Fixed Income Clearing Corporation

Audited Financial Statements as of and for the Years Ended December 31, 2016 and 2015, and Unaudited for the Three Months Ended December 31, 2016 and 2015

FIXED INCOME CLEARING CORPORATION

TABLE OF CONTENTS

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	As of December 31, 2016	As of December 31, 2015
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 210,109	$ 215,440
Accounts receivable	14,342	32,581
Clearing Fund:		
Cash deposits	9,660,414	7,878,557
Investments in marketable securities	25,000	100,000
Securities on deposit - at fair value	13,648,443	7,537,070
Other Participants' assets	867	2,783
Other current assets	2,265	5,795
Total current assets	23,561,440	15,772,226
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $17,617 and $17,600 as of December 31, 2016 and 2015, respectively	723	740
Intangible assets - net of accumulated amortization of $111,504 and $99,439 as of December 31, 2016 December 31, 2015, respectively	15,443	21,662
Total non-current assets	16,166	22,402
TOTAL ASSETS	$ 23,577,606	$ 15,794,628
LIABILITIES AND SHAREHOLDER'S EQUITY:		
CURRENT LIABILITIES:		
Loan payable to DTCC	$ —	$ 52,000
Accounts payable	4,218	1,864
Clearing Fund:		
Cash deposits	9,685,414	7,978,557
Securities on deposit - at fair value	13,648,443	7,537,070
Payable to Participants	867	2,783
Other current liabilities	2,140	—
Total current liabilities	23,341,082	15,572,274
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	6,525	8,203
Total liabilities	23,347,607	15,580,477
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDER'S EQUITY:		
Common stock, $0.50 par value - 105,000 shares authorized; 20,400 shares issued and outstanding	10	10
Paid-in capital	86,617	86,617
Retained earnings	143,372	127,524
Total shareholder's equity	229,999	214,151
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 23,577,606	$ 15,794,628

The Notes to the Financial Statements are an integral part of these statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF INCOME

(In thousands)	**For the three months ended December 31, (Unaudited) 2016**	**2015**	**For the years ended December 31, 2016**	**2015**
REVENUES:				
Clearing services	$ 58,012	$ 42,162	$ 212,200	$ 171,119
EXPENSES:				
Employee compensation and related benefits	21,356	16,990	78,769	68,604
Information technology	4,196	4,275	16,740	14,578
Professional and other services	16,555	16,999	67,574	60,360
Occupancy	1,561	1,776	6,083	6,022
Depreciation and amortization	2,178	3,440	12,082	15,416
Other general and administrative	990	1,762	3,581	4,616
Total expenses	46,836	45,242	184,829	169,596
Total operating income (loss)	11,176	(3,080)	27,371	1,523
NON-OPERATING INCOME (EXPENSE):				
Interest income	12,100	3,045	39,919	10,281
Refunds to Participants	(11,667)	(4,644)	(39,329)	(9,591)
Interest expense	(84)	(206)	(672)	(558)
Total non-operating income (expense)	349	(1,805)	(82)	132
Income (loss) before taxes	11,525	(4,885)	27,289	1,655
Provision (benefit) for income taxes	4,758	(2,031)	11,441	985
Net income (loss)	$ 6,767	$ (2,854)	$ 15,848	$ 670

The Notes to the Financial Statements are an integral part of these statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(In thousands)	**Common Stock**	**Paid-In Capital**	**Retained Earnings**	**Total Shareholder's Equity**
BALANCE - January 1, 2015	$ 10	$ 26,617	$ 126,854	$ 153,481
Capital contribution from DTCC	—	60,000	—	60,000
Net income	—	—	670	670
BALANCE - December 31, 2015	10	86,617	127,524	214,151
Net income	—	—	15,848	15,848
BALANCE - December 31, 2016	$ 10	$ 86,617	$ 143,372	$ 229,999

The Notes to the Financial Statements are an integral part of these statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS

(In thousands)	For the years ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,848	$ 670
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12,082	15,416
Impairment on Intangible assets	—	139
Net discount on Investments in marketable securities	(30)	33
Deferred income taxes	(1,019)	1,494
Changes in operating assets and liabilities:		
Decrease (increase) in Accounts receivable	18,269	(5,335)
Decrease (increase) in Other assets	3,530	(5,795)
Increase (decrease) in Accounts payable	2,354	(1,213)
Increase in Other liabilities	1,481	1,199
Increase in Clearing Fund deposits	(75,000)	(100,000)
Net cash used in operating activities	(22,485)	(93,392)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of Investments in marketable securities	100,000	200,000
Purchases of Investments in marketable securities	(25,000)	(100,000)
Purchases of Intangible assets	(5,846)	(10,194)
Net cash provided by investing activities	69,154	89,806
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds received on Loan payable to DTCC	—	55,000
Repayments on Loan payable to DTCC	(52,000)	(3,000)
Capital contribution from DTCC	—	60,000
Net cash (used in) provided by financing activities	(52,000)	112,000
Net (decrease) increase in Cash and cash equivalents	(5,331)	108,414
Cash and cash equivalents - Beginning of year	215,440	107,026
Cash and cash equivalents - End of year	$ 210,109	$ 215,440
SUPPLEMENTAL DISCLOSURES:		
Cash interest paid	$ 737	$ 421
Cash income taxes paid to DTCC - net of refunds	$ 4,140	$ 6,019

The Notes to the Financial Statements are an integral part of these statements.

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) and provides central counterparty (CCP) services to firms that participate in the U.S. government and mortgage-backed securities markets (collectively referred to as 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 Division (MBSD).

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, Business Entity Data, B.V. and Avox Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

Use of estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Financial Statements. Management makes estimates regarding, among other things, the collectability of receivables, the outcome of litigation, the realization of deferred taxes, unrecognized tax benefits, fair value measurements and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information; therefore, actual results could differ materially from those estimates.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Date of Issuance/ Adoption	Impact on the financial statements or other significant matters
Recently Issued Accounting Standards			
ASU No. 2016-18, *FASB ASC Topic 230, Statement of Cash Flows*	The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.	November 2016/ January 1, 2018 Early adoption is permitted	The Company is evaluating the effect on its Statement of Cash Flows and related disclosures.
ASU No. 2016-15, *FASB ASC Topic 230, Statement of Cash Flows*	The amendments in this update address eight specific cash flow issues with the objective of reducing the existing diversity in treatment. The cash flow issues addressed include: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; separately identifiable cash flows and application of the predominance principle. The amendments provide guidance for each of the eight issues, where current guidance is either unclear or does not specify treatment, thereby reducing the current and potential future diversity in practice.	August 2016/ January 1, 2018 Early adoption is permitted.	The Company is evaluating the impact on its Statement of Cash Flows and related disclosures.

Standard	Description	Date of Issuance/ Adoption	Impact on the financial statements or other significant matters
Recently Issued Accounting Standards (Continued)			
ASU No. 2016-13, *FASB ASC Topic 326, Financial Instruments - Credit Losses*	The standard replaces the current incurred loss approach for credit losses with an "expected loss" model for instruments measured at amortized cost. All lifetime credit losses for financial assets held at the reporting date will be required to be estimated based on factors such as historical experience, current conditions and forecasts. Additionally, the standard requires entities to record allowances for available-for-sale debt securities.	June 2016/ January 1, 2020 Early adoption is permitted for fiscal years beginning after December 15, 2018.	The Company is evaluating the effect on its Financial Statements and related disclosures.
ASU No. 2016-01, *FASB ASC Topic 825, Recognition and Measurement of Financial Assets and Financial Liabilities*	The standard requires the fair value measurement of unconsolidated equity investments, except those accounted for under the equity method. Entities will be required to measure these investments at the end of each reporting period and recognize the changes in fair value in net income. Entities will no longer be able to recognize unrealized gains and losses on equity securities classified as available-for-sale in other comprehensive income.	January 2016/ January 1, 2018 Early adoption is permitted.	The Company is evaluating the effect on its Financial Statements and related disclosures.
ASU No. 2014-09, *FASB ASC Topic 606 Revenue from Contracts with Customers* ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ASU No. 2016-10, *Identifying Performance Obligations and Licensing* ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*	The standards outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Additionally, the ASU expands the disclosure requirements for revenue recognition.	May 2014/ January 1, 2018 Early adoption is permitted.	The Company is evaluating the updated revenue recognition guidance collectively, including the alternative methods of adoption. On a preliminary basis, the Company does not anticipate a material change to the timing and pattern of revenue recognition, although the analysis used to determine the timing and pattern of revenue recognition will differ. The Company anticipates the primary impact of the adoption on its Financial Statements will be the additional required disclosures around revenue recognition in the notes to its financial statements. The Company's preliminary assessment is subject to change.

Standard	Description	Date of Issuance/ Adoption	Impact on the financial statements or other significant matters
Recently Adopted Accounting Standards			
ASU No. 2015-17, *FASB ASC Topic 740, Income Taxes*	The update required deferred tax assets and liabilities to be presented as noncurrent deferred tax assets or noncurrent deferred tax liabilities in a classified statement of financial position. This update aligned the presentation of deferred tax assets and liabilities with International Financial Reporting Standards.	November 2015/ December 31, 2015	The Company early adopted this standard prospectively and reclassified all of its deferred tax liabilities to noncurrent deferred tax liabilities on its Statements of Financial Condition as of December 31, 2015. The adoption did not have a material impact to its Statements of Income or Cash Flows. This standard was not retrospectively applied and prior periods were not adjusted.

4. ACCOUNTS RECEIVABLE

Details for Accounts receivable as of December 31, 2016 and 2015 follow (in thousands):

	2016	2015
Clearing and transaction fees due from Participants	$ 14,342	$ 14,002
Due from related parties	—	18,579
Total	$ 14,342	$ 32,581

There were no allowances for doubtful accounts as of December 31, 2016 and 2015.

5. CLEARING FUND

Details for the Clearing Fund deposits as of December 31, 2016 and 2015 follow (in thousands):

	2016			2015		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	$ 11,734,745	$ 6,553,783	$ 18,288,528	$ 8,076,283	$ 3,893,878	$ 11,970,161
Excess deposits	4,176,982	868,347	5,045,329	2,795,034	750,432	3,545,466
Total	$ 15,911,727	$ 7,422,130	$ 23,333,857	$ 10,871,317	$ 4,644,310	$ 15,515,627

Details for the Clearing Fund deposits as of December 31, 2016 and 2015 follow (in thousands):

	2016			2015		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Cash deposits	$ 6,001,717	$ 3,658,697	$ 9,660,414	$ 4,850,476	$ 3,028,081	$ 7,878,557
Investments in marketable securities	—	25,000	25,000	—	100,000	100,000
Securities on deposit - at fair value	9,910,010	3,738,433	13,648,443	6,020,841	1,516,229	7,537,070
Total	$ 15,911,727	$ 7,422,130	$ 23,333,857	$ 10,871,317	$ 4,644,310	$ 15,515,627

Details for the Clearing Fund Cash deposits and Investments in marketable securities as of December 31, 2016 and 2015 follow (in thousands):

	2016	2015
Bank deposits	$ 6,441,414	$ 1,620,557
Money market fund investments	2,669,000	4,793,000
Reverse repurchase agreements	550,000	1,465,000
U.S. Treasury bills	25,000	100,000
Total	$ 9,685,414	$ 7,978,557

Cash deposits and Investments in marketable securities. Cash deposits and investments in marketable securities of the Clearing Fund, may be applied to satisfy obligations of the depositing Participants as provided in FICC's rules.

Refunds to Participants. Interest income earned from the investment of Clearing Fund deposits is refunded to Participants and totaled $39,329,000 and $9,591,000 for the years ended December 31, 2016 and 2015, and $11,667,000 and $4,644,000 for the three months ended December 31, 2016 and 2015, respectively. The amounts refunded are included in Refunds to Participants in the accompanying Statements of Income.

6. DEBT

Details for the Loan payable to DTCC including the interest rate, term and maturity as of December 31, 2016 and 2015 follow (in thousands):

				Outstanding Balance	
	Rate	Issue Date	Maturity	2016	2015
Loan payable to DTCC	LIBOR+1.30%	5/1/2015	On demand	$ —	$ 52,000

Loan payable to DTCC. The proceeds of the loan supplemented the Company's liquid financial resources pursuant to the SEC's standards for covered clearing agencies. The loan was fully repaid as of December 31, 2016. Interest on the loan, which is included in Interest expense in the accompanying Statements of Income was $672,000 and $551,000 for the years ended December 31, 2016 and 2015, and $84,000 and $203,000 for the three months ended December 31, 2016 and 2015, respectively.

Credit Ratings. The Company is rated by Moody's Investors Service, Inc. (Moody's) and S&P Global Inc. (S&P). Details for senior debt ratings and ratings outlooks for the Company as of December 31, 2016 follow:

Moody's (1)			S&P		
Long-term	Short-term	Outlook	Long-term (2)	Short-term	Outlook (2)
Aaa	P-1	Stable	AA	A-1+	Stable

(1) Moody's categorizes the long-term issuer ratings of the Company as a clearing counterparty rating (CCR) under their new Clearing Houses Rating Methodology introduced in January 2016.

(2) On May 17, 2016, S&P placed the AA+ long–term issuer credit rating of FICC on CreditWatch with negative implications. Subsequently, on September 20, 2016, FICC's long–term rating was lowered to AA by S&P and its ratings outlook was changed to stable.

7. PENSION AND POSTRETIREMENT BENEFITS

DTCC eligible employees participate in DTCC's trusteed non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. DTCC eligible employees also participate in DTCC's life insurance program, which provides for the payment of death benefits to beneficiaries of eligible retired employees, and DTCC's healthcare program, which provides benefits to eligible retired employees.

Cost allocation. DTCC allocates the cost of these plans to participating subsidiaries based primarily upon the proportion of each subsidiary's allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. The benefit plan costs allocated to FICC were $1,694,000 and $2,070,000 for the years ended December 31, 2016 and 2015, and $305,000 and $495,000 for the three months ended December 31, 2016 and 2015, respectively. These costs are included in Employee compensation and related benefits in the accompanying Statements of Income.

8. SHAREHOLDER'S EQUITY

On May 1, 2015, the Company received a capital contribution from DTCC in the amount of $60 million. The proceeds of the capital contribution supplement the Company's capital and liquid financial resources pursuant to the SEC's standards for covered clearing agencies.

9. COMMITMENTS AND CONTINGENCIES

Litigation. The Company is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on the accompanying Statements of Financial Condition, Income or Cash Flows.

10. GUARANTEES

FICC, through GSD and MBSD, provides CCP services, including clearing, settlement and risk management services. In its capacity acting as a CCP, FICC guarantees the settlement of trades in the event one or more of its Participants defaults. A Participant default is defined in each division's rules. In its guarantor role, FICC has equal claims to and from Participants on opposite sides of netted transactions. To cover its guarantee risk, FICC uses risk-based margining to collect cash and securities collateral through its Clearing Fund. FICC maintains a Clearing Fund for each division.

Details for each division's open positions for which a trade guarantee applied as of December 31, 2016 and 2015 follow (in billions):

	2016	2015
GSD	$ 890	$ 829
MBSD	304	245

There were no defaults by Participants to these obligations.

For additional information, refer to Note 15, in FICC's Audited Financial Statements for the years ended December 31, 2016 and 2015.

11. 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). These assets did not include the accounts that LBI maintained at NSCC, FICC and DTC (collectively, the "Clearing Agency Subsidiaries").

As a result, the Trustee, Barclays and DTCC, on behalf and for the benefit of NSCC, FICC and DTC 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. The guaranty is limited to a $250 million cash deposit (the "Cash Deposit") 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 Participants' 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.

Details for the deposits/balances held by DTCC and its subsidiaries as of December 31, 2016 and 2015 follow (in thousands):

	2016	2015
Segregated cash	$ 1,173	$ 3,302
Participants/Clearing and Settlement Funds	25	1,160
Matured money market investment accounts	1,000	31,133
Total	$ 2,198	$ 35,595

As of December 31, 2016, DTCC had delivered to the Trustee of the LBI estate $5,186,330,000 in cash as well as Clearing Fund securities valued at $159,479,000.

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

12. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2016 through February 28, 2017, for potential recognition or disclosure in these accompanying Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these accompanying Financial Statements.