LCH.CLEARNET LLC
(A WHOLLY-OWNED SUBSIDIARY OF LCH.CLEARNET(US) LLC)
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

Ernst & Young LLP

Building a better working world

LCH.Clearnet LLC
(a wholly-owned subsidiary of LCH.Clearnet (US) LLC)
Financial statements for the year ended December 31, 2013
Contents

Ernst & Young LLP
5 Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: +1 212 773 6350
ey.com

Report of Independent Auditors

The Board of Directors and Members
LCH.Clearnet LLC

We have audited the accompanying financial statements of LCH.Clearnet LLC, which comprise the statement of financial condition as of December 31, 2013, and the related statements of operations, changes in member's equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCH.Clearnet LLC at December 31, 2013, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

May 13, 2014

Statement of financial condition

	December 31, 2013 $'000
Assets	
Cash and cash equivalents	39,131
Restricted cash	2,000
Prepaid expenses and other assets	393
Property and equipment, net	1,372
Due from affiliates	8,618
Default fund and margin deposits	779,207
Total assets	**830,721**
Liabilities and member's equity	
Liabilities:	
Accounts payable and accrued expenses	2,402
Due to affiliates	879
Default fund and margin deposits	779,207
Total liabilities	**782,488**
Member's equity (see Note 6):	
Member's units	59,010
Accumulated deficit - pre August 14, 2012	(7,711)
Accumulated deficit - post August 14, 2012	(3,066)
Total member's equity	**48,233**
Total liabilities and member's equity	**830,721**

The notes on pages 6 to 14 form an integral part of these financial statements.

LCH.Clearnet LLC
(a wholly-owned subsidiary of LCH.Clearnet (US) LLC)
Financial statements for the year ended December 31, 2013
Statement of operations

	Year ended December 31, 2013 $'000
Revenue	
Clearing fees	1,515
Net interest	210
Other	89
Total revenue	**1,814**
Expenses	
Compensation and benefits	5,923
Technology expenses	4,786
Professional expenses	1,385
Other expenses	1,237
Recoverable expenses (see note 8)	(8,489)
Total expenses	**4,842**
Net loss before tax	(3,028)
Taxes	38
Net loss after tax	**(3,066)**

The notes on pages 6 to 14 form an integral part of these financial statements.

Statement of changes in member's equity

	Year ended December 31, 2013 $'000
Balance at January 1, 2013	25,579
Additional capital contribution	25,720
Net loss	(3,066)
Balance at December 31, 2013	**48,233**

The notes on pages 6 to 14 form an integral part of these financial statements.

LCH.Clearnet LLC
(a wholly-owned subsidiary of LCH.Clearnet (US) LLC)
Financial statements for the year ended December 31, 2013
Statement of cash flows

	Year ended December 31, 2013 $'000
Cash flows from operating activities	
Net loss	(3,066)
Changes in operating assets and liabilities:	
Deferred tax assets	94
Prepaid expenses and other assets	(2,161)
Due from affiliates	(3,739)
Accounts payable and accrued expenses	1,021
Due to affiliates	391
Net cash used in operating activities	**(7,460)**
Cash flows from investing activities	
Property and equipment, net	(1,372)
Net cash used in investing activities	**(1,372)**
Cash flows from financing activities	
Additional capital contribution	25,720
Net cash provided by financing activities	**25,720**
Net change in cash and cash equivalents	16,888
Cash and cash equivalents at beginning of year	22,243
Cash and cash equivalents at end of year	**39,131**

Supplemental Disclosure Cash Flow Information

Cash paid for interest	187

The notes on pages 6 to 14 form an integral part of these financial statements.

1. Corporate information

LCH.Clearnet LLC

LCH.Clearnet LLC (LLC), formerly known as International Derivatives Clearinghouse, LLC (IDCH), a Delaware limited liability company, and a wholly-owned subsidiary of LCH.Clearnet (US) LLC ((US) LLC) was formed on March 7, 2008 (date of inception). (US) LLC was acquired by LCH.Clearnet Group Limited (Group Ltd) on August 14, 2012, from The NASDAQ OMX Group, Inc. On May 1, 2013, London Stock Exchange Group Plc acquired 57.78% of the ordinary share capital of Group Ltd.

LCH.Clearnet Group of Companies (LCH.Clearnet or the Group)

LCH.Clearnet is a leading multi-national clearing house. The Group provides services through which counterparty risk is mitigated across multiple asset classes for sell-side clearing members, buy-side clients and exchange markets globally.

Each major operating subsidiary is a central counterparty (CCP) and provides CCP clearing services and other related services to its clearing members.

As CCPs, the Group's operating companies sit in the middle of a trade as the buyer to every seller and the seller to every buyer. If either party defaults on the trade, the relevant CCP owns the defaulter's risk and becomes accountable for its liabilities. During the life of a trade, or that of a portfolio of trades, the Group's operating companies process all cash flows and continuously mark the trade or book to market, calling variation and initial margin in relation to prevailing risk. This process is called clearing.

The tenor of a trade can range from two days to 50 years, depending on the product type and terms of the deal. During the life of a trade, markets can move significantly, and the capability of a CCP's risk and liquidity management becomes vital. Fundamental to each CCP's risk process is its ability to collect quality collateral from clearing members as credit support for their cleared positions. This collateral is often referred to as margin. Margin is calculated on a daily basis, or multiple times a day for certain asset classes, which is important during turbulent markets and is based on clearing members' positions and market risk. If a clearing member fails, this collateral is used by a CCP to fulfill the failed organization's obligations. This ensures that the party on the other side of the trade is not negatively impacted by the default.

2. Principal activities

LLC is registered with the Commodity Futures Trading Commission (CFTC) as a Derivatives Clearing Organization (DCO).

On December 22, 2008, pursuant to Section 5b of the Commodity Exchange Act (CEA), the CFTC issued an order granting IDCH (now LLC) registration as a DCO. The DCO order was amended and updated to include the LLC name on January 23, 2013. As a registered DCO, LLC is authorized to clear futures contracts, options on futures contracts, commodity options, and swaps where interest rates and/or currencies constitute the underlying commodity or reference.

LLC launched its SwapClear US clearing service in June 2013. SwapClear US is a clearing service for cash-settled interest rate swaps offered to eligible clearing members of LLC, pursuant to its rulebook.

SwapClear US clears a broad range of interest rate swap products, including plain vanilla, zero coupon, basis, forward rate agreements, overnight index and variable notional swaps across 17 currencies. The interest rate swap transactions that are eligible for clearing through the SwapClear US service are entered into by two executing parties thereto, either bilaterally in the over-the-counter market, on swap execution facilities or designated contract markets (each as defined in the Commodity Exchange Act). Upon being accepted for clearing, the interest rate swap transaction is registered, through novation, as two contracts, each between LLC and a clearing member (whether on their own account or on behalf of a customer). LLC utilizes the same risk management techniques and offers the same product suite that its affiliate, LCH.Clearnet Limited (LTD), has adopted for the global SwapClear service.

3. Accounting policies

Basis of preparation

A summary of LLC's accounting policies applied in preparing the financial statements for the year ended December 31, 2013, is set out below.

The preparation of LLC's financial statements, in conformity with US generally accepted accounting principles (US GAAP), requires management to make estimates and assumptions that affect the reported amounts and disclosures of contingent amounts in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing the financial statements and accompanying notes are reasonable and prudent. Actual results could differ from those estimates and assumptions.

Cash and cash equivalents

LLC considers money market funds and other highly liquid investments with original maturities of 90 days or less at time of purchase as cash equivalents. The fair value of cash and cash equivalents approximates the amounts shown on the financial statements. At December 31, 2013 the Company's cash and cash equivalents are held at various financial institutions each with balances that exceed the federally insured amounts limits.

Restricted cash

Restricted cash of $2 million as of December 31, 2013, includes money market funds held for regulatory purposes for LLC's clearing business and is not available for general use by LLC.

Default fund and margin deposits

Default fund contributions paid by clearing members are in cash in US dollars. Clearing members may elect to use cash or securities to cover initial margin requirements; realized variation margin may only be covered in cash. Members may pledge securities directly using a bilateral delivery mechanism. Cash initial margin, variation margin and default fund deposits are reflected in the statement of financial condition as assets and liabilities. The amount of margin deposits on hand will fluctuate over time as a result of, among other things, the extent of open positions held at any point in time by market participants in contracts and the margin rates then in effect for such contract. Non-cash initial margin is not reflected in the statement of financial condition. These non-cash assets are held in safekeeping, and LLC does not take legal ownership of the assets as the risks and rewards remain with the clearing members, unless and until such time as a clearing member defaults on its obligations to LLC (see also note 4).

Property and equipment

Property and equipment are recorded at cost, reduced by accumulated depreciation. Depreciation and amortization expense relating to property and equipment is computed using the straight-line method based on estimated useful lives of five years or, in the case of leasehold improvement, the shorter of the initial lease term or the estimated useful life of the improvement. LLC reviews the remaining estimated useful lives of its property and equipment at each statement of financial condition date and will make adjustments to the estimated remaining useful lives whenever events or changes in circumstances indicate that remaining useful lives have changed. Maintenance and repair costs are expensed as incurred.

Software development costs

LLC utilizes software that is developed by LTD. LTD allocates and recharges the cost of the development to LLC based on usage. LLC capitalizes costs, both internal and external direct and increment costs, related to software developed or obtained for internal use. Software development costs incurred during the preliminary or maintenance project stages are expensed as incurred, while costs incurred during the application development stage are capitalized and are amortized using the straight-line method over the useful life of the software, not to exceed five years. Amortization of these capitalized costs begins only when the software becomes ready for its intended use. General and administrative costs related to developing or obtaining such software are expensed as incurred.

Income taxes

LLC is a subsidiary of (US) LLC and is included in the US federal and state income tax return of its parent. LLC is treated as a disregarded entity for US tax purposes and, as such, all items of LLC's income and expense are treated as the income and expense of (US) LLC. For financial reporting purposes, the provision for income taxes for LLC is determined as if LLC filed separate returns.

LLC uses the asset and liability method to provide income taxes on all transactions recorded in LLC's financial statements. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates that will be in effect when these differences are realized. If necessary, a valuation allowance is established to reduce deferred tax assets to the amount that is more likely than not to be realized.

In order to recognize and measure the unrecognized tax benefits, management determines whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the recognition thresholds, the position is measured to determine the amount of benefit to be recognized in the financial statements. Interest and/or penalties related to income tax matters are recognized in income tax expense. Interest and/or penalties related to income tax matters are recognized in income tax expense. At December 31, 2013, LLC had no accruals for interest and/or penalties related to income tax matters (see also note 9).

Revenue recognition

LLC charges the following types of clearing fees for the SwapClear US service:

Self-Clearing Fee is a fixed annual clearing fee that covers any and all self-clearing activity for a Clearing Member, either on its own account or on behalf of a SwapClear dealer, or an affiliate. This annual fee is collected and recognized in the statement of operations as clearing revenue over the service period in 12 equal monthly installments.

Client-Clearing Fees vary depending on the plan selected and include the following:

- booking fee is recognized as revenue in the statement of operations when the trade is booked
- maintenance fee is only earned on the anniversary date of each trade and is recognized as of this date
- risk consumption fee is assessed and recognized daily

Net interest income is the total of revenue earned on the cash held that has been generated from clearing member activity, less interest paid to clearing members on their cash default fund and margin deposits in accordance to the rule book. Net interest income is recognized on an accrual basis as earned.

Compensation and benefits

Compensation and benefits include employee salaries, payroll costs, medical benefits, payroll taxes and bonus.

Foreign currencies

Monetary assets or liabilities denominated in currencies other than US dollars are re-measured into US dollars at the rate of exchange ruling on the date of the statement of financial condition. Transactions in foreign currencies are recorded at the prevailing exchange rates at the date of the transaction. Any exchange differences are recorded in the statement of operations as other income. LLC recorded $89,000 of exchange gains for the year ended December 31, 2013.

4. Clearing operations

Default fund and margin deposits

As of December 31, 2013, clearing member default fund contributions and margin deposits were as follows:

	Cash Contributions [1] [2] $'000	Non-Cash Contributions $'000	Total Contributions $'000
Default fund contributions	525,000	-	525,000
Margin deposits	254,207	60,234	314,441
Total	**779,207**	**60,234**	**839,441**

[1] As of December 31, 2013, in accordance with its investment policy, LLC has invested cash contributions of $575 million in highly rated government debt securities and $113 million in reverse repurchase agreements. The remainder of this balance is held in money market funds.

[2] Pursuant to clearing member agreements, LLC pays interest on cash contributions to clearing members.

Default fund contributions

The contributions made by the clearing members to the default fund are calculated by LLC in accordance with the LLC's clearing house rules. Cash contributions received are invested by LLC, in accordance with its investment policy, either in highly rated government debt securities, reverse repurchase agreements with highly rated government debt securities as collateral or money market funds. Clearing members' cash contributions are included in the default fund and margin deposits in the statement of financial condition as both an asset and a liability.

In addition to clearing members' required contributions to the default fund, LLC is also required to contribute capital to the default fund as specified under its clearing house rules. As of December 31, 2013, LLC's committed capital was $2 million and is recorded as restricted cash in the statement of financial condition. The combined default fund contributions by the clearing members and LLC will serve to secure the obligations of a clearing member and may be used to cover losses sustained by a clearing member in the event of a default.

Margin deposits

Variation margin

All open swap contracts are marked to market daily. For SwapClear US, marking-to-market uses LLC's published zero-coupon yield curves; variation margin equal to the change in the net present value of each member's portfolio is then paid to or by LLC. This practice ensures that LLC's valuations of members' positions remain current and that losses do not accrue over time (which would otherwise impair the ability of LLC's financial resources to cover market risk in the event of a default).

Initial margin

Each clearing member is required to deposit with LLC an amount of initial margin as collateral in respect of each contract registered with LLC. Initial margin consists of cash and non-cash. Initial margin is intended to secure future payment of variation margin and to protect LLC from changes in the mark-to-market value of open contracts during the close-out period following a default of a clearing member.

LLC maintains and manages all cash deposits related to margin collateral. Since all risks and rewards of collateral ownership, including interest, belong to LLC, these cash deposits are recorded in default fund and margin deposits in the statement of financial condition as both an asset and a liability.

Risk management calculations

LLC manages risk through a comprehensive risk management framework, comprising policies and procedures.

LLC is the legal counterparty for each cleared contract and thereby guarantees the fulfillment of each contract. LLC accounts for this guarantee as a performance guarantee. LLC determines the fair value of the performance guarantee by considering daily settlement of contracts and other margining and default fund requirements, the risk management program, historical evidence of default payments, and the estimated probability of potential default payouts. The calculation is determined using proprietary risk management software that simulates gains and losses based on historical market prices, extreme but plausible market scenarios, volatility and other factors present at that point in time for those particular unsettled contracts. Based on this analysis, the estimated liability was nominal, and no liability was recorded as of December 31, 2013.

The net present value of swap contracts outstanding prior to netting was as follows:

	December 31, 2013 **$'000**
Interest rate swap*	59,085
Overnight index swap*	1,070
Total	**60,155**

*LLC calculates the net present value of the swap contracts using LLC's zero coupon yield curves.

Default management waterfall

The default management waterfall is set out below in the order of priority in which the financial resources would be utilized to cover losses due to a member's default:

- the defaulted member's variation and initial margins
- the defaulted member's default fund contributions
- LLC's capital contribution of $2 million
- contributions from non-defaulting members to the default fund

Assessments are callable up to the value of each member's default fund contribution at the time of default. If additional funds are needed after unfunded contributions, resources may be available in the service continuity phase.

5. Litigations, claims, and assessments

After considering all relevant facts and the advice of counsel, in the opinion of management, there is no pending or threatened litigation which individually or in the aggregate has a material adverse effect on LLC's financial position or results of operations.

6. Member's equity

Member's equity represents total member units at December 31, 2013 plus accumulated deficit of which $7.711 million relates to losses accumulated pre August 2012, representing the period in which the Company was controlled by The NASDAQ OMX Group, Inc. An accumulated deficit of $3.066 million has been incurred post August 2012, representing the period of time subsequent to Group Ltd.'s acquisition of (US) LLC.

On May 29, 2013, (US) LLC, being the sole member of LLC, made a capital contribution in the amount of $25.7 million to LLC as part of a recapitalization of LLC.

7. Regulatory requirements

LLC is regulated by the CFTC as a DCO under the DCO Core Principles, which were established in the CEA (and amended by Dodd-Frank), as well as Part 39 of the CFTC regulations. LLC manages its financial resources in compliance with its regulatory requirements and ensures that its resources are adequate to cover the risks inherent in the business.

CFTC Regulation 39.11 sets out the basis for the financial resources requirement for DCOs regulated by the CFTC. The requirement is for the DCO to cover its operating costs, excluding recoverable expenses, for a period of at least one year, calculated on a rolling basis. The financial resources allocated by the DCO to meet this requirement may include the DCO's own capital and any other financial resource deemed acceptable by the CFTC. The financial resources allocated by the DCO must include unencumbered, liquid financial assets equal to at least six months' operating costs.

8. Related parties

On August 22, 2012, LLC and LTD entered into a Master Services Agreement (MSA). LTD agreed to provide LLC with client and on-boarding, operations and technology services, risk management, product development, legal, finance, compliance, lobbying, regulatory, internal audit and sourcing and supply management services. Costs incurred are recharged to LLC on a monthly basis. During the year, operating expenses totaling $4.4 million were allocated to LLC, and are reflected within various line items on the statement of operations. As of December 31, 2013, $629,000 remains outstanding and is recorded within due to affiliates on the statement of financial condition. As of December 31, 2013, $8.6 million remains receivable from LTD and is reflected within due from affiliates on the statement of financial condition.

In addition, LLC has entered into an arrangement with an affiliate, LTD, whereby certain costs incurred and paid by LLC have been determined to be recoverable directly from LTD. Such costs include expenses which have been paid by LLC relating to the development and operations of the SwapClear US business. As these expenses are subject to the direct oversight and approval of LTD and other third parties (such as certain SwapClear member firms), management has concluded LLC's role in the payment of such expenses is representative of an agency relationship and, as such, has reflected the recovery of these costs within recoverable expenses on the statement of operations. For the year ended December 31, 2013, the amount of cost reimbursement LLC received from LTD was $8.5 million.

9. Income taxes

(US) LLC, LLC's parent company, had elected to be treated as a corporation for US income tax purposes, after which all earnings of (US) LLC are subject to corporate taxation in the US at the federal level, as well as by New York State and New York City.

LLC's operating results are included in the federal, state and local income tax returns filed by (US) LLC. For income tax purposes, LLC is disregarded as an entity separate from its owner, (US) LLC. With respect to each taxable period for which an income tax return is filed by (US) LLC which includes LLC, (US) LLC shall pay to and has the right to receive from LLC an amount based on LLC's stand-alone operating results using the tax rate applicable to (US) LLC.

The income tax provision as at December 31, 2013, consists of the following amounts:

	2013 $'000
Current tax expense (benefit)	
Federal	(56)
Total current income tax expense (benefit)	(56)
Deferred income tax expense (benefit)	(1,313)
Change in valuation allowance	1,407
Total income tax provision	**38**

As of December 31, 2013, the net deferred tax asset balance is $0 and includes the following:

	2013 $'000
Deferred tax assets	
Interest expense	73
Net operating loss carryforward	1,334
Net deferred income tax assets	1,407
valuation allowance	(1,407)
Net total deferred tax assets	-

LLC had an effective tax rate different from the federal statutory rate of 35% due primarily to state taxes and the valuation allowance against deferred tax assets as it is more likely than not that these assets will not be realized in the future.

At December 31, 2013, LLC had federal and state and local net operating losses of approximately $2.9 million and $3.1 million, respectively, which begin to expire in the year ending December 31, 2033.

LLC is not currently under examination by taxing authorities. Tax years 2010 through 2012 remain open to possible examination.

10. Subsequent events

Subsequent events have been evaluated by LLC through May 13, 2014, the date these financial statements are available to be issued.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ey.com