spreads between overnight and term rates.

Interest rate exposures are managed within defined risk appetite parameters against which sensitivities are monitored daily. The maximum fixed exposure on any asset in the investment portfolio is one year and the portfolio is subject to an overall interest rate risk limit. The interest rate risk limit is expressed as a percentage of SA EMIR Capital (10%) and for SA, a tighter limit set to 15 MEur is allowed. The stress exposures are calculated under the following historical, hypothetical/antithetical scenarios and monitored daily against the limit. Breaches are reported to senior management and would trigger actions to adjust the Treasury investment portfolio to bring interest rate stress risks within the limits.

SA calculates the treasury market risk in accordance with the standard method in line with its regulatory obligations for pillar 1.

(Treasury) Credit risk

By the end of 2021, SA has only exposures to BDF deposit, EuroClear Bank deposit in USD and outright on the following sovereign countries: France, Belgium, and Germany. Regarding the investment counterparty default risk:

- The entire amount of an unsecured exposure will be at risk.

•For a secured exposure, SA will have – in case of default – the same amount of underlying collateral to its disposal and an additional amount - as per the applied haircut - to cover liquidation losses. The capital of SA can be exposed in case of large (stress) decrease of bonds values at the same time as liquidating the underlying collateral. This situation is unlikely as – in view of the quality of collateral – this would imply a “flight out of quality” during a situation of market stress.

SA calculates the treasury credit risk in accordance with the standard method in line with its regulatory obligations for pillar 1.

Operational risk

This is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Operational risks are identified, assessed, managed, and monitored in a proactive manner to minimize the impact on LCH SA.

The following processes are in place to manage operational risk:

- Project & new product analysis;
- Risk & control self-assessment;
- Key Risk Analysis;
- Scenario analysis;
- Incident Management procedure;
- Key controls reporting.

A monthly Operational Risk Report is produced quarterly and presented to the Local Management Committee, ResCo, ERCo, and the Audit Committee.

Liquidity risk

This is the risk that not enough cash is available to settle margin payments or delivery obligations. Such a shortfall can come about for three main reasons:

- Too much collateral may be encumbered, so not freely available to liquidate to meet potential margin outflows.
- A severe stress may be experienced in which a member or members default and expected margin payments are not received. This weakens the Clearing House ability to pay the margin outflows to its other members.
- If a member defaults in a stressed market, it may be difficult to liquidate their positions, and so adequate margins may not be available for the Clearing House to pay its other members in a timely fashion.

Liquidity risk is managed by CaLM on a day-to-day basis. Liquidity stress testing assuming extreme market conditions is modelled daily. The goal of stress testing is to ensure that the CCP maintains sufficient liquidity buffers against stressed operational liquidity needs and outflows resulting from the default of two clearing members with the largest liquidity requirements (“Cover 2”). Adequacy of liquidity is measured via the Liquidity Coverage Ratio (“LCR”)

Concentration risk

This risk includes (i) large (connected) individual exposures and (ii) significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location, instrument type.

The management of concentration risk is included within the overall credit risk monitoring and specific indicators are in place for this purpose.

Settlement, payment and custodian risks

- Settlement risk: risk of making a payment or delivery without receiving, at the same time, the delivery or payment from the counterparty.
- Settlement bank risk: risk of loss of funds held with a settlement bank should it become insolvent.
- Custody risk: risk of loss on securities in safekeeping (custody) as a result of the custodian’s insolvency, negligence, misuse of assets, fraud, poor administration or inadequate record keeping.

LCH SA has the following generic tools in place to reduce these exposures:

- Direct access to the Banque de France and CSDs;
- Strict capital and quality requirements for other intermediaries;
- Performance of Delivery Versus Payment (DVP) settlement; Risk monitoring & control of related exposures.

2. OWN FUNDS: COMPOSITION OF REGULATORY CAPITAL

LCH SA's total regulatory capital is composed of Tier 1 capital that consists primarily of share capital, additional paid-in capital and retained earnings. This is consistent with COREP disclosure as of 31.12.2023. The prudent valuation is calculated with the standard method (Art 105 CRR). Retained earnings have increased since 2022, further to integration of portion of 2022 profit for €38.5 m.

As per the default waterfall process, in case of a clearing member default, LCH SA would first use the defaulting member's initial, variation and additional margins as well as the defaulter contribution to the default fund. Should the loss be greater, it will use a share of their capital. As per EMIR, this share of capital, referred to as "skin in the game" (SITG), is calculated as 25% of minimum capital requirement including retained earnings and reserves as defined in Article 35 of regulation EU N°153/2013 of 19 December 2012 (latent market risk). The CCPRRR entering into force in February 2023 has added a second layer of SITG which will be at risk once the Default fund has been depleted. The level of requested SSITG shall range between 10% to 25% of the Emir capital requirements. The National Competent Authority has validated a level of 14% for LCH SA for this year. The first layer of SITG was worth €42.2m and the second one for €22.3m.

Structure of LCH SA capital does not include any complex instruments. LCH SA has no Tier 2 component in its capital composition.

Table 4: Composition of regulatory own funds as of 31ST of December, 2023

<i>In millions of euros</i>	Amounts
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	113.8 m€
of which: Instrument type 1	
of which: Instrument type 2	
of which: Instrument type 3	
Retained earnings	229.4 m€
Accumulated other comprehensive income (and other reserves)	43.8 m€
Funds for general banking risk	0.3 m€
Independently reviewed interim profits net of any foreseeable charge or dividend	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	387.4 m€
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments (negative amount)	-0.06 m€
Intangible assets (net of related tax liability) (negative amount)	-83.4 m€

Other regulatory adjustments (including IFRS 9 transitional adjustments when relevant)	-64.5 m€
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-147.9 m€
Common Equity Tier 1 (CET1) capital	239.4 m€
Tier 1 capital (T1 = CET1 + AT1)	239.4 m€
Tier 2 (T2) capital before regulatory adjustments	
Total risk exposure amount	
Common Equity Tier 1 (as a percentage of total risk exposure amount)	38.43%
Tier 1 (as a percentage of total risk exposure amount)	38.43%
Total capital (as a percentage of total risk exposure amount)	38.43%
Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	10.5%
of which: capital conservation buffer requirement	2.50%

3. CAPITAL REQUIREMENTS

The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155(2).

LCH SA applies the standard approach for all risk exposure.

LCH SA capital exceeds its requirements minimum capital ratios. Its Pillar I requirements at 31 December 2023 were as follows:

Table 5: Risk weighted assets by type of risks

Colonne total own funds = 8% de RWEA

<i>In millions of euros</i>	Risk weighted exposure amounts (RWEAs)	Total own funds requirements
	31/12/2023	31/12/2023
Credit risk (excluding CCR)	59.9 m€	4.8 m€
Of which the standardised approach	59.9 m€	4.8 m€
Of which: equities under the simple riskweighted approach		
Counterparty credit risk - CCR	- €	-€
Position, foreign exchange and commodities risks (Market risk)	1.6 m€	0.1 m€
Of which the standardised approach	1.6 m€	0.1 m€
Large exposures		
Operational risk	561.5 m€	44.9 m€
Of which basic indicator approach	561.5 m€	44.9 m€
Total	623. m€	49.8 m€

An Internal Capital Adequacy Assessment Process (ICAAP) process has been performed using Basel III rules that are applicable from 1 January 2015. The ICAAP has been approved by the Audit Committees and Boards. As an outcome of this process, LCH has concluded that it holds sufficient capital for the relevant risks.

4. CREDIT RISK

Credit risk induced by the clearing activity of LCH is covered by a specific portion of its capital, called “Skin in the Game”. LCH SA has funded as the first layer of SITG €42.2m and €22.3m as the second one. Therefore, the capital against credit risk as presented below did not cover credit risk induced by clearing activity.¹

¹ Cf art 390 of CRR2 : Calculation of the exposure value (art 390)=> credit risk

6.Exposures shall not include any of the following:(c) in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking or financial instruments clearing, settlement and custody services to clients, delayed receipts in funding and other exposures arising from client activity which do not last longer than the following business day;

LCH SA is exposed to this credit risk:

- Investment activities
- Occasional overnight exposure as a result of settlement and payment activities (see settlement, payment and custodian risk)

Performing – Non performing balances

Assets of LCH SA are composed by reverse repos traded within its clearing activity and cash received from its members to collateralize their transactions.

LCH SA has no nonperforming exposures in its Balance Sheet. No impairment has been observed regarding eligible assets so there is no eligible balance in stage 1 and stage 2.

Table 6 : Performing and non-Performing exposures

In millions of euros	Gross carrying amount/nominal amount					
	Performing exposures			Non-performing exposures		
	Total amount	of which: stage 1	of which: stage 2	Total amount	of which: stage 2	of which: stage 3
Cash balances at central banks and other demand deposits	6.8m€					
Loans and advances	747,379.4 m€					
Central banks	24,422.9 m€					
General governments	- €					
Credit institutions	539,205.5 m€					
Other financial corporations	188,751.m€					
Debt Securities	65.2 m€					
Central banks	- €					
General governments	65.2m €					
Credit institutions	- €					
Other financial corporations	- €					
Off-balance sheet exposures	- €					
Central banks	- €					
General governments	- €					
Credit institutions	- €					
Other financial corporations	- €					
Total	747,351.4 m€					

Maturity of exposures

Loans and advances are composed of reverse repos transactions as cleared by the business line RepoClear. These transactions are for most of them short-term matured.

Debt and securities are composed of outright purchases for SA investment portfolio. Our investment policy obliges to purchase securities for which maximum of maturity admitted is less than two years.

Table 7: Maturity of exposures

In millions of euros	Net exposure value					Total
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	
Loans and advances		747,351.4 €				747,351.4 €
Debt securities						
Total		747,351.4 €				747,351.4 €

Use of credit risk mitigation techniques

No technique of credit risk mitigation is used at LCH SA. Credit risk on reverse repos from clearing activity are covered by the two layers of Skin in the Game. Credit risk exposures that are listed below are related to cash invested, either in secured deposits or in deposits hold at central banks.

The LCH SA capital requirement for credit risk is calculated as follows:

Table 8 : standardized approach – Credit risk exposure and CRM effects as of December 31st 2023

Exposure classes <i>In millions of euros</i>	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWEA	RWEA density (%)
Central governments or central banks	24,440.6 €		24,440.6 €		0 €	0%
Regional government or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Financial Institutions	155.4 €		155.4 €		43.1 €	27,7%
Corporates	4.6 €		4.6 €		4.9 €	106,5%
Retail						
Exposures in default						
Exposures associated with particularly high risk						
Institutions and corporates with a short-term credit assessment						
Other items	11.9 €		11.9 €		11.9 €	100%
TOTAL	24,612.50 €		24,612.50 €		59,9 €	0,24%

LCH SA has its major exposition to central banks for its cash deposits and to European government for its outright purchases of government bonds.

5. MARKET RISK

LCH SA is exposed to interest rate risk on the investment portfolio as a consequence of changes in applicable interest rates (including credit spreads) of long-term sovereign investments and secured lending transactions. LCH SA is not admitted investing into derivatives or securitization products.

The exposure to the interest rate risk is measured and monitored daily by currency and maturity, this exposure is determined with the PV01 metric (sensitivity to 1 bp parallel shift of the OIS Curve).

The LCH SA Board determines the risk appetite for Interest Rate Risk (IRR) not exceeding 10% of LCH SA capital. Stress scenarios are set with reference to the capital position and will be updated monthly or upon material downward movement.

Table 9: Market Risk under the standardized approach

<i>In millions of euros</i>	RWEAs
Outright products	
Interest rate risk (general and specific)	1.6 m€
Equity risk (general and specific)	
Foreign exchange risk	
Commodity risk	
Options	
Simplified approach	
Delta-plus approach	
Scenario approach	
Securitisation (specific risk)	
Total	1.6m €

6. OPERATIONAL RISK

Operational risk is the risk of loss arising through failures associated with personnel, processes, systems or from external events. It is inherent in every business organization and covers a wide spectrum of issues.

Operational risks are identified, assessed, controlled, and managed in a proactive manner to minimize the impact on LCH SA.

The objectives of the Operational Risk Framework (ORF) developed by LCH Group are to identify measure, control and/or reduce operational risk and to provide an accurate, usable picture of the risk profile of LCH. The ORF organizes the qualitative and quantitative management of operational risk.

This framework covers all types of operational risks proposed under Basel III.

For the operational risk capital requirements applicable since 1 January 2008, LCH uses the Basic Indicator Approach (BIA).

Table 10 : Operational risk own funds requirements and risk-weighted exposure amounts

In millions of euros	Relevant indicator			Own funds requirements	Risk weighted exposure amount
	Year-3	Year-2	Last year		
Banking activities subject to basic indicator approach (BIA)	269.8 €	311.6 €	317.1 €	44.9 €	561.5 €
Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches					
<u>Subject to TSA:</u>					
<u>Subject to ASA:</u>					
Banking activities subject to advanced measurement approaches AMA					

7. UNENCUMBERED ASSETS

In the below table, the securities portfolio and reverse repos dealt within Clearing activity are not reported as unencumbered assets.

Table 11: Breakdown of unencumbered assets and unencumbered assets

In thousands of euros	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of non-encumbered assets	
	of which: central bank's eligible	of which notionally eligible EHQLA and HQLA	of which: central bank's eligible	of which notionally eligible EHQLA and HQLA	of which: central bank's eligible	of which EHQLA and HQLA	of which: central bank's eligible	of which EHQLA and HQLA
Assets of the reporting institution		588.7 €			35,169.4 €			
Equity instruments								
Debt securities		588.7 €		588.7 €	62.7 €		62.7 €	
Other assets					10,669.9 €			

LCH SA receives cash collateral from CCG within its inter-operability agreement.

No collateral has been received against unencumbered assets.

8. LIQUIDITY COVERAGE RATIO

Institutions need to hold a liquidity buffer of high-quality liquid assets (“HQLA”) to cover their net cash outflows in stressed conditions over a thirty-day period. The Liquidity Coverage Ratio is set at a minimum ratio of 100%. LCH SA maintains LCR largely beyond regulatory threshold – 368.3% as of December, 31 2023. The HQLA at LCH SA mainly consists of deposits held with central banks and the investment portfolio

[Table 12 : LCR ratio over the last five quarters](#)

In thousands of euros	Total unweighted value (average)					Total weighted value (average)				
	31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022	31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022
Total high-quality liquid assets (HQLA),						27,678.8 €	29,105.7 €	31,945.6 €	31,561.0 €	36,024.9 €
Retail deposits and deposits from small business customers, of which:										
<i>Stable deposits</i>										
<i>Less stable deposits</i>										
Unsecured wholesale funding										
<i>Operational deposits (all counterparties)</i>	32,368.0 €	33,140.8 €	36,237.7 €	37,081.4 €	39,579.6 €	9,015.1 €	10,011.9 €	10,139.8 €	10,248.4 €	31,663.6 €
<i>Non-operational deposits (all counterparties)</i>	402.2 €	1.6 €	5.4 €	4.7 €	242.1 €	402.2 €	0.7 €	2.2 €	1.9 €	241.3 €
<i>Unsecured debt</i>										
<i>Secured wholesale funding</i>										
Additional requirements										
<i>Outflows related to derivative exposures</i>	1,478.7 €	1,478.7 €	864.1 €	890.1 €	1,763.2 €	1,478.7 €	1,478.7 €	864.1 €	890.1 €	1,763.2 €
<i>Outflows related to loss of funding on debt products</i>										
<i>Credit and liquidity facilities</i>										
Other contractual funding obligations										
Other contingent funding obligations	356.2 €	821.6 €	1,461.3 €	2,162.7 €	96.6 €	219.5 €	625.7 €	1,282.3 €	2,010.5 €	- €
TOTAL CASH OUTFLOWS	34,605.0 €	35,442.7€	38,568.5€	40,138.9€	41,681.4 €	11,115.4 €	12,116.9 €	12,288.4 €	13,150.9 €	33,668.2 €

<i>In thousands of euros</i>	Total unweighted value (average)					Total weighted value (average)				
Quarter ending on (DD Month YYYY)	31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022	31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022
Secured lending (e.g. reverse repos)										
Inflows from fully performing exposures	7,679.4 €	6,926.0 €	7,009.7 €	8,002.9 €	5,816.6 €	86.6 €	86.0 €	59.3 €	63.9 €	5,816.6 €
Other cash inflows	1,684.3 €	1,925.6 €	1,918.2 €	3,023.0 €	978.5 €	2,063.9 €	2,267.6 €	2,265.8 €	3,419.9 €	978.5 €
Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)										
Excess inflows from a related specialised credit institution										
TOTAL CASH INFLOWS	9,363.7 €	8,851.6 €	8,927.9 €	11,025.8 €	6,795.1 €	2,150.5 €	2,353.6 €	2,325.1 €	3,483.8 €	6,795.1 €
<i>Fully exempt inflows</i>										
<i>Inflows subject to 90% cap</i>										
<i>Inflows subject to 75% cap</i>	9,363.7 €	8,851.6 €	8,927.9 €	11,025.8 €	6,795.1 €	2,150.5 €	2,353.6 €	2,325.1 €	3,483.8 €	6,795.1 €
LIQUIDITY BUFFER						27,678.8 €	29,105.7 €	31,945.6 €	31,561.0 €	35,090.9 €
TOTAL NET CASH OUTFLOWS						8,964.9 €	9,763.3 €	9,963.3 €	9,667.1€	26,873.0 €
LIQUIDITY COVERAGE RATIO						308.75%	298.11%	320.63%	326.48%	130.58%

9. REMUNERATION POLICY

Governance

LCH SA's Remuneration Committee ("the Committee") works with London Stock Exchange Group's ("LSEG" or the "Group") Remuneration Committee ("Group Committee") to oversee LCH SA's remuneration policies. The Committee works with the Chair of the LCH Risk Committee to ensure that the policy is consistent with and promotes sound and effective risk management.

During the financial year ended 31 December 2023, the Committee met on three occasions.

The Committee is appointed by the Board of LCH SA and is made up of a majority of independent Non Executive Directors. The Committee's terms of reference detail the duties and responsibilities of the Committee and are available on the Governance section of LCH Group's website <https://www.lch.com/about-us/structure-and-governance/>.

General

In determining its remuneration policies, LCH SA monitors developments in the wider marketplace and continues to consult and work with key stakeholders (including, but not limited to LCH SA's regulators and the Group Committee) on any key decisions taken.

The remuneration policy is gender neutral and does not discriminate on the basis of the protected characteristics of an individual. LCH SA undertakes to reward all employees fairly, regardless of job function, race, religion, color, national or ethnic origin, sex, sexual orientation, marital status, pregnancy, maternity, disability or age.

It is the policy of LCH SA to operate competitive remuneration policies so as to attract, retain and motivate an appropriate workforce for its ongoing success. LCH SA is also committed to ensuring that its remuneration practices are transparent, aligned to performance, promote sound and effective risk management and do not encourage excessive or inappropriate risk taking. In all cases, remuneration will be in line with the corporate strategy, objectives, Group ESG values, corporate competencies and long-term interests of LCH SA, Post Trade Group and LSEG.

It is the policy of LCH SA to comply with any and all regulatory frameworks (including as to tax) which apply to the remuneration of any of its employees.

The remuneration policy aims to encourage responsible business conduct and ensures that employees are not remunerated in a way that conflicts with their duty to act in the best interests of clients, members, or participants.

Remuneration

The Group Committee has responsibility for overseeing remuneration arrangements for all of the Group's people. The Group's single aligned global reward framework creates a transparent, performance-driven approach for our Group. This is scaled according to seniority and defines the

target and maximum variable remuneration opportunity for individuals at each global grade. No individual can exceed the maximum opportunity for their grade. This framework is compliant with the requirements of CRD V.

The Group reward framework is designed to reward individuals for good financial and non-financial performance that support the corporate strategy and objectives and align remuneration with long-term sustainable performance:

- The Group bonus pool is based on performance measures weighted 60% against Adjusted Operating Profit (AOP) growth and 40% against key strategic objectives. The management of risk is fundamental to the successful execution of the strategy of the Group and 'Resilience' is one of the key strategic objectives which form 40% of the Group bonus pool.
- Individual performance is assessed against contribution to the strategic objectives, including risk objectives, and against role-related goals and expected behaviours, taking into account both what has been achieved and how the individuals achieved their targets.
- All awards are discretionary and will not reward excessive risk-taking; poor behaviour/risk management could result in a zero bonus.
- In-year adjustments, malus and/or clawback may be applied to awards where appropriate and where legally possible.

Remuneration arrangements may include a mix of fixed pay and variable pay. Fixed pay is comprised of base salary, pension and other country specific benefits. Variable pay is subject to performance and includes annual discretionary bonus awards and share based incentives (payable in shares of LSEG plc), depending on role seniority as detailed below. An individual's fixed and variable remuneration will be appropriately balanced. Non-Executive Directors receive no variable remuneration for their role supporting LCH SA.

The combination of short and long-term incentives, together with deferral, the risk management gateway (see below for further details), malus and clawback tools are intended to address the alignment between performance and risk periods. Short-term risk is addressed in the discretionary annual bonus scheme, which is determined by reference to performance against agreed Group, divisional, LCH SA and individual objectives. Long-term risk is addressed through the Long Term Incentive Plans which include Restricted Share Units (RSUs) and Performance Share Units (PSUs) which vest across three years (or four years for individuals that are Material Risk Takers ("MRTs")) as detailed below.

The Group ensures, using Group wide processes involving liquidity and affordability testing, that LCH SA's total variable remuneration does not limit its ability to strengthen its capital base and that there is sufficient capital available to LCH SA.

Salary

Base salaries are predetermined, non-discretionary and non-revocable. Base salaries reflect an individual's role, skills, professional experience and organisational responsibility. They are reviewed annually against general market levels (or mid-year if applicable, e.g., in the case of a promotion or

significant shift in the responsibilities of the role). Except where mandated by local law, increases are not guaranteed and are at the discretion of management. Salaries are not formulaically connected to performance, although it may be a factor considered, primary considerations for salary increases include reviewing salary positioning against market benchmarks. Finally, salaries are set at an appropriate level to allow a fully flexible policy to be operated in respect of the award of any discretionary bonus (including the possibility to pay a zero bonus).

Profit share

Employees of LCH SA are eligible to receive payments under the profit share scheme, as is mandatory by law in France.

Discretionary annual bonus

The Group Committee determines the Group bonus pool based on performance measures weighted 60% against Adjusted Operating Profit (AOP) growth and 40% against key strategic objectives, as detailed in the Group's Annual Report.

Individual bonuses are determined in accordance with the Group's Annual Incentive Plan (AIP). The AIP rewards individual performance and business performance taking into account performance against targets aligned with the strategy of LCH SA, Post Trade Group and LSEG.

The AIP is designed to:

- Drive accountability, collaboration and results - including both outcomes and behaviours
- Reward the excellent individual and collective performance our organisation needs to succeed
- Deliver differentiated reward to recognise outstanding performance and contribution
- Provide competitive total compensation

To evaluate individual performance, a four-point rating scale is used, with distribution guidance. This provides a strong foundation to differentiate and reward for outperformance.

The Group's Group Leader population are subject to bonus deferral, 40% of their total annual bonus will be deferred into LSEG plc shares, vesting in equal tranches over three years. For individuals that are LCH SA MRTs, annual bonus awards will be structured to ensure the proportion of their total variable remuneration that is deferred and paid in non-cash instruments (including a post-vesting holding period) meets the requirements of CRD V in addition to the Group's Group Leader deferral requirements. The CRD V remuneration requirements (as set out below in the Detailed reporting on Material Risk Takers section) are applied in the first instance and the Group Leader deferral requirements are then also applied in order to satisfy both requirements.

Restricted Share Plan

Individuals at the Group Director level in LCH SA are eligible for awards under the Restricted Share Plan. This is a three-year plan where employees are typically granted 40% of their base salary as shares, vesting in equal tranches over three years. Where such individuals are identified MRTs, vesting will be in equal tranches over four years, with a six-month post-vesting holding period.

Long Term Incentive Plan

Individuals at Group Leader level are eligible to receive PSUs. Vesting occurs over a three-year period, subject to the achievement of a risk management gateway and the following performance measures: 60% against Group Adjusted Earnings Per Share ("AEPS") performance and 40% against relative Group Total Shareholder Return ("TSR") performance. For LCH SA MRTs, vesting occurs after a four-year period, with a six-month post-vesting holding period.

The Committee will assess the risk management gateway based on input from LCH SA Risk to determine whether LCH SA has managed its risks effectively over the performance period. This includes an assessment of whether LCH SA has suffered significant losses and whether there have been any adverse or severe operational or financial risk performance issues which may warrant nil or partial vesting.

Guaranteed Variable Remuneration

Payment of any guaranteed variable remuneration is not permitted unless:

- it is exceptional;
- occurs only once per individual in the context of hiring new staff members;
- is limited to being granted or paid in the first year of a new staff member's service; and
- LCH SA has a strong capital base.

Retention awards

Retention payments are situation-specific and are generally only awarded to employees with skills that are critical either to the business or for a particular project and performance is deemed satisfactory.

Severance payments

Payments relating to the termination of an employment contract will be determined against contractual and statutory requirements, reflect performance achieved over time and will be designed in such a way that does not reward failure or misconduct.

Buy-out awards

Any buy-out awards will generally be limited to the commercial value of payments and awards forfeited by the individual. The periods of retention, deferral, vesting and ex post risk adjustment of buy-out awards will be no shorter than the awards being forfeited. Buy-out awards are subject to proof of forfeiture and verification.

Discretionary pension benefits

The Group does not provide discretionary pension benefits and does not allow variable remuneration that is subject to deferral to be taken in pension form.

Control Functions

Employees engaged in risk, compliance and internal audit are independent from the business activities that they oversee and are rewarded in a manner that is independent of the business performance.

The reward arrangements for employees in these functions is determined within the parameters of the Group's reward framework with oversight from the relevant function head and entity CEO. Whilst the overall performance of the Group is a contributing factor in determining total bonus pools, the allocation of these pools to employees in these functions will be determined by specific functional and individual objectives which are independent of the financial targets of LCH SA. This is intended to avoid members of the control functions being subject to any conflict of interests.

Malus / Clawback

Variable remuneration may be subject to reduction or cancellation (malus) prior to an award vesting or being paid out. Furthermore, in certain circumstances and where legally possible, clawback may be exercised, pursuant to which it may be required for awards to be repaid (or deducted from future payments) for up to three years following the date of payment.

The malus and clawback provisions within LSEG's Malus and Clawback Policy include specific clauses to permit malus/clawback in a number of events including but not limited to:

- significant reputational damage;
- material adverse financial impact;
- breaches of conduct or behaviour; or
- a material failure of risk management.

Detailed reporting on Material Risk Takers

Per the regulatory requirements of CRD V, employees whose professional activities are deemed to have a material impact on the risk profile of LCH SA must be identified as MRTs. In identifying these individuals, the criteria set out in the Regulatory Technical Standards and Article 92(3) of CRD V are followed.

For 2023, 12 employees were identified as MRTs for LCH SA.

MRTs are subject to certain remuneration requirements under CRD V. The variable remuneration of MRTs for any given year must not exceed 200% of the total fixed remuneration (1:2 ratio) and shall be subject to malus and clawback provisions.

In addition, MRTs are subject to the following rules with respect to their variable pay:

- Minimum deferral of 40% (60% for the CEO) of total variable remuneration for a period of at least 4 years, vesting no faster than pro-rata over this period;
- At least 50% of total variable remuneration must be paid in the form of non-cash instruments; and will be delivered in LSEG plc shares (subject to a 6-month post-vesting retention period).

The above deferral and payment in instruments requirements for MRTs are not applicable for individuals that meet the following de minimis threshold:

- total variable remuneration is €50,000 or less; and
- total variable remuneration does not comprise more than one-third of total remuneration.

For 2023, the individual de minimis exemption applied to 2 individuals.

FY2023 remuneration information is detailed below for the 12 LCH SA MRTs and has been aggregated to avoid disclosing individual remuneration:

Table 13: Remuneration awarded for the financial year

In million euros		All MRTs
Fixed remuneration	Number of identified staff	12
	Total fixed remuneration	€2.8m
	Of which: cash-based	€2.8m
	Of which: shares or equivalent ownership interests	-
Variable remuneration	Number of identified staff	12
	Total variable remuneration	€2.6m
	Of which: cash-based	€1.3m
	Of which: deferred	€0.3m
	Of which: shares or equivalent ownership interests	€1.3m
	Of which: deferred	€1.3m
Total remuneration		€5.4m

Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff):

There were no guaranteed variable remuneration awards to LCH SA MRTs in 2023.

The disclosure of severance payments to LCH SA MRTs in 2023 has been exempted to avoid disclosing individual remuneration.

Table 14: Deferred remuneration

Deferred and retained remuneration (all figures in €m)	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
All MRTs								
Cash-based	0.2	0.2	-				0.2	
Shares or equivalent ownership interests	4.2	1.5	2.7				1.5	
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
Total amount	4.4	1.7	2.7	-	-	-	1.7	-

Table 15: Remuneration of 1 million EUR or more per year

EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1 000 000 to below 1 500 000	-
1 500 000 to below 2 000 000	-
2 000 000 to below 2 500 000	-
2 500 000 to below 3 000 000	-
3 000 000 to below 3 500 000	-
3 500 000 to below 4 000 000	-
4 000 000 to below 4 500 000	-
4 500 000 to below 5 000 000	-
5 000 000 to below 6 000 000	-
6 000 000 to below 7 000 000	-
7 000 000 to below 8 000 000	-

10. LEVERAGE RATIO

LCH SA as banking licensed CCP is not submitted to leverage ratio since CRR2 application in June 28th,2021.

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End of disclosure report

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