Citadel Securities (Europe) Limited

Annual report and Financial Statements for the year ended 31 December 2015

Registered number: 5462867

CITADEL SECURITIES (EUROPE) LIMITED
Registered number: 5462867
Company Information

Directors
S Atkinson
M Wheeler
S Belluardo

Company Secretary
E Sanchez

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

Bankers
Bank of New York
1 Wall Street
New York
NY 10286
United States of America

JP Morgan Chase Bank N.A
1 Chaseside
Bournemouth BH7 7DA

Registered Office
Moor House
120 London Wall
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CITADEL SECURITIES (EUROPE) LIMITED

Registered number: 5462867

Directors' report for the year ended 31 December 2015

The directors present their report and audited financial statements of Citadel Securities (Europe) Limited ("CSEL" or "the Company") for the year ended 31 December 2015. These financial statements were authorised for issue by the Board of Directors on 19 April 2016. The directors have chosen to disclose the company's risk management objectives and policies, and the future outlook of the Company in the strategic report in accordance with section 414C(11) of the Companies Act 2006.

Directors

The following directors who held office during the year and to the date of this report were:

S Atkinson

M Wheeler

S Belluardo

Results and dividends

The Company earned net revenue of $159,045,000 (2014 - $138,215,000) and made a profit before taxation of $129,373,000 (2014 - $121,102,000). During the year, the Company paid $47,963,000 in dividends (2014 - $81,000,000).

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 The Financial Reporting Standard in the UK and Republic of Ireland (FRS 102). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement on disclosure of information to auditors

So far as each director is aware, there is no relevant audit information of which the Company's auditors are not aware and the directors confirm that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board

S Atkinson
Director
19 April 2016

The directors present their strategic report for the year ended 31 December 2015.

Principal activity

The principal activities of the Company are proprietary trading in equities and financial derivatives across various European exchanges and liquidity provision in cleared swaps.

Business environment and competition

The principal markets in which the Company operates, are highly competitive with competition from both incumbent players and new market entrants. These markets continue to evolve as a result of new regulation and technologies. In order to mitigate this risk there is continuous focus on the products traded, the trading strategies, the trading venues and the technology employed.

Key Performance Indicators ("KPIs")

The key performance indicators used by the directors for an understanding of the development and performance of the business include net revenue, trading volume reports, margin requirement reports from counterparties and liquidity reports. All of these reports are produced and reviewed on a daily basis.

The Company's principal KPIs are the following (unaudited).

- Profit for the financial year: This indicates the net profit across all business lines of the Company and it is one of the most important indicators of the Company's overall performance.
- Liquidity ratio: This represents liquid assets as a percentage of the Company's net asset value and is indicative of the liquidity of the Company's capital resources.
- Return on assets: This represents the profit for the financial year divided by total assets on the statement of financial position and is a performance indicator required to be made publicly available by section 9.1.3 of the FCA Prudential Sourcebook for Investment Firms ('IFPRU').

	2015 $000	2014 $000
Profit for the financial year	102,639	95,353
Liquidity ratio	86.56%	121.30%
Return on assets	35.34%	46.76%

Principal risks and uncertainties

The Company has exposure to the following risks from its use of financial instruments: market risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify the risks faced by the Company, to set appropriate risk limits and controls, and to monitor these risks. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's risk management structure seeks to minimise the potential, adverse effects of these risks on financial performance. Market risk limits are agreed to by the Board of Directors and are closely monitored on an intra-day basis to ensure compliance. Credit risk, including settlement risk, is monitored on a daily basis against limits agreed to by the Board of Directors. Liquidity risk is monitored daily in accordance with the liquidity risk tolerances set by the Board of Directors as part of the liquidity policy.

Further information is provided in the Company's Pillar 3 disclosure document which should be read in conjunction with these financial statements and which is available via the Citadel website (www.citadel.com).

The Company is exposed to risks of retaining key employees. This risk is addressed by human resource policies to ensure that the Company recruits and retains staff with the appropriate skills, by offering an attractive work place environment and competitive remuneration packages.

The Company is exposed to a range of operational risks including risks associated with the high volume of trading that is undertaken, these risks are closely monitored and on a monthly basis are formally reported on to ensure they are within agreed risk tolerances with any breaches being escalated ultimately to the Board of Directors to ensure appropriate controls are implemented.

The financial markets in which the Company operates and the activities of the Company are currently subject to a number of potential regulatory and tax changes. The Company closely monitors all proposed changes and actively engages in the consultation processes to ensure the Company is positioned to respond to any changes that are ultimately agreed.

Review of business

2015 saw an increase in transaction volumes. The Company continued to invest in new strategies, evolve existing strategies and enhance technology which were reflected in the returns from the proprietary trading business in 2015. The statement of financial position on page 9 shows a strong net asset position. In 2015, the Company expanded the product classes in which it traded including the commencement of liquidity provision in cleared interest rate swaps.

Strategy and future developments

The Company's strategy for 2016 is to continue to focus on algorithmic trading and liquidity provision, investing in new strategies and technologies as appropriate and connecting to new exchanges, multilateral trading facilities and dark pools. The Company plans to continue to expand the product classes that it trades and for which it provides liquidity and brokerage services. The directors foresee similar levels of gross trading revenue in 2016 compared to 2015.

On behalf of the Board

S Atkinson
Director
19 April 2016

Independent auditors' report to the members of Citadel Securities (Europe) Limited

Report on the financial statements

Our opinion

In our opinion, Citadel Securities (Europe) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 December 2015;
- the Statement of comprehensive income for the year then ended;
- the Cash flow statement for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Citadel Securities (Europe) Limited

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Carl Sizer (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 April 2016

CITADEL SECURITIES (EUROPE) LIMITED
Statement of comprehensive income
For the year ended 31 December 2015

	Note	2015 $000	2014 $000
Income from trading		284,553	234,956
Fees and commission expense		(125,508)	(96,741)
Net revenue		159,045	138,215
Administrative expenses		(28,314)	(15,918)
Operating profit	5	130,731	122,297
Net finance expense	6	(1,358)	(1,195)
Profit on ordinary activities before taxation		129,373	121,102
Tax on profit on ordinary activities	7	(26,734)	(25,749)
Profit for the financial year		102,639	95,353
Total comprehensive income		102,639	95,353

All the results of the Company are derived from continuing operations.

The notes on pages 12 to 31 are an integral part of these financial statements.

CITADEL SECURITIES (EUROPE) LIMITED
Statement of financial position
As at 31 December 2015

	Note	2015 $000	2014 $000
Current assets			
Trade receivables	10	57,199	14,385
Financial assets at fair value through profit and loss	11	128,755	111,004
Reverse repurchase agreements	12	51,283	13,968
Cash and cash equivalents		53,167	64,584
		290,404	203,941
Current liabilities			
Financial liabilities at fair value through profit and loss	11	119,996	68,671
Other creditors	13	50,955	70,493
		170,951	139,164
Net current assets		119,453	64,777
Net assets		119,453	64,777
Equity			
Called up share capital	17	8,000	8,000
Retained earnings		111,453	56,777
Total shareholder's funds		119,453	64,777

The financial statements on pages 8 to 31 were approved by the board of directors on 19 April 2016 and were signed on its behalf by:

S Atkinson
Director

19 April 2016

The notes on pages 12 to 31 are an integral part of these financial statements.

CITADEL SECURITIES (EUROPE) LIMITED
Statement of changes in equity
For the year ended 31 December 2015

	Note	Called up share capital $000	Retained earnings $000	Total shareholder's funds $000
Balance as at 1 January 2014		8,000	42,424	50,424
Total comprehensive income		-	95,353	95,353
Dividends	19	-	(81,000)	(81,000)
Balance as at 31 December 2014		8,000	56,777	64,777
Balance as at 1 January 2015		8,000	56,777	64,777
Total comprehensive income		-	102,639	102,639
Dividends	19	-	(47,963)	(47,963)
Balance as at 31 December 2015		8,000	111,453	119,453

The notes on pages 12 to 31 are an integral part of these financial statements.

CITADEL SECURITIES (EUROPE) LIMITED
Cash flow statement
For the year ended 31 December 2015

	Note	2015 $000	2014 $000
Net cash inflow from operating activities	18	65,912	122,380
Taxation paid		(28,084)	(16,135)
Net cash from operating activities		37,828	106,245
Interest paid		(1,282)	(1,195)
Net cash used in investing activities		(1,282)	(1,195)
Increase in swap collateral		-	2,200
Dividends paid	19	(47,963)	(81,000)
Net cash used in financing activities		(47,963)	(78,800)
Net (decrease) / increase in cash		(11,417)	26,250
Cash and cash equivalents at beginning of the year		64,584	38,334
Cash and cash equivalents at end of the year		53,167	64,584

The notes on pages 12 to 31 form an integral part of these financial statements.

Accounting policies

1. General information

The principal activities of Citadel Securities (Europe) Limited ("CSEL" or "the Company") are proprietary trading in equities and financial derivatives across various European exchanges and liquidity provision in cleared swaps. The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Moor House, 120 London Wall, London EC2Y 5ET.

2. Statement of compliance

The individual financial statements of CSEL have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006 ("the Act").

3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated. The Company has adopted FRS 102 in these financial statements. Details of the transition to FRS 102 are disclosed in note 22.

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value (as explained below). The Company continues to review and update its accounting policies, in accordance with the requirements of section 10 of FRS 102 ("Accounting Policies, Estimates and Errors").

The format of the profit and loss account has been amended from that prescribed in the Act as, in the opinion of the directors, the presentation adopted better reflects the nature and activities of the business of the Company. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Foreign currencies

The Company's functional and presentation currency is the U.S. Dollar. Transactions in foreign currencies are translated into U.S. Dollars at the exchange rate ruling on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. Dollars at the rate of exchange ruling at the balance sheet date. The applicable exchange rates at 31 December 2015 are as follows:
USD / GBP : 1.4737
USD / EUR : 1.0861

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income within net revenue.

Accounting policies (continued)

Net revenue

Net revenue has been disclosed instead of turnover as this more meaningfully reflects the nature and results of the Company's activities. Net revenues are recorded on a trade date basis. Realised and change in unrealised gains (losses) and commissions and related costs of executing transactions are included in net revenue on the statement of comprehensive income.

Interest income and expense

Interest income (expense) is recognized on an accrual basis. Premiums (discounts) on debt obligations are amortised (accreted) over the life of the instrument using the effective yield method and are included within net finance expense on the statement of comprehensive income.

Income from trading

Income from trading comprises: net trading interest income which is recognised as earned; foreign exchange gains or losses; and gains or losses on trading activity. Dividends received and paid on equity securities are recognised as income or expense on the ex-dividend date.

Fees and commission expense

Fees and commission expense principally comprise brokerage, exchange, clearing, market intermediation and swap fees associated with trading activity. The fees are recognised in net revenue on an accrual basis as the service is provided.

Recognition and derecognition of financial assets and liabilities

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The Company recognises a financial asset or liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. Derecognition of financial assets will occur when the contractual rights to the cash flows from the assets expire. Derecognition of financial liabilities occur when the contractual obligations to make payments have been extinguished. Measurement of financial assets and liabilities is based on the fair value of the instruments.

Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities at fair value through profit and loss include securities owned and securities sold, but not yet purchased, and derivative financial instruments. In accordance with section 12 of FRS 102, the initial measurement is made at fair value on the trade date, which is normally the transaction price. Such financial instruments are carried in the statement of financial position at fair value and any subsequent adjustments to fair values are recognised in net revenue on the statement of comprehensive income in the period in which they arise. Substantially all the Company's securities owned and carried at fair value, are held at a major financial institution which is permitted by contract or custom to sell or repledge these securities.

Accounting policies (continued)

Valuation of financial instruments
The Company measures and reports financial instruments at fair value. The fair value is based on available information and represents the Company's best estimate of fair value. The fair value determined may not necessarily reflect the amount which might ultimately be realized in an arm's length sale or liquidation of the financial instruments and such differences may be material. All financial instruments are valued at the close of business on each date of determination in the relevant time zone as determined by the Company. Valuations are not changed subsequent to such closing time, irrespective of whether part or all of a group of financial instruments continue to trade after the close of business and prior to the next opening of business in such time zone.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable, willing parties. Where available, fair value is based on observable market prices. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of estimation and judgment by the Company, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

FRS 102 has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritises inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of input that is significant to its fair value measurement. The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.; and
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input, individually or in the aggregate, that is significant to the fair value measurement.

Financial instruments are valued taking into consideration third party pricing sources to the extent possible. Third party pricing sources may include one or more exchanges, organized dealer markets, electronic trading facilities or brokers and dealers. For certain financial instruments, indications of fair value may be quoted by a limited number of market participants. The Company may arbitrate the price information received in determining the best estimate of fair value for the financial instrument.

Financial instruments which are traded on one or more exchanges, organized dealer markets or electronic trading facilities are generally valued at their closing price on the exchange upon which they are principally traded. Such financial instruments are generally classified within level 1 of the fair value hierarchy. Valuation adjustments may be applied to the quoted market prices to the extent that exchange-traded financial instruments are infrequently traded.

Accounting policies (continued)

Valuation of financial instruments (continued)

The following describes the valuation techniques applied to the Company's major classes of assets and liabilities to measure fair value, including an indication of the level within the fair value hierarchy in which each asset and liability is generally classified. Where appropriate, the description includes details of the valuation models and the key inputs to those models.

Cash and cash equivalents

The Company defines cash and cash equivalents on the statements of financial position and cash flows as cash and funds held in liquid investments with original maturities of 90 days or less, as well as investments in money market funds. Substantially all cash and cash equivalents are held at various global institutions. The money market investments are valued based on the reported net asset value and are classified within level 1 of the fair value hierarchy.

Equity securities

Exchange-traded equity securities

Exchange-traded equity securities are valued using exchange quoted market prices and are categorized within level 1 of the fair value hierarchy.

Non-exchange-traded equity securities

The Company's non-exchange-traded equity securities typically represent securities that are traded in over-the-counter ("OTC") markets. These non-exchange-traded equity securities are generally valued using broker quotes or OTC market quotes and are classified within level 1 or level 2 of the fair value hierarchy.

U.S. government securities

U.S. government securities are valued using quoted market prices and are categorized within level 1 of the fair value hierarchy.

Derivative assets and derivative liabilities

Exchange-traded derivative financial instruments

Exchange-traded derivative financial instruments include warrants and futures contracts, which are valued at the closing exchange price and are classified within level 1 of the fair value hierarchy.

Accounting policies (continued)

<u>*Valuation of financial instruments (continued)*</u>

OTC derivative financial instruments

OTC derivative financial instruments include foreign exchange forward and interest rate swap contracts.

Interest rate swap contracts are valued using market-based inputs to models, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Valuation models require a variety of inputs, including contractual terms, yield curves and correlations of such inputs. For interest rate swap contracts that trade in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment. Interest rate swap contracts are classified within level 2 of the fair value hierarchy as all of the inputs are observable. Also, to be consistent with industry practices, the Company's valuation of interest rate swap contracts is generally based on discounting in local currency at the overnight index swap rate.

Foreign exchange forwards generally trade in liquid markets and are valued using market-based inputs to models. Model inputs can generally be verified and model selection does not involve significant management judgment. Significant inputs include foreign exchange rates and/or foreign exchange forward points. These instruments are generally categorized within level 2 of the fair value hierarchy.

The Company has a swap agreement with a related entity as described in note 16. Valuation of the swap is determined to be zero as the agreement can be terminated with 1 day's notice. The amount shown as a receivable or payable to the swap counterparty is stated at fair value.

<u>*Netting arrangements*</u>

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if and only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise an asset and settle the liability simultaneously.

<u>*Transfers of financial assets*</u>

In general, transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. For transfers of financial assets that are not accounted for as sales, in which the transferor retains control of the financial assets, the financial assets remain on the statement of financial position and the transfer is accounted for as a collateralised financing. Securities purchased under agreements to resell ("reverse repurchase agreements"), and securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralised financings (see note 12).

Accounting policies (continued)

Transfers of financial assets (continued)

Reverse repurchase agreements and repurchase agreements are reported within operating activities on the cash flow statement. Reverse repurchase and repurchase agreements are short-term in nature and are recorded at the amounts of cash paid or received, plus accrued interest, on the statement of financial position. Reverse repurchase agreements and repurchase agreements with the same counterparty are reported on a net basis when there exists a legally enforceable right to set off the recognized amounts and when certain other criteria are met in accordance with applicable accounting guidance on offsetting. Interest income or expense on reverse repurchase and repurchase agreements is recognized over the term of the relevant agreement and included in net finance expense on the statement of comprehensive income.

Pension costs and other post retirement benefits

A related entity, Citadel Investment Group (Europe) Limited ("CIGE") makes payments into a group personal pension plan, operating as a defined contribution pension scheme. All staff are employed by CIGE which allocates an appropriate share of pension costs to the Company.

Related party transactions

The Company discloses transactions with related parties which are not wholly owned by the same parent entity. Where appropriate, transactions of similar nature are aggregated.

4. Transactions with related parties

Pursuant to an administrative services agreement, the Company incurs direct and allocable administrative expenses paid by Citadel LLC on behalf of the Company. For the year ended 31 December 2015, these expenses amounted to $415,000 and are included in the statement of comprehensive income (2014 - $935,000). As at 31 December 2015, a balance of $251,000 was payable to Citadel LLC (2014 - $138,000).

Pursuant to a cost sharing agreement, the Company incurs direct and allocable administrative expenses paid by CIGE on behalf of the Company. As per the terms of this agreement, CIGE allocates an appropriate share of its employment costs to the Company. For the year ended 31 December 2015, these expenses amounted to $26,990,000 and are included in the statement of comprehensive income (2014 – $14,049,000). As at 31 December 2015, a balance of $6,451,000 was payable to CIGE. As at 31 December 2014, a balance of $1,312,000 was receivable from CIGE.

During the year ended 31 December 2015, the Company purchased interest rate swaps with a fair value of $9,556,000 from Citadel Securities Swap Dealer LLC ("CSSD"), an affiliated swap dealer, for a net cash settlement of $9,556,000. For executing the transfer, CSSD reimbursed the Company for trading fees of $148,000 which are included in net revenue on the statement of comprehensive income.

Pursuant to a market intermediation agreement, the Company pays fees to CALC IV LP to facilitate the Company's trading activities. For the year ended 31 December 2015, these fees amounted to $39,307,000 and are included in net revenue in the statement of comprehensive income (2014 – $34,255,000). As at 31 December 2015, a balance of $3,616,000 was payable to CALC IV LP (2014 - $3,650,000).

5. Administrative expenses

Operating profit is stated after charging:

	2015 $000	2014 $000
Staff costs (note 8)	10,391	5,290
Auditors' remuneration		
- audit services pursuant to legislation	245	262
- other services	68	73
Irrecoverable VAT	2,494	1,470
Fund administration services	909	934
Other allocated costs from group companies	14,207	7,889
	28,314	15,918

6. Net finance expense

	2015 $000	2014 $000
Interest receivable and similar income		
Collateralised agreements	170	5
U.S. government securities	409	-
Bank accounts and short term deposits	87	35
	666	40
Interest payable and similar charges		
Collateralised agreements	(93)	-
U.S. government securities	(454)	-
Bank accounts and short term deposits	(1,477)	(1,235)
	(2,024)	(1,235)
Net finance expense	(1,358)	(1,195)

7. Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	2015 $000	2014 $000
Current tax		
UK corporation tax on profit for the year	26,734	25,837
Adjustments in respect of prior years	-	(88)
Total current tax	26,734	25,749

The tax assessed for the year is higher than the average rate of corporation tax in the UK. The differences are explained below:

Tax on profit on ordinary activities (continued)

	2015	2014
	$000	$000
Profit on ordinary activities before taxation	129,373	121,103
Profit on ordinary activities before tax multiplied by the average rate of corporation tax in the UK of 20.25% (2014 – 21.5%)	26,198	26,037
Expenses not deductible for tax purposes	615	-
Foreign exchange differences	(79)	(200)
Adjustments in respect of prior years	-	(88)
Current tax charge for the year	26,734	25,749

Factors affecting current and future tax charges

The standard rate of corporation tax in the UK changed to 20% with effect from 1 April 2015. The Company will also be subject to a Bank Corporation Tax surcharge of 8% on profits from 1 January 2016.

8. Staff costs

	2015	2014
Staff costs are made up as follows:	$000	$000
Wages, salaries and bonus payments	8,823	4,667
Social security costs	1,182	604
Pension costs	279	19
Other staff costs	107	-
	10,391	5,290

9. Directors' remuneration

	2015	2014
Total Directors' remuneration:	$000	$000
Emoluments	175	125
Pension benefits	7	6
	182	131

	2015	2014
Remuneration in respect of the highest paid director:	$000	$000
Emoluments	141	88
Pension benefits	7	6
	148	94

These costs are included in staff costs (note 8).

10. Trade receivables

	2015 $000	2014 $000
Interest receivable	69	1
Amounts owed by brokers	30,848	13,072
Amounts owed by clearing houses	26,282	-
Amounts owed by related entities	-	1,312
	57,199	14,385

Amounts owed by brokers principally represent primarily collateral and unsettled trades with the Company's brokers, specifically Barclays Bank plc (A2), Morgan Stanley & Co. International Plc (A1), Bank of America Merrill Lynch International Limited (Baa1) and Deutsche Bank AG (A2). The ratings disclosed are the long term issuer ratings per Moody's.

Amounts owed by clearing houses represent collateral and deposits placed at LCH Clearnet Limited related to the Company's SwapClear membership.

Amounts owed by related entities are unsecured and repayable on demand.

11. Fair value disclosures

The table below presents by level within fair value hierarchy, financial assets and liabilities measured at fair value as at 31 December 2015.

Financial assets at fair value through profit or loss

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
US government securities	33,383	-	-	33,383
Equity securities	84,885	96	-	84,981
Derivative assets				
Interest rate contracts	182	905,442	-	905,624
Foreign exchange contracts	-	1,591	-	1,591
Equity contracts	18	323	-	341
Derivative assets before netting	200	907,356	-	907,556
Netting	-	(897,165)	-	(897,165)
Total derivative assets	200	10,191	-	10,391
Total	118,468	10,287	-	128,755

Financial liabilities at fair value through profit or loss

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
US government securities	48,328	-	-	48,328
Equity securities	70,025	16	-	70,041
Derivative liabilities				
Interest rate contracts	7	897,779	-	897,786
Foreign exchange contracts	-	727	-	727
Equity contracts	11	268	-	279
Derivative liabilities before netting	18	898,774	-	898,792
Netting	-	(897,165)	-	(897,165)
Total derivative liabilities	18	1,609	-	1,627
Total	118,371	1,625	-	119,996

Fair value disclosures (continued)

The table below presents by level within fair value hierarchy, financial assets and liabilities measured at fair value as at 31 December 2014.

Financial assets at fair value through profit or loss

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equity securities	110,537	-	-	110,537
Derivative assets				
Foreign exchange contracts	-	447	-	447
Equity contracts	-	233	-	233
Derivative assets before netting	-	680	-	680
Netting	-	(213)	-	(213)
Total derivative assets	-	467	-	467
Total	110,537	467	-	111,004

Financial liabilities at fair value through profit or loss

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equity securities	68,656	-	-	68,656
Derivative liabilities				
Foreign exchange contracts	-	65	-	65
Equity contracts	-	172	-	172
Derivative liabilities before netting	-	237	-	237
Netting	-	(222)	-	(222)
Total derivative liabilities	-	15	-	15
Total	68,656	15	-	68,671

12. Collateralised transactions

	2015	2014
	$000	$000
Assets - Reverse repurchase agreements		
Gross amounts	84,825	13,968
Amounts offset in the statement of financial position	(33,542)	-
Net amounts presented in the statement of financial position	51,283	13,968
Liabilities - Repurchase agreements		
Gross amounts	33,542	-
Amounts offset in the statement of financial position	(33,542)	-
Net amounts presented in the statement of financial position	-	-

The Company enters into reverse repurchase agreements and repurchase agreements to, among other things, acquire securities to cover short positions and settle other securities obligations and to finance the Company's financial instruments. The Company manages credit exposure arising from such transactions by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties.

Reverse repurchase agreements and repurchase agreements are collateralised primarily by receiving or pledging securities, respectively. Typically, the Company has rights of rehypothecation with respect to the securities collateral received under reverse repurchase agreements. The counterparty generally has rights of rehypothecation with respect to the securities collateral received from the Company under repurchase agreements.

The Company monitors the fair value of underlying securities in comparison to the related receivable or payable and as necessary, transfers or requests additional collateral as provided under the applicable agreement to ensure transactions are adequately collateralised.

As of December 31, 2015, as a result of entering into reverse repurchase agreements, the Company obtained collateral with a fair value of $84,562,000 (2014 - $13,968,000). Also as of December 31, 2015, the Company had repurchase agreements with collateral posted having a fair value of $33,451,000 (2014 - $0). The fair value of the collateral obtained and posted includes accrued coupon interest. The sale and purchase obligations under reverse repurchase agreements and repurchase agreements are collateralised by obligations of the U.S. government, to the extent offsetting agreements with the same counterparty have not otherwise reduced the Company's or counterparties' gross exposure.

13. Other creditors

	2015	2014
	$000	$000
Amounts owed to brokers	7,367	31,528
Collateral and interest owed to swap counterparty	18,160	18,160
Amounts owed to related parties	10,391	3,842
Interest payable	144	-
Corporation tax payable	11,476	13,469
Accruals and deferred income	3,417	3,494
	50,955	70,493

14. Collateral and netting

The Company enters into master netting agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if and only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise an asset and settle the liability simultaneously.

The Company holds 100% cash collateral from the swap counterparty to mitigate credit risk, as described in note 16. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Interest is payable on the collateral, and any outstanding balance is repayable on termination of the swap agreement. Interest earned on collateral placed with the clearing broker is repaid to the provider of the collateral by way of the swap agreement in place with that entity.

15. Derivative financial instruments

The Company transacted in derivative financial instruments during the year including exchange-traded options, warrants and futures and OTC swaps. These are instruments whose values are based, in part, upon underlying assets, indices, or reference rates or a combination of these factors, and generally represent future commitments to exchange cash flows, or to purchase or sell other financial instruments at specified future dates. Exchange-traded derivatives are standardised and include warrants and futures contracts.

Derivative financial instruments (continued)

Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments including market and credit risk. Derivatives are typically also subject to certain additional risks, such as those resulting from leverage and significantly less liquidity, to which the underlying financial instruments may not be exposed. The Company may use derivative financial instruments in the normal course of its business to take speculative investment positions as well as for risk management purposes. The Company's derivative financial instrument risks should not be viewed in isolation, as they should be considered on an aggregate basis along with the Company's other investing activities. The Company manages the risks associated with its derivative financial instruments along with its speculative investing activities in cash instruments as part of its overall risk management.

Futures contracts are commitments to either purchase or sell a financial instrument at a future date for a specified price. These contracts may, in general, be settled in cash or through delivery of the underlying instrument. Futures contracts can be closed out at the discretion of the Company. However, illiquidity in the market could prevent the timely close-out of any unfavourable positions or require the Company to hold those positions until the delivery date, regardless of the changes in their value or the Company's investment strategy. Exposure to market risk is managed in accordance with risk limits set by the Company's buying or selling instruments or entering into offsetting positions. Market risk is mitigated by the use of a swap, as described in note 16.

Interest rate derivative financial instruments are contractual agreements to exchange periodic interest payment streams calculated on a predetermined notional principal amount. Interest rate derivative financial instruments generally involve one party paying a fixed interest rate and the other party paying a variable interest rate. These instruments can involve market risk and/or credit risk in excess of the amount recognised on the statement of financial position.

The following table sets forth the fair value and outstanding notional of the Company's derivative contracts by underlying risk exposure as of 31 December 2015. The table also presents information about the offsetting of derivative instruments Gross derivative contracts in the table below exclude the effect of netting and do not necessarily represent the Company's actual exposure which may ultimately be reduced by netting agreements. Net derivative contracts represent the fair value of derivative assets and liabilities after the netting of positions by counterparty, when the legal right of offset exists and when certain other criteria are met in accordance with applicable accounting guidance on offsetting.

Derivative financial instruments (continued)

The table below presents derivative fair values and outstanding notional at 31 December 2015.

	Derivative Assets		Derivative Liabilities	
	Fair value $000	Notional $000	Fair value $000	Notional $000
Interest rate contracts	905,624	88,655,022	897,786	84,709,739
Foreign exchange contracts	1,591	187,644	727	122,144
Equity contracts	341	27,675	279	32,314
Total gross derivative contracts	907,556	88,870,341	898,792	84,864,197
Total counterparty netting	(897,165)		(897,165)	
Net derivative contracts	10,391		1,627	

The table below presents derivative fair values and outstanding notional at 31 December 2014.

	Derivative Assets		Derivative Liabilities	
	Fair value $000	Notional $000	Fair value $000	Notional $000
Interest rate contracts	-	-	-	-
Foreign exchange contracts	447	10,602	65	33,117
Equity contracts	233	24,645	172	20,307
Total gross derivative contracts	680	35,247	237	53,424
Total counterparty netting	(213)		(222)	
Net derivative contracts	467		15	

16. Financial risk management

The Company has exposure to the following risks from its use of financial instruments: market risk, credit risk and liquidity risk. This note presents information about the Company's exposure to each of these risks, its policies and processes for measuring and managing risk, the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Financial risk management (continued)

Market risk
Market risk is the risk of loss in the value of financial instruments due to changes in market conditions. Market risk is directly impacted by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. Categories of market risk include the following:

- Interest rate risk is the risk of loss due to changes in the level, slope and curvature of yield curves.
- Foreign exchange risk is the risk of loss due to the fluctuation of exchange rates. The valuation of the portfolio is subject to foreign exchange risk arising from non-U.S. Dollar positions.
- Equity price risk is the risk of loss due to changes in process and volatilities of individual equities, baskets of equities and equity indices.

The Company attempts to manage market risk in various ways, including through diversifying exposures, placing limitations on position sizes and hedging in related securities or derivative financial instruments.

The Company's framework managing market risk is consistent with, and part of, the Citadel Group framework. Risk is monitored first of all by the trading desk, for the business line as a whole and across each legal entity. The desk monitors positions and risk factors through the firm's real time front office risk monitor that provide business line, strategy and legal entity views. Secondly, risk is monitored by the Portfolio Construction and Risk Group ("PCG"), the firm wide independent risk management function. The PCG view is independent of the trading desk and the view covers all trading activity. PCG produces risk reports every 15 minutes for the entity broken down by trading desk so that intra-day risk can be monitored against agreed thresholds. PCG runs a global monitoring tool by business line for the global business to allow traders and risk managers to view risk sensitivities, ex ante volatility and stress tests at multiple consolidation points including by individual position level, by business line, by legal entity and the global Citadel level.

Sensitivity analysis – market risk
The Company has a swap agreement with a related entity whereby the market risks in the equities market making and futures trading books are transferred to the swap counterparty in exchange for payments as prescribed by the agreement. During 2015, a total of $1,900,000 was paid by the Company to the swap counterparty (2014 - $1,900,000).

With respect to market risk in the interest rate swap market making trading book, the Company is exposed to interest rate risk. Interest rate sensitivities are calculated using a discounted cash flow ('DCF') model to estimate the change in the instrument present value for prescribed bumps to the interest rates along the curve. Risk tolerances are set and monitored to ensure that risk is within agreed tolerances both in total and for maturity ranges within the yield curve. As at 31 December 2015, a 200 basis point shock to interest rates would have resulted in an economic loss of $180,000.

Financial risk management (continued)

In respect of non-trading assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates on a daily basis.

The Company also monitors Stressed VaR to simulate risk under stressed market conditions and guidelines are set for this both by business line and for the entity as a whole, these are monitored by PCG as part of the overall market risk framework for the entity.

Credit risk

Credit risk is the risk of financial loss due to the failure of a counterparty to perform according to the terms of a contract. The Company's credit risk arises mainly from cash placed with banks, securities financing transactions and margin placed with brokers and clearing organisations. The credit risk associated with the swap to the related entity is mitigated by the holding of 100% cash collateral from the counterparty. As at 31 December 2015, the amount of collateral held was $18,000,000 (2014 - $18,000,000).

The Company clears its futures and equity securities transactions through a highly rated clearing broker, which also maintains the Company's positions. These positions are recorded as financial assets or liabilities at fair value through profit and loss. In addition the clearing broker provides the majority of the financing for these securities. This can result in a concentration of credit risk with the clearing broker.

The credit risk of exchange-traded and/or centrally cleared derivatives ("cleared derivatives"), such as exchange traded futures and cleared OTC derivative financial instruments, is reduced by the rules or regulatory requirements of the individual exchanges and clearing houses on which these instruments are traded and cleared. One of the requirements of the exchanges and clearing houses is that cleared derivatives are margined on a daily basis, which reduces the credit risk related to such cleared derivatives.

All of the Company's interest rate swaps are either cleared through a highly rated clearing broker, or self-cleared through the Company's SwapClear membership at LCH Clearnet. As a result of being a direct clearing member the company has had to contribute to the clearing house default fund which is a credit risk exposure for the Company.

Financial risk management (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was as follows:

	2015 $000	2014 $000
Amounts owed by brokers	30,848	13,073
Amounts owed by clearing houses	26,282	-
Financial assets at fair value through profit and loss	128,755	111,004
Financial liabilities at fair value through profit and loss	(119,996)	(68,671)
Amounts owed to brokers	(7,367)	(31,528)
Net amounts receivable from brokers and clearing houses	58,522	23,878
Net amounts advanced under reverse repurchase agreements	51,283	13,968
Cash and cash equivalents	53,167	64,584
	162,972	102,430

The Company has no financial assets which are past due or impaired. Cash and cash equivalents are held at JP Morgan Chase and The Bank of New York; JP Morgan Chase is rated Aa2 by Moody's, and The Bank of New York is rated Aa1 by Moody's.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company is subject to Individual Liquidity Adequacy Standards under BIPRU 12 and therefore assesses the adequacy of its liquid resources by reference to its Individual Liquidity Adequacy Assessment ("ILAA"). The ILAA includes an assessment of the Company's compliance with the FCA systems and controls requirements and detailed stress testing of the liquidity position. The Company seeks to maintain a high quality liquidity buffer of at least $35m as part of its liquid resources. The policy for managing liquidity is to ensure that the Company will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

Substantially all of the Company's financial liabilities are payable on demand or in accordance with normal trade settlement cycles, therefore no separate disclosure of contractual maturities is made in these financial statements. The Company maintains a highly liquid statement of financial position with liquidity ratio of 86.56% as 31 December 2015, representing liquid assets as a percentage of net asset value.

Financial risk management (continued)

Capital Management

The Company is regulated by the Financial Conduct Authority ("FCA"), and hence is subject to externally imposed capital requirements. The Company monitors Tier 1 capital (share capital and audited reserves) against FCA regulations on a regular basis. The Company has the full support of its parent entity in ensuring that a regulatory capital surplus is maintained at all times. At 31 December 2015, Tier 1 capital was $107,361,000 (2014 - $45,449,000). The Company's individual capital guidance was $54,762,000 (2014 - $15,799,000) and the Company's surplus total capital over individual capital guidance was $52,599,000 (2014 - $29,650,000).

17. Called up share capital

	2015	2014
	$000	$000
Authorised		
10,000,000 ordinary shares of $1 each (2014 – 10,000,000)	10,000	10,000
Called, allotted and fully paid		
8,000,000 ordinary shares of $1 each (2014 - 8,000,000)	8,000	8,000

18. Reconciliation of operating profit to net cash inflow from operating activities

	2015	2014
	$000	$000
Operating profit	130,731	122,297
Increase in trade receivables	(42,746)	(4,941)
Decrease / (increase) in financial assets at fair value through profit and loss	(17,751)	5,701
Decrease / (increase) in reverse repurchase agreements	(37,315)	7,269
Increase in financial liabilities at fair value through profit and loss	51,325	4,102
Decrease in other creditors	(18,332)	(12,048)
Net cash inflow from operating activities	65,912	122,380

19. Dividends

	2015	2014
	$000	$000
Dividends paid $6.00 per share (2014 $10.13 per share)	47,963	81,000
	47,963	81,000

Dividends for the year ended 31 December 2014 of $33,000,000 were paid in 2015. The Directors approved the payment of an interim dividend for the year ended 31 December 2015 of $14,963,000 which was fully paid during 2015.

20. Parent undertaking and ultimate controlling party

The Company's immediate parent at 31 December 2015 was CLP Holdings Four LLC ("CLP4"), a Delaware limited liability company. CLP4 is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements. The ultimate controlling party is Kenneth Griffin.

21. Events after the Balance Sheet Date

Following a corporate reorganisation effective 1 January 2016, the Company's immediate parent became CSHC Europe LLC, a newly formed Delaware limited liability company. The ultimate controlling party is still Kenneth Griffin.

22. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The date of transition to FRS 102 was 1 January 2014. The result of transition to FRS 102 had no impact on the profit for the financial year or the total comprehensive income. Certain financial statement line items have been reclassified to more appropriately reflect the requirements of FRS 102. Additionally other financial statement note disclosures have also been updated to comply with the requirements of FRS 102.