

**LCH.CLEARNET LLC**  
(A WHOLLY-OWNED SUBSIDIARY OF  
LCH.CLEARNET GROUP LIMITED)  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2015**

**LCH.Clearnet LLC**  
(a wholly-owned subsidiary of LCH.Clearnet Group Limited)  
**Financial statements for the year ended December 31, 2015**  
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## 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, 2015, 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, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

**LCH.Clearnet LLC**  
(a wholly-owned subsidiary of LCH.Clearnet Group Limited)  
**Financial statements for the year ended December 31, 2015**  
**Statement of financial condition**

	December 31, 2015
	\$'000
<b>Assets</b>	
Non-current assets:	
Property and equipment, net	-
Current assets:	
Cash and cash equivalents	29,036
Restricted cash	2,000
Prepaid expenses and other assets	1,206
Due from affiliates	45
Default fund and margin deposits	392,746
<b>Total assets</b>	<b>425,033</b>
<b>Liabilities and member's equity</b>	
Non-current liabilities	-
Current liabilities:	
Accounts payable and accrued expenses	2,360
Due to affiliates	2,723
Default fund and margin deposits	392,746
<b>Total liabilities</b>	<b>397,829</b>
Member's equity:	
Member's units	59,008
Accumulated deficit - pre August 14, 2012	(7,711)
Accumulated deficit - post August 14, 2012	(24,093)
<b>Total member's equity</b>	<b>27,204</b>
<b>Total liabilities and member's equity</b>	<b>425,033</b>

The notes on pages 6 to 16 form an integral part of these financial statements.

**LCH.Clearnet LLC**  
(a wholly-owned subsidiary of LCH.Clearnet Group Limited)  
**Financial statements for the year ended December 31, 2015**  
**Statement of operations**

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	<b>December 31, 2015</b>
	<b>\$'000</b>
<hr/>	
<b>Revenue</b>	
Clearing fees	2,784
Interest	363
Other	129
<b>Total revenue</b>	<b>3,276</b>
<hr/>	
<b>Expenses</b>	
Compensation and benefits	4,741
Technology expenses	4,331
Professional expenses	1,385
Other expenses	4,451
<b>Total expenses</b>	<b>14,908</b>
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Net loss before tax	(11,632)
Tax	(87)
<b>Net loss after tax</b>	<b>(11,719)</b>

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**LCH.Clearnet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Statement of changes in member's equity**

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	<b>December 31, 2015</b>
	<b>\$'000</b>
Balance at January 1, 2015	38,923
Net loss	(11,719)
<b>Balance at December 31, 2015</b>	<b>27,204</b>

The notes on pages 6 to 16 form an integral part of these financial statements.

**LCH.Clearnet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Statement of cash flows**

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	<b>Year ended December 31, 2015 \$'000</b>
<b>Cash flows from operating activities</b>	
Net loss	(11,719)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation, amortization and impairment	1,862
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	(199)
Due from affiliates	3,067
Accounts payable and accrued expenses	139
Due to affiliates	2,001
<b>Net cash used in operating activities</b>	<b>(4,849)</b>
<b>Net cash used in investing activities</b>	<b>-</b>
Net change in cash and cash equivalents	(4,849)
Cash and cash equivalents at beginning of year	33,885
<b>Cash and cash equivalents at end of year</b>	<b>29,036</b>

The notes on pages 6 to 16 form an integral part of these financial statements.

**LCH.Clearnet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Notes to the financial statements**

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**1. Corporate information**

**LCH.Clearnet LLC**

LCH.Clearnet LLC (LLC), a Delaware limited liability company, and a wholly-owned subsidiary of LCH.Clearnet Group Limited (Group Ltd) was formed on March 7, 2008 (date of inception). LLC was acquired by Group Ltd on August 14, 2012 from The NASDAQ OMX Group, Inc. On May 1, 2013, London Stock Exchange Group Plc (LSEG) acquired a majority shareholding of Group Ltd.

On 31 December 2015, by signed agreement, LCH.Clearnet LLC and its former parent company, LCH.Clearnet (US) LLC, merged and the surviving entity is LCH.Clearnet LLC. A Certificate of Merger has been filed with the Secretary of State of the State of Delaware in accordance with Delaware law. There is no effect on the net assets of the companies. The parent company of LLC is now LCH.Clearnet Group Limited.

**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).



**LCH.Clearnet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Notes to the financial statements (continued)**

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On December 22, 2008, pursuant to Section 5b of the Commodity Exchange Act (CEA), the CFTC issued an order granting 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 almost the same product suite that its affiliate, LCH.Clearnet Limited, 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, 2015, 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.

#### **Restricted cash**

Restricted cash of \$2 million as of December 31, 2015, includes money market funds held for regulatory purposes for LLC's clearing business and is not available for general use by LLC.

**LCH.Clearnet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Notes to the financial statements (continued)**

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**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 its affiliate, LCH.Clearnet Limited (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

**LCH.Clearnet LLC**  
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**Notes to the financial statements (continued)**

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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. At December 31, 2015, LLC had no accruals for interest and/or penalties related to income tax matters (see also note 10).

### **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.

### **Share-based compensation**

LLC operates share-based compensation plans for employees, settled in shares of the ultimate parent company, London Stock Exchange Group plc. Compensation expense booked to the income statement is determined by the fair value of the options granted or shares awarded at the date of grant as an indirect measure of the value of employee services received by LLC and recognized over the relevant vesting period.

**LCH.Clearnet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Notes to the financial statements (continued)**

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**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. LLC recorded \$240k of exchange losses for the year ended December 31, 2015 in the statement of operations as other expenses.

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**Financial statements for the year ended December 31, 2015**  
**Notes to the financial statements (continued)**

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**4. Clearing operations**

**Default fund and margin deposits**

As of December 31, 2015, clearing member default fund contributions and margin deposits were as follows:

	<b>Cash contributions<sup>(1)(2)</sup> \$'000</b>	<b>Non-Cash contributions \$'000</b>	<b>Total contributions \$'000</b>
Default fund contributions	260,000	-	260,000
Margin deposits	132,746	20,036	152,782
<b>Total</b>	<b>392,746</b>	<b>20,036</b>	<b>412,782</b>

<sup>(1)</sup> As of December 31, 2015, in accordance with its investment policy, LLC has invested cash contributions of \$175.9 million in highly rated government debt securities and \$143.1 million in reverse repurchase agreements. The remainder of this balance is held in money market funds.

<sup>(2)</sup> 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, 2015, 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.

**LCH.Clearnet LLC**  
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**Notes to the financial statements (continued)**

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*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, 2015.

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

	<b>December 31, 2015</b>
	<b>\$'000</b>
Interest rate swap*	333,650
Overnight index swap*	-
<b>Total</b>	<b>333,650</b>

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

**LCH.Clearnet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Notes to the financial statements (continued)**

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**Fair value hierarchy**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs, which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The Company has no financial instruments in this category

As at 31 December 2015 the Company held the following financial instruments measured at fair value:

	<b>Level 1</b>	<b>2015 Level 2</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets measured at fair value</b>			
Fair value of transactions with clearing members	-	-	-
Treasury bills	25,000	-	25,000
<b>Liabilities measured at fair value</b>			
Fair value of transactions with clearing members	-	-	-
<b>Other items where fair value is known</b>			
Bonds	150,771	-	150,771

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.

**LCH.Cleernet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Notes to the financial statements (continued)**

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**5. Share-based payments**

Company employees were eligible to participate in one or more of the following LSEG share option based arrangements during the financial year:

- i. The LCH.Cleernet Long-Term Incentive Plan (LCH LTIP)
- ii. The LSEG SAYE Option Scheme and LSEG International Sharesave Plan (SAYE)

The **LCH LTIP** awards are made in the form of nil-cost options. Vesting of the LCH LTIP award is initially dependent upon the achievement of a risk management gateway. If this is achieved, the degree of vesting of the award is assessed against three conditions, measured independently over three years:

- 1) **Regulatory metric:** a qualitative assessment of LCH Group performance on regulatory matters (comprising up to 34% of the award)
- 2) **Cost metric:** a quantitative assessment of qualifying cost savings during the performance period (comprising up to 33% of the award)
- 3) **EBIT metric:** a quantitative assessment of LCH Group EBIT performance at the end of the performance period (comprising up to 33% of the award)

In 2015, 46,459 shares of LSEG stocks were awarded with grant date of April 2, 2015 (27,801 shares) and October 15, 2015 (18,658 shares). As of December 31, 2015, LLC recognized \$603,000 of LTIP expenses in compensation and benefits representing the value of the employee services received.

The **SAYE schemes** provide for grants of options to employees who enter into a SAYE savings contract; options are granted at 20% below fair market value. The options vest in full after three years, providing the employee remains employed by the LCH Group or wider LSEG group of companies. In 2015, 441 SAYE options were granted.

**6. Property, plant and equipment**

Property, plant and equipment is initially recognised at cost and capitalised in the statement of financial position and is stated at cost less accumulated depreciation and accumulated impairment losses. All property, plant and equipment relates to capitalised software. The movement in the year is as follows:

	1 January 2015	Amortization	Impairment	31 December 2015
	\$'000	\$'000	\$'000	\$'000
Cost	1,862	-	-	1,862
Amortization	-	(351)	(1,511)	(1,862)
<b>Net book value</b>	1,862	(351)	(1,511)	-



**LCH.Clearnet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Notes to the financial statements (continued)**

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**7. 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.

**8. Member's equity**

Member's equity represents total member units at December 31, 2015 plus accumulated deficit of which \$7.7 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 \$24.1 million has been incurred post August 2012, representing the period of time subsequent to Group Ltd's acquisition of LLC.

**9. 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 can be deemed to be a Qualifying Central Counterparty because it has elected to be subject to heightened risk management standards under the CFTC's Subpart C rules.

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 to cover forecasted DCO related operating costs of \$10.5 million for a period of one year. 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.

**10. 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. As of December 31, 2015, \$1.3 million remains outstanding and is recorded within due to affiliates on the statement of financial condition.

**LCH.Clearnet LLC**  
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**Financial statements for the year ended December 31, 2015**  
**Notes to the financial statements (continued)**

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**11. Income taxes**

The income tax provision as at December 31, 2015, consists of the following amounts:

	<b>December 31, 2015</b>
	<b>\$'000</b>
<b>Current tax expense (benefit)</b>	
Federal	-
State and local	(112)
<b>Total current income tax expense (benefit)</b>	<b>(112)</b>
Deferred income tax expense (benefit)	5,224
Change in valuation allowance	(5,224)
<b>Total income tax provision</b>	<b>(112)</b>

As of December 31, 2015, the net deferred tax asset balance is nil and includes the following:

	<b>December 31, 2015</b>
	<b>\$'000</b>
<b>Deferred tax assets</b>	
Interest expense	64
Depreciation	453
Accrued bonus	766
LTIP	296
New York State prior net operating loss	1,001
Net operating loss carry forward	8,187
<b>Net deferred income tax assets</b>	<b>10,767</b>
Valuation allowance	(10,767)
<b>Net total deferred tax assets</b>	<b>-</b>

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 which are unlikely to be realized.

At December 31, 2015, LLC had federal and state and local net operating losses of approximately \$8.2 million and \$1.0 million, respectively, which begin to expire in the year ending December 31, 2033.

LLC is not currently under examination by taxing authorities. Tax years 2013 through 2014 remain open to possible examination.

**12. Subsequent events**

Subsequent events have been evaluated by LLC through March 3, 2016, the date these financial statements are available to be issued.