

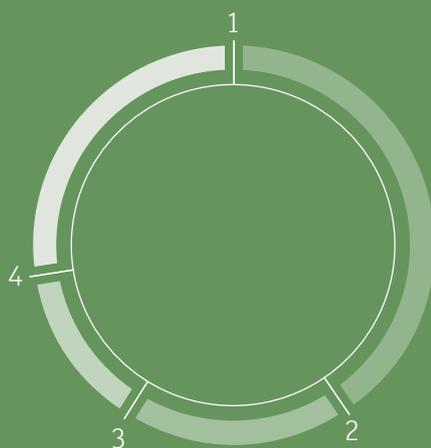
Segmental review (continued)

Post Trade Services LCH

Sub-segment

£756m

2018: £662m



- 1 ● **41%**
OTC
- 2 ● **18%**
Non-OTC
- 3 ● **14%**
Other
- 4 ● **27%**
Net Treasury Income

Introduction

LCH is a leading global clearing house, with clearing operations in the UK, Eurozone, US and an expanding presence in the Asia-Pacific region. LCH provides services to mitigate counterparty risk across multiple asset classes for clearing members and their clients, operating through an open access model that clears for the Group's markets and other major exchanges and platforms as well as a range of OTC markets. As well as clearing LCH also offers a growing service in the non-cleared market for OTC interest rate swaps.

Revenue drivers

In OTC derivatives markets, members are charged an annual fee for 'all you can eat' clearing or a lower annual fee with variable fees based on cleared volume, while clients pay a fee per trade or based on notional cleared. In non-OTC markets, all users pay a fee based on volumes or value cleared. Additional fees are levied for value added services such as compression, which are recognised as Other LCH revenue alongside fees for non-cash collateral. Net Treasury Income is the result of interest earned on cash collateral lodged with the clearing house, for margin and default funds.

Further information

As of 1 January 2020, the Group's Post Trade businesses, that were previously reported separately as LCH and Post Trade Italy, were aligned, in a manner consistent with the necessary regulatory oversight, into one Post Trade division. Post Trade now includes LCH Group, our Italian post trade businesses CC&G and Monte Titoli, and UnaVista, our trade reporting and reconciliation business that previously reported as part of Information Services.

For more information on LCH, see: www.lseg.com and www.lch.com

Market trends and our response for Post Trade Services, LCH can be found on pages 14–20. Profitability of each segment can be found in the Financial Review on pages 53–59. A glossary of terms can be found on pages 204–206.

Highlights

LCH
2017-19 margin target

54.9%

Target for c.50% adjusted EBITDA margin by 2019 achieved, with 54.9% margin for the year

OTC

US\$1.2 quadrillion

Notional cleared by SwapClear
(2018: US\$1.1 quadrillion)

Non-OTC

€106 trillion

Nominal value cleared at RepoClear
(2018: €98.7 trillion)

Other

US\$920 trillion

Notional compressed at SwapClear
(2018: US\$773 trillion)

Post Trade Services LCH

- LCH income for 2019 was £756 million (2018: £662 million), up 14% on a reported basis and on a constant currency basis
- LCH 2017-2019 target for c.50% adjusted EBITDA margin by 2019 achieved, with 54.9% margin

The UK's withdrawal agreement from the EU provides a transition period until 31 December 2020. Both the UK and EU hope to conclude assessments of future regulatory equivalence by June 2020. These decisions will impact equivalence for EU central counterparties (CCPs) operating in the UK and UK CCPs operating in the EU. The absence of an equivalence decision by the end of the transitional period may impact LSEG's Post Trade division due to EU clients being unable to access LCH Ltd and UK clients being unable to access LCH SA and CC&G.

OTC Clearing

- OTC derivatives clearing revenue was up 15% to £307 million, an increase of 13% on a constant currency basis (2018: £268 million)
- 2017-2019 target for LCH OTC double-digit revenue growth each year, achieved in 2019 with 15%

SwapClear

SwapClear is the largest OTC Interest Rate Swap clearing house in the world, offering access to a deep pool of liquidity across 26 currencies to its 123 sell-side members and growing buy-side client base. In 2019, The Bank of China Ltd joined SwapClear, representing LCH's first clearing member from a Chinese banking group and demonstrating LCH's global reach as well as our growing business in, and commitment to, the Asia-Pacific region.

2019 was a record year for SwapClear, total notional cleared reached US\$1.2 quadrillion (2018: US\$1.1 quadrillion). Client clearing also saw record levels, with notional cleared increasing 16% to US\$301 trillion (2018: US\$259 trillion) and client trades increasing by 13% to 1,681,000 (2018: 1,487,000).

Inflation swap clearing saw volumes cleared increased by 43% with a total of US\$6.0 trillion in notional cleared in 2019 (2018:

US\$4.2 trillion). Changing global interest rates and associated volatility in the swaps markets as well as continued expansion of the product suite, for example the launch of further non-deliverable interest rate swaps in new currencies, have contributed to these strong volumes in 2019. Going forward we expect these factors to be the main growth drivers for SwapClear as regulatory tailwinds are largely behind us.

LCH continues to innovate and work in partnership with its customers to meet strong market demand for the clearing of alternative reference rate products. In 2019 LCH became the first clearing house to offer clearing of Euro-denominated swaps benchmarked to the new reference rate, €STR. We have seen good levels of traction in our alternative reference rate products with over US\$2 trillion of notional cleared across swaps benchmarked to SARON, SOFR and €STR in 2019, as well as over £32 trillion of notional cleared in swaps benchmarked to SONIA (2018: £34 trillion).

SwapClear is further able to present opportunities for capital and other efficiencies by offering both its own and third-party compression services which reduce the number of trades and overall notional value of portfolios by netting down compatible positions. SwapClear further expanded its own compression capabilities in 2019 and notional compressed continued to increase, rising 19% to US\$920 trillion in 2019 (2018: US\$773 trillion).

SwapAgent

SwapAgent, LCH's service which aims to provide processing, margining and settlement capabilities to the non-cleared space, has seen continued growth in volumes for its cross-currency swaps offering, with US\$726 billion processed during 2019. SwapAgent now has 16 members using the service.

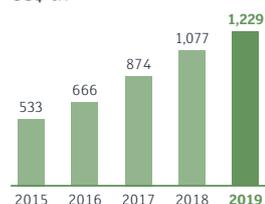
ForexClear

ForexClear offers clearing across 17 currency pairs for non-deliverable forwards and, in collaboration with CLS settlement service, offers clearing of spot, forwards and FX options in eight currency pairs. In October 2019, ForexClear became the first CCP to launch clearing for outright FX forwards, which expanded the range of FX derivatives now available for clearing and incorporates the first physical settlement service for cleared FX products.

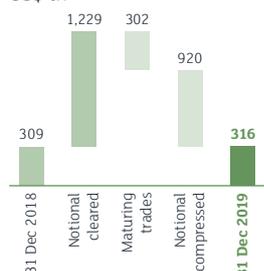
US\$35.1 billion

Capital saved for our members and customers through the use of compression services

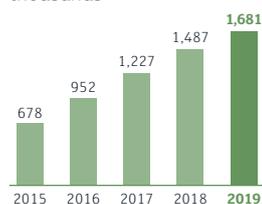
SwapClear – Total notional cleared US\$ tn



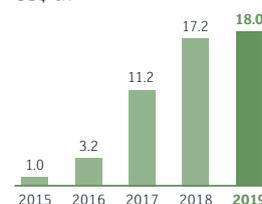
SwapClear – Compression volumes US\$ tn



SwapClear – Client: no. of cleared trades thousands



ForexClear – Notional cleared US\$ tn



Segmental review (continued)

US\$18.0 trillion

Notional cleared at ForexClear
(2018: US\$17.2 trillion)

In 2019, ForexClear membership increased to 34 members (2018: 32) while notional cleared grew by 5% to US\$18.0 trillion (2018: US\$17.2 trillion). Of this, US\$61 billion was client cleared notional, up significantly from the previous year (2018: US\$8 billion).

LCH also became the first clearing house to integrate with FX Connect TradeNeXus, State Street's FX trading platform. Users can now benefit from direct access to LCH's clearing service, via workflows integrated into TradeNeXus.

698 million

Trades cleared at EquityClear
(2018: 810 million)

ForexClear's compression service volumes gathered momentum with US\$48.1 billion in notional compressed over the year (2018: US\$4.8 billion).

The Uncleared Margin Rules (UMR) continue to provide economic incentives for institutions when they clear their FX trades and we expect to add more members, and especially clients to this service as counterparties come into scope of the UMR requirements. In 2020, we expect to add Non-Deliverable Options to our list of cleared FX products, as well as connecting with more execution platforms.

CDSClear

CDSClear is the fastest-growing global CDS clearing service and continues to offer its users opportunities to gain capital efficiencies through clearing across the widest range of CDS products; with almost 100 index series and more than 500 single name CDS contracts eligible for clearing. CDSClear is also the only CCP worldwide which offers clearing of Credit Index Options with over 80 contracts eligible for clearing.

In 2019, total notional cleared increased to €759 billion (2018: €612 billion) supported by the introduction of mandatory clearing for Category 3 counter parties. Membership rose in 2019, with new members joining and some members adding supplementary memberships for additional entities, which do not attract an additional membership fee, bringing the total number of members up to 26 (2018: 16) and providing increased liquidity to the service. Further members are expected to join in 2020. Client clearing at CDSClear also grew in 2019, with more than 250 client entities live on the service and €42.9 billion of notional cleared by clients, an increase of 51% from 2018.

Credit Index Options notional cleared increased to €8.5 billion (2018: €1.8 billion). This performance is reflected in the use of CDSClear's electronic exercise platform for Credit Index Options, launched in November 2018.

Non-OTC Clearing

– Non-OTC derivatives clearing revenue was up 3% to £140 million, an increase of 4% on a constant currency basis (2018: £136 million)

RepoClear

In 2019, RepoClear reached a record nominal value cleared of €106 trillion (2018: €98.7 trillion). Volumes in RepoClear rose 7%, largely as a result of strong growth in the underlying Repo market, particularly in Europe as a result of excess liquidity, and members seeing netting and other benefits from the newly consolidated Euro debt pool in LCH SA.

In early 2019, LCH successfully consolidated a large majority of Euro debt clearing into LCH SA. This consolidation was

implemented following long-standing requests from members as it offers them significant netting efficiencies, facilitated by settlement in Euroclear, Clearstream or in a CSD of their choice through TARGET2-Securities (T2S), the pan-European platform for securities settlement in central bank funds.

Sponsored Clearing continues to extend the full benefits of clearing to buy-side users in LCH Ltd, with roll out to LCH SA a focus in 2020.

EquityClear and Listed Derivatives

EquityClear clears for more than 20 different trading venues, demonstrating our commitment to an Open Access approach. The number of trades cleared in 2019 fell by 14% to 698 million (2018: 810 million), due to a challenging global equity market in the year. In Q1 2019, EquityClear SA successfully extended its service to offer the clearing of main market Euronext stocks traded on Turquoise and hopes to further its reach by offering clearing for additional trading venues in 2020.

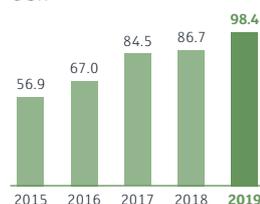
The Listed Derivatives venues cleared by LCH include CurveGlobal and Euronext Derivatives Markets and expects to begin clearing for Oslo Bors Derivatives markets in 2020. In 2019, the number of contracts cleared decreased by 5% to 144.7 million (2018: 152.9 million). Clearing of London Stock Exchange Derivatives Market (LSEDM) contracts ceased in 2019, as they were withdrawn from the trading platform.

Net Treasury Income

– Net Treasury Income for LCH in 2019 increased by 18% to £206 million (2018: £175 million) on a reported basis and up 17% on a constant currency basis

The increase in Net Treasury Income in 2019 was largely driven by the increase in average cash collateral held, which rose by 13% to €98.4 billion (2018: €86.7 billion), which in turn is primarily driven by volumes cleared and market volatility, and in 2019, a change in risk methodology for SwapClear to ensure the client clearing service was adequately protected from defaults resulted in increased initial margin requirements. In 2019, LCH has worked to increase its capacity with investment counterparties as well as expand the range of products they can invest in to allow for continued asset allocation optimisation.

Cash collateral held – daily average
€ bn



18%

increase in Net Treasury Income in 2019