

Fixed Income Clearing Corporation

Financial Statements as of and for the years ended
December 31, 2013 and 2012 and for the three months
ended December 31, 2013 and 2012

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except for share data)

	As of December 31,	
	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 115,907	\$ 142,119
Investments in marketable securities	-	15,956
Accounts receivable	12,362	12,288
Note receivable from DTCC	-	20,000
Clearing fund:		
Cash deposits	8,894,443	7,669,887
Investments in marketable securities	200,000	200,000
Other deposits, at fair value	8,318,236	8,411,178
Other participant assets	7,148	6,516
Other current assets	1,794	25
Total current assets	17,549,890	16,477,969
NON-CURRENT ASSETS		
Premises and equipment - net of accumulated depreciation of \$28,346 and \$28,325 at December 31, 2013 and 2012, respectively	782	804
Intangible assets - net of accumulated amortization of \$71,301 and \$59,992 at December 31, 2013 and 2012, respectively	33,922	32,412
Total non-current assets	34,704	33,216
TOTAL ASSETS	\$ 17,584,594	\$ 16,511,185
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 4,860	\$ 70,519
Payable to participants	7,148	6,516
Clearing fund:		
Cash deposits and marketable securities	9,094,443	7,869,887
Other deposits, at fair value	8,318,236	8,411,178
Other current liabilities	3,097	1,844
Total current liabilities	17,427,784	16,359,944
NON-CURRENT LIABILITIES		
Other non-current liabilities	4,241	4,077
Total non-current liabilities	4,241	4,077
Total liabilities	17,432,025	16,364,021
COMMITMENTS AND CONTINGENT LIABILITIES (Note 16)		
SHAREHOLDER'S EQUITY		
Common stock, \$0.50 par value - 105,000 shares authorized, 20,400 shares issued and outstanding	10	10
Paid-in capital	26,617	26,617
Retained earnings	125,942	120,537
Total shareholder's equity	152,569	147,164
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 17,584,594	\$ 16,511,185

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF INCOME (In thousands)

	For the years ended December 31,	
	2013	2012
REVENUES:		
Clearing services	\$ 165,281	\$ 172,579
Total revenues	<u>165,281</u>	<u>172,579</u>
EXPENSES:		
Employee compensation and related benefits	61,706	61,147
Information technology	19,893	14,949
Professional and other services	55,010	51,422
Occupancy	7,854	6,919
Depreciation and amortization	11,330	8,635
Other general and administrative, net	(576)	2,291
Total expenses	<u>155,217</u>	<u>145,363</u>
Total operating income	<u>10,064</u>	<u>27,216</u>
NON-OPERATING INCOME (EXPENSE):		
Interest income	7,622	11,452
Refunds to participants	(7,456)	(11,085)
Interest expense	(427)	-
Total non-operating (loss) income	<u>(261)</u>	<u>367</u>
Income before taxes	9,803	27,583
Provision for income taxes	4,398	11,461
Net income	<u>\$ 5,405</u>	<u>\$ 16,122</u>

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF INCOME

(In thousands)

	For the three months ended December 31,	
	2013	2012
REVENUES:		
Clearing services	\$ 37,504	\$ 41,967
Total revenues	37,504	41,967
EXPENSES:		
Employee compensation and related benefits	7,112	17,526
Information technology	7,103	4,760
Professional and other services	14,535	15,170
Occupancy	2,828	1,536
Depreciation and amortization	9,111	2,168
Other general and administrative	(834)	759
Total expenses	39,855	41,919
Total operating (loss) income	(2,351)	48
NON-OPERATING INCOME (EXPENSE):		
Interest income	1,896	3,269
Refund to participants	(1,799)	(3,175)
Interest expense	(427)	-
Total non-operating income	(330)	94
(Loss) income before taxes	(2,681)	142
Income tax benefit	(962)	(446)
Net (loss) income	\$ (1,719)	\$ 588

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (In thousands)

For the years ended:	Common Stock	Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - December 31, 2011	\$ 10	\$ 26,617	\$ 104,415	\$ 131,042
Net income	-	-	16,122	16,122
BALANCE - December 31, 2012	\$ 10	\$ 26,617	\$ 120,537	\$ 147,164
Net income	-	-	5,405	5,405
BALANCE - December 31, 2013	\$ 10	\$ 26,617	\$ 125,942	\$ 152,569

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS

(In thousands)

	For the years ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,405	\$ 16,122
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	11,330	8,635
Net premium amortized on investments in marketable securities	(59)	(65)
Deferred income taxes	(35)	1,281
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(74)	(232)
(Increase) decrease in other assets	(1,769)	55
(Decrease) increase in accounts payable	(65,659)	7,027
Increase (decrease) in other liabilities	1,453	(234)
Net cash (used in) provided by operating activities	<u>(49,408)</u>	<u>32,589</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in marketable securities	416,015	453,000
Purchases of investments in marketable securities	(400,000)	(414,819)
Purchases of software	(12,819)	(11,373)
Net cash provided by investing activities	<u>3,196</u>	<u>26,808</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note receivable from DTCC	20,000	-
Net cash provided by financing activities	<u>20,000</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	<u>(26,212)</u>	<u>59,397</u>
Cash and cash equivalents - Beginning of year	\$ 142,119	\$ 82,722
Cash and cash equivalents - End of year	<u>\$ 115,907</u>	<u>\$ 142,119</u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid to DTCC - net of refunds	<u>\$ 10,063</u>	<u>\$ 4,750</u>

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE TWELVE MONTHS AND THE YEARS ENDED DECEMBER 31, 2013 AND 2012

1. BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the government and mortgage-backed securities markets (participants), consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification. FICC has two Divisions, the Government Securities Division (GSD) and the Mortgage-Backed-Securities (MBS) Division.

FICC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Omgeo LLC, DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited, Business Entity Data B.V. (BED), and AVOX Limited.

2. CLEARING FUND

Clearing fund. FICC's rules require its participants to maintain clearing fund deposits to the Clearing Fund based on calculated requirements as determined by the Company, which were \$12,747,419,000 and \$13,280,010,000 at December 31, 2013 and 2012, respectively. The deposits are available to secure participants' obligation and certain liabilities of the Company, should they occur. All clearing fund cash is reflected as clearing fund on the accompanying Statements of Financial Condition.

A summary of the total deposits held at December 31, 2013, including \$4,665,259,000 in excess of calculated requirements were as follows (in thousands):

As of December 31, 2013			
	GS Division	MBS Division	Total
Cash deposits	\$ 5,097,715	\$ 3,796,728	\$ 8,894,443
Investments in marketable securities	-	200,000	200,000
U.S. treasury and agency securities, at fair value	5,685,974	2,632,262	8,318,236
Total	\$ 10,783,689	\$ 6,628,990	\$ 17,412,679

A summary of the total deposits held at December 31, 2012, including \$3,001,055,000 in excess of calculated requirements were as follows (in thousands):

As of December 31, 2012			
	GS Division	MBS Division	Total
Cash deposits	\$ 4,195,414	\$ 3,474,473	\$ 7,669,887
Investments in marketable securities	-	200,000	200,000
U.S. treasury and agency securities, at fair value	4,676,034	3,735,144	8,411,178
Total	\$ 8,871,448	\$ 7,409,617	\$ 16,281,065

Cash Deposits and Investments in Marketable Securities. Cash deposits and Investments in marketable securities to the Clearing Fund, which may be applied to satisfy obligations of the depositing participant, as provided in FICC rules, as of December 31, 2013 and 2012 are invested as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Overnight reverse repurchase agreements	\$ 4,260,054	\$ 4,264,707
Money market investments	3,434,000	2,080,000
Interest bearing deposits	700,387	750,081
Overnight investments made in commercial paper	500,002	575,099
Treasury bills	200,000	200,000
Total	<u>\$ 9,094,443</u>	<u>\$ 7,869,887</u>

Refunds to participants. The total amount of Interest income the Company earned from the investment of cash deposits in the clearing fund were \$7,456,000 and \$11,085,000 in 2013 and 2012, respectively.

3. OTHER MATTERS

Lehman Brothers Inc. On September 19, 2008, a Trustee was appointed, under the Securities Investor Protection Act (“SIPA”), to administer and liquidate the business of Lehman Brothers Inc. (“LBI”). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. (“Barclays”), which assets did not, however, include the accounts that LBI maintained at NSCC, FICC, and DTC.

As a result, the Trustee, Barclays and DTCC, on behalf and for the benefit of NSCC, FICC and DTC (collectively, the “Clearing Agency Subsidiaries”) entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the close out of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify and hold harmless DTCC, each of NSCC, FICC and DTC, and their officers, directors, employees, owners, agents and representatives against any and all losses, claims, damages, expenses (including legal fees) or liabilities that any of them may incur as a result of winding down and closing out the respective accounts, which guaranty is limited to a \$250,000,000 cash deposit (the “Cash Deposit”) it provided for that purpose.

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of LBI’s Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remains after the close out of the LBI Accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee. The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the Trustee.

With respect to LBI, DTCC and its subsidiaries held the following at December 31:

	<u>2013</u>	<u>2012</u>
Cash deposits	\$ 32,556,821	\$ 32,556,821
Participant and clearing funds	1,160,135	1,160,135
Matured MMI accounts	29,616,175	29,616,175
Total	<u>\$ 63,333,131</u>	<u>\$ 63,333,131</u>

As of December 31, 2013, DTCC had delivered to the Trustee of the LBI estate \$5,125,811,000 in cash and Clearing Fund securities valued at \$159,479,000, attributable to the LBI estate.

MF Global Inc. On October 31, 2011, a Trustee was appointed, under the SIPA, to administer and liquidate the business of MF Global Inc. (“MFG”). As part of the liquidation of MFG, any losses will first be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of MFG’s Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remains after the close out of the MFG Accounts and satisfaction of all obligations of NSCC, FICC and DTC they will be remitted to the Trustee.

With respect to MFG, DTCC and its subsidiaries held the following at December 31:

	<u>2013</u>	<u>2012</u>
Cash deposits	\$ 22,877,984	\$ 21,658,797
Participant and clearing funds	<u>6,120,422</u>	<u>6,210,352</u>
Total	<u><u>\$ 28,998,406</u></u>	<u><u>\$ 27,869,149</u></u>

As of December 31, 2013, DTCC had delivered cash to the Trustee of the MFG estate \$227,287,000, attributable to the MFG estate.

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