

**National Securities Clearing Corporation**

**Consolidated Financial Statements**

**September 30, 2011**

# Consolidated Balance Sheets

(Unaudited)

(IN THOUSANDS, EXCEPT SHARE DATA)

September 30,

2011

2010

<b>Assets</b>		
Cash and cash equivalents	<b>\$5,733,391</b>	\$3,706,441
Investments in marketable securities	<b>86,007</b>	60,302
Accounts receivable	<b>43,288</b>	16,604
Clearing fund	<b>295,272</b>	251,984
Fixed assets, less accumulated depreciation and amortization of \$113,930 and \$104,387 at September 30, 2011 and 2010, respectively	<b>50,208</b>	44,708
Deferred income taxes	<b>26,420</b>	36,213
Other assets	<b>1,689</b>	1,867
Total assets	<b>6,236,275</b>	4,118,119
<b>Liabilities and Shareholder's Equity</b>		
Liabilities:		
Accounts payable and other liabilities	<b>44,101</b>	51,739
Payable to participants	<b>52,926</b>	104,478
Long-term debt	<b>30,332</b>	8,926
Clearing fund:		
Cash deposits	<b>5,669,186</b>	3,595,708
Other deposits	<b>295,272</b>	251,984
Total liabilities	<b>6,091,817</b>	4,012,835
Commitments and contingent liabilities		
Shareholder's equity:		
Common stock, \$.50 par value: 30,000 shares authorized, 20,000 shares issued and outstanding	<b>10</b>	10
Paid in capital	<b>6,649</b>	6,649
Net unrealized loss on derivative, net of tax	<b>(697)</b>	-
Retained earnings	<b>138,496</b>	98,625
Total shareholder's equity	<b>144,458</b>	105,284
Total liabilities and shareholder's equity	<b>\$6,236,275</b>	\$4,118,119

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Income

(Unaudited)

(IN THOUSANDS)

For the Nine Months Ended September 30,

2011

2010

	2011	2010
<b>Revenues:</b>		
Clearing services	\$143,304	\$98,973
Distribution and other services	67,516	63,223
Interest income	3,321	5,862
Total revenues	214,141	168,058
Refunds to participants	(3,045)	(5,572)
<b>Net revenues</b>	<b>211,096</b>	<b>162,486</b>
<b>Expenses:</b>		
Employee compensation and related benefits	78,999	67,232
Information technology	18,775	14,254
Professional and other services	37,626	26,836
Occupancy	7,770	7,700
Other general and administrative	3,151	3,148
<b>Total expenses</b>	<b>146,321</b>	<b>119,170</b>
Income before income taxes	64,775	43,316
Income Taxes	25,543	17,326
<b>Net income</b>	<b>\$39,232</b>	<b>\$25,990</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Income

(Unaudited)

(IN THOUSANDS)

For the Three Months Ended September 30,

2011

2010

<b>Revenues:</b>		
Clearing services	50,242	31,035
Distribution and other services	23,384	20,358
Interest income	999	2,444
Total revenues	74,625	53,837
Refunds to participants	(908)	(2,352)
<b>Net revenues</b>	<b>73,717</b>	<b>51,485</b>
<b>Expenses:</b>		
Employee compensation and related benefits	27,681	22,214
Information technology	6,836	4,833
Professional and other services	13,275	9,887
Occupancy	2,735	2,638
Other general and administrative	985	1,268
<b>Total expenses</b>	<b>51,512</b>	<b>40,840</b>
Income before income taxes	22,205	10,645
Income Taxes	7,556	4,240
<b>Net income</b>	<b>\$14,649</b>	<b>\$6,405</b>

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# Consolidated Statements of Cash Flows

(Unaudited)	<i>(IN THOUSANDS)</i>	
For the Nine Months Ended September 30,	2011	2010
Cash flows from operating activities:		
Net income	\$39,232	\$25,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	6,755	7,515
Net premium amortized on securities owned	327	686
Deferred income taxes	(2,502)	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(16,978)	1,109
Decrease (increase) in other assets	107	(153)
(Decrease) in accounts payable and other liabilities	(62,895)	(20,941)
Increase in payable to participants	17,574	64,205
Increase in clearing fund cash deposits	2,909,440	851,581
Net cash provided by operating activities	2,891,060	929,992
Cash flows from investing activities:		
Maturities of investments in U.S. Treasury securities	40,000	55,000
Purchases of investments in U.S. Treasury securities	(76,144)	(40,577)
Purchases of fixed assets	(9,577)	(11,165)
Net cash (used in) provided by investing activities	(45,721)	3,258
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(3,105)	(1,830)
Net cash used in financing activities	(3,105)	(1,830)
Net increase in cash and cash equivalents	2,842,234	931,420
Cash and cash equivalents, beginning of period	2,891,157	2,775,021
Cash and cash equivalents, end of period	\$5,733,391	\$3,706,441
Supplemental disclosure:		
Income taxes paid, net of refunds	\$6,938	\$13,544
Interest paid	\$489	\$216

The accompanying notes are an integral part of these consolidated financial statements.

**NOTE 1**

National Securities Clearing Corporation (NSCC), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the financial community (participants), consisting principally of securities trade comparison, netting, risk management, clearance and settlement. The quarterly financial statements of NSCC, which have been prepared in accordance with accounting principles generally accepted in the United States of America, should be read in conjunction with the annual financial statements as of December 31, 2010. NSCC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC).

**NOTE 2**

NSCC's rules require certain participants to maintain clearing fund deposits based on calculated requirements, which at September 30, 2011 totaled \$4,714,901,000. The clearing fund is available to secure participants' obligations and certain liabilities of NSCC should they occur. All clearing fund cash and securities are recorded on the balance sheet. A summary of the total deposits held at September 30, 2011, including \$1,459,557,000 in excess of calculated requirements, follows:

(Dollars in thousands)	
Cash	\$5,669,186
Securities issued or guaranteed by the U.S. Government, at market value	295,272
Total	\$5,964,458

**NOTE 3**

With respect to Lehman Brothers Inc. (LBI), at September 30, 2011, DTCC and its subsidiaries held funds in the aggregate amount of \$93,404,000, including the balances of the Barclays Cash Deposit, Clearing and Participant Funds and matured MMI funds. As of September 30, 2011, DTCC had delivered to the Trustee of the LBI estate \$5,095,811,000 in cash and Clearing Fund securities valued at \$159,479,000, attributable to the LBI estate.

Management does not expect that there will be any losses attributable to the liquidation of the LBI accounts to be assessed against retained earnings or participants.