1. Organization

KBC Securities USA, Inc. (formerly known as KBC Financial Products USA, Inc.) (the "Company"), a Delaware corporation, was formed on December 8, 1998. On October 1, 2015 the Company was sold to KBC Bank NV, which was designated as the Parent, and it became the sole stockholder of the Company. KBC Group NV is the ultimate Parent Company of KBC Bank NV. On December 14, 2015 the former parent of the Company, KBC Financial Holding, Inc., was dissolved.

The Company is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is an Introducing Broker Dealer which acts as a chaperoning broker-dealer on an agency basis Pursuant to Rule 15a-6 with its foreign affiliate. The Company is in compliance with Rule 15a-6 under the Securities Exchange Act of 1934 ("Rule 15a-6"). The Company engages in "all-or-none" bond economics offerings, and equity private placement as a co-manager (in name only), and acts as a selling agent for equity securities underwriting.

2. Significant Accounting Policies

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require management to use its judgment in making certain estimates. Such estimates may differ from the amounts ultimately realized due to uncertainties inherent in any such estimation process.

In accordance with industry practice, customer transactions are recorded on a settlement date basis, while the related commission and agency revenues and expenses are recorded on a trade date basis.

The Company is included in the consolidated federal income tax return filed by KBC Financial Holding, Inc. for the period ended September 30, 2015. The Company will file a separate federal income tax return for the quarter ended December 31, 2015. The Company will be included in the combined New York State and combined New York City income tax returns filed by KBC Bank for the year ended December 31, 2015.

The Company provides for income taxes in accordance with ASC No. 740, *Income Taxes* ("ASC No. 740"). The Company records deferred income taxes using a liability approach for financial accounting and reporting, which results in the recognition of deferred tax assets and liabilities to the extent such assets and liabilities arise. Deferred tax assets are only recognized to the extent that it is more likely than not that the Company will realize the tax benefit in future years.

2. Significant Accounting Policies (continued)

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or the entire deferred tax asset will not be realized.

ASC No. 740 clarifies the accounting for uncertainty in income taxes, by prescribing a recognition threshold and measurement attribute a tax position is required to meet before being recognized in the financial statements. ASC No. 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company accounts for interest and penalties as a component of income tax expense.

The Company follows ASC No. 450, *Contingencies* which recognizes the contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

3. Cash

The Company reflects cash on deposit held at a bank in the amount of $2,262,984 which is reflected on the Statement of Financial Condition as Cash.

4. Underwriting Business

The Company participates in all-or-none underwritings, which are offerings of a security in which the entire issue must be sold or the offering is void. With this arrangement the lead underwriter has the ability to cancel the offering if the entire issue is not sold. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting cycle have been completed and the amount of the underwriting revenue has been determined and collection is reasonably assured. These fees are non-recurring in nature.

For the year ended December 31, 2015, the Company reported revenue related to the underwriting in the amount of $793,824, and is reflected as Underwriting Fees in the Statement of Operations, of which $556,110 was from third parties and $237,714 was from affiliates; the Company reported expenses related to the underwriting in the amount of $34,218, and is reflected as Other Expenses in the Statement of Operations. At December 31, 2015, the Company reported $89,167 as underwriting fee receivables of which was reported in Other Assets in its Statement of Financial Condition.

The Company translates its foreign currency denominated assets and liabilities at the current exchange rate at the Statement of Financial Condition date.

5. Related-Party Transactions

The Company acts as agent for KBC Securities NV in certain transactions with customers. The Company and its affiliates provide to each other certain support and other services for which they compensate each other pursuant to service agreements. For the year ended December 31, 2015, the revenue and expense related to these services are \$234,718 and \$36,823, respectively, and are reflected in Commissions, agency and service fees and Clearing and execution costs in the Statement of Operations, respectively. At December 31, 2015, the Company reported \$38,924 and \$7,516 as Receivables from and Payable to Affiliates respectively relating to this arrangement. Any such balance is payable on demand and is paid in the normal course of business.

The Company has an expense sharing agreement with KBC Securities NV, a foreign affiliate of the Company, which governs the allocation of expenses between the Company and KBC Securities NV with respect to the global system infrastructure operated and maintained by KBC Securities NV which is used by the Company. In connection with this arrangement, the Company recorded \$39,823 for the year ended December 31, 2015, and this amount is reported as Other expenses in the Statement of Operations. At December 31, 2015, the Company reported \$9,680 as Payable to Affiliates relating to this arrangement. Any such balance is payable on demand and is paid in the normal course of business.

The Company has an expense sharing agreement with KBC Bank NV, New York Branch ("KBC Bank NV"), an affiliate of the Company, which governs the allocation of expenses between the Company and KBC Bank NV with respect to the shared resources such as rent for office space and costs of shared personnel and equipment. In connection with this arrangement, the Company recorded approximately \$221,100 for the year ended December 31, 2015, of which \$179,100 is reported as Other expenses and \$42,000 as Compensation and personnel related expenses in the Statement of Operations. At December 31, 2015, the Company reported \$18,227 and \$122,302 as Receivable from and Payable to Affiliates respectively. Any such balance is payable on demand and is paid in the normal course of business.

6. Net Capital and Other Regulatory Requirements

As a registered broker-dealer and a member of FINRA, the Company is subject to Rule 15c3-1 of the SEC, which specifies uniform net capital requirements for its registrants. The Company has elected the alternative net capital method permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined, equal to the greater of $250,000 or 2% of aggregate debit items arising from customer transactions, as defined. At December 31, 2015, the Company's net capital was $3,173,303, which exceeds the minimum requirement by $2,923,303.

With respect to delivery-versus-payment and receipt-versus-payment transactions in foreign securities for which the Company acts as agent for its foreign affiliates, the Company is subject to Rule 15c3-3 of the SEC as required under Rule 15a-6 of the SEC and relevant interpretations thereof. Although the Company maintains approximately $1,500,059 as Cash segregated in compliance with Rule 15c3-3 of the SEC, the computation as of December 31, 2015 did not reflect a requirement.

Advances to affiliates, dividend payments, and other equity withdrawals are subject to certain notifications and other requirements of Rule 15c3-1 and other regulatory bodies.

The Company is required to compute a 15c3-3 calculation pursuant to SEC Rule 15c3-3; however as per the SEC it has been deemed appropriate to file an exemption report based on SEC FAQ6 and SEC release No. 34-70073.

7. Defined Contribution Plan

KBC Financial Holding, Inc. maintains a 401(k) defined contribution plan covering all eligible employees. Participants are permitted, within limitations imposed by tax law, to make pretax contributions to the plan. The Parent's contributions to the plan are based on employee contributions and compensation. For the period ended November 30, 2015 KBC Financial Holding Inc. contributed $23,000 to the plan.

8. Income Taxes

Income tax benefit/(expense) for the year ended December 31, 2015 consists of the following:

	Current	Deferred	Total
		(In Thousands)	
Federal	$ –	$ –	$ –
State and local	(2)	18	16
Total	$ (2)	$ 18	$ 16

8. Income Taxes (continued)

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts used for income tax purposes.

The net deferred tax assets at December 31, 2015 which are reflected in Other assets consist of:

	Deferred Tax Assets	Valuation Allowance	Net Deferred Tax Assets
		(In Thousands)	
Federal	$ 9,410	$ (9,410)	$ –
State and local	2,529	(2,529)	–
Total	$ 11,939	$ (11,939)	$ –

The Company's deferred tax assets at December 31, 2015 result primarily from federal, state, and local net operating losses and accrued deferred bonus expenses. As of December 31, 2015, the Company has net operating loss carryforwards that expire between 2028 through 2034 which amount to $26,763,701, $39,313,790, and $6,834,564 for federal, state, and local tax purposes, respectively.

The Company maintains a full valuation allowance against its deferred tax assets to reduce its deferred tax assets to amounts the Company believes are likely to be realized. In assessing the need for a valuation allowance, the Company considers all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance.

As of December 31, 2015, the Company has state and local tax receivable from its Parent in the amount of $18,227 which is calculated based on the Company's receivable from the parent due to the utilization of New York State Net Operating Loss carryforward in the current year. These amounts are included in Other assets and deferred taxes. The Company has state and local taxes payable of $2,518 as of December 31, 2015 which are calculated based on the Company's capital. These amounts are included in Other liabilities and accrued expenses and current taxes.

The Company is included in the consolidated federal income tax return filed by KBC Financial Holding, Inc. for the period ended September 30, 2015. The Company will file a separate federal income tax return for the quarter ended December 31, 2015. The Company will be included in the combined New York State and combined New York City income tax returns filed by KBC Bank for the year ended December 31, 2015. The former Parent's 2012, 2013 and 2014 Federal (consolidated); New York State and New York City corporate income tax returns are open for review.

9. Subsequent Events

The Company has evaluated subsequent events through February 29, 2016, the date the financial statements are available to be issued, and has determined that there are no subsequent events which require disclosure in the financial statements.