Fixed Income Clearing Corporation

Unaudited Condensed Financial Statements
as of June 30, 2016 and December 31, 2015 and for the
six months and three months ended June 30, 2016 and 2015

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION

UNAUDITED CONDENSED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 222,788	$ 215,440
Accounts receivable	18,333	32,581
Clearing Fund:		
Cash deposits	9,163,444	7,878,557
Investments in marketable securities	25,000	100,000
Other deposits, at fair value	11,379,674	7,537,070
Other Participants' assets	913	2,783
Other current assets	179	5,795
Total current assets	20,810,331	15,772,226
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $17,611 and $17,600 on June 30, 2016 and December 31, 2015, respectively	729	740
Intangible assets - net of accumulated amortization of $107,222 and $99,439 on June 30, 2016 December 31, 2015, respectively	16,747	21,662
Total non-current assets	17,476	22,402
TOTAL ASSETS	$ 20,827,807	$ 15,794,628
LIABILITIES AND SHAREHOLDER'S EQUITY:		
CURRENT LIABILITIES:		
Loan payable to DTCC	$ 30,000	$ 52,000
Accounts payable	2,630	1,864
Clearing Fund:		
Cash deposits	9,188,444	7,978,557
Other deposits, at fair value	11,379,674	7,537,070
Payable to Participants	913	2,783
Other current liabilities	3	—
Total current liabilities	20,601,664	15,572,274
NON-CURRENT LIABILITIES:		
Other non-current liabilities	8,120	8,203
Total liabilities	20,609,784	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	131,396	127,524
Total shareholder's equity	218,023	214,151
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 20,827,807	$ 15,794,628

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

FIXED INCOME CLEARING CORPORATION

UNAUDITED CONDENSED STATEMENTS OF INCOME
(In thousands)

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
REVENUES:				
Clearing services	$ 51,141	$ 43,289	$ 99,157	$ 86,575
EXPENSES:				
Employee compensation and related benefits	18,198	19,651	36,713	38,142
Information technology	3,730	1,336	7,486	4,131
Professional and other services	16,525	14,071	33,291	27,134
Occupancy	2,243	853	4,678	1,842
Depreciation and amortization	3,938	4,273	7,794	8,597
Other general and administrative, net	1,421	760	2,815	1,455
Total expenses	46,055	40,944	92,777	81,301
Total operating income	5,086	2,345	6,380	5,274
NON-OPERATING INCOME (EXPENSE):				
Interest income	9,331	2,368	16,909	4,455
Refunds to Participants	(8,768)	(1,393)	(15,569)	(3,069)
Interest expense	(216)	(25)	(450)	(25)
Other non-operating expense	—	(1)	—	(1)
Total non-operating income	347	949	890	1,360
Income before taxes	5,433	3,294	7,270	6,634
Provision for income taxes	2,539	1,518	3,398	2,901
Net income	$ 2,894	$ 1,776	$ 3,872	$ 3,733

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

FIXED INCOME CLEARING CORPORATION

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

	Common Stock	Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - December 31, 2014 (audited)	$ 10	$ 26,617	$ 126,854	$ 153,481
Capital contribution from DTCC	—	60,000	—	60,000
Net income	—	—	670	670
BALANCE - December 31, 2015 (audited)	$ 10	$ 86,617	$ 127,524	$ 214,151
Net income	—	—	3,872	3,872
BALANCE - June 30, 2016 (unaudited)	$ 10	$ 86,617	$ 131,396	$ 218,023

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

FIXED INCOME CLEARING CORPORATION

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)

	For the six months ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,872	$ 3,733
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7,794	8,597
Net premium amortized on investments in marketable securities	(56)	138
Deferred income taxes	592	(920)
Changes in operating assets and liabilities:		
Decrease (increase) in Accounts receivable	14,304	(16,893)
Decrease in Other assets	5,616	—
Increase (decrease) in Accounts payable	766	(2,935)
(Decrease) increase in Other liabilities	(672)	5,168
Increase in Participants Fund deposits	(75,000)	—
Net cash used in operating activities	(42,784)	(3,112)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of Investments in marketable securities	100,000	200,000
Purchases of Investments in marketable securities	(25,000)	(200,000)
Purchases of software	(2,868)	(5,510)
Net cash provided by (used in) investing activities	72,132	(5,510)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds received on loan from DTCC	—	55,000
Principal payments on loan from DTCC	(22,000)	—
Capital contribution from DTCC	—	60,000
Net cash (used in) provided by financing activities	(22,000)	115,000
Net increase in cash and cash equivalents	7,348	106,378
Cash and cash equivalents - Beginning of period	215,440	107,026
Cash and cash equivalents - End of period	$ 222,788	$ 213,404
SUPPLEMENTAL DISCLOSURES:		
Cash interest paid	$ 449	$ —
Cash income taxes paid to DTCC - net of refunds	$ (2,960)	$ 1,035

The Notes to the Unaudited Condensed 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), 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 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. BASIS OF PRESENTATION AND USE OF ESTIMATES

Basis of presentation. The accompanying Unaudited Condensed Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The Unaudited Condensed Financial Statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year. The Unaudited Condensed Financial Statements should be read in conjunction with FICC's Audited Financial Statements for the years ended December 31, 2015 and 2014 which is located on the Company's website *http://www.dtcc.com/legal/financial-statements.*

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 Unaudited Condensed Financial Statements. Management makes estimates regarding the collectability of receivables, the outcome of litigation, the realization of deferred taxes, unrecognized tax benefits (UTBs), 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	Affect on the financial statements or other significant matters
Recently Issued Accounting Standards			
ASU No. 2016-13, *FASB ASC Topic 326, Financial Instruments - Credit Losses*	The standard improves financial reporting by providing timelier recording of credit losses on loans and other financial instruments held by financial institutions. All credit losses for financial assets held at the reporting date will be required to be measured based on historical experience, current conditions and forecasts. Credit loss estimates will be better informed through the consideration of a broader range of forward-looking information.	June 2016/ January 1, 2020 Early adoption is not permitted.	The Company is evaluating the effect on our 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 equity investments (aside from those measured under the equity method investment or consolidation) to be measured at fair value, with changes to fair value recognized in net income. The impairment analysis will be simplified and if the qualitative assessment results suggest an impairment, the entity will measure the investment at fair value and the disclosure of fair value of financial instruments at amortized cost is no longer required. The update seeks to make targeted improvements to U.S. GAAP in order to enhance and simplify the reporting model of financial instruments.	January 2016/ January 1, 2018 Early adoption is not permitted.	The Company is evaluating the effect on our Financial Statements and related disclosures.
ASU No. 2014-09, *FASB ASC Topic 606 Revenue from Contracts with Customers* ASU No. 2016-08, P*rincipal 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*	In May 2014, the FASB issued ASU No. 2014-09, which outlines 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. The ASU was originally effective for the annual reporting period in the fiscal year that begins after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date," which defers the effective date of the standard to the annual reporting period in the fiscal year that begins after December 15, 2017.	May 2014/ January 1, 2019 Early adoption is permitted.	The Company is evaluating the updated revenue recognition guidance collectively, including the alternative methods of adoption and the effect on our Financial Statements and related disclosures.

Standard	Description	Date of Issuance/ Adoption	Affect on the financial statements or other significant matters
Recently Adopted Accounting Standards			
ASU No. 2015-17, *FASB ASC Topic 740, Income Taxes*	The standard was part of the initiative to reduce complexity in accounting standards, in which cost and complexity can be reduced while maintaining the information presented in the financial statements. In order to simplify the presentation of deferred income taxes, the update requires 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 aligns the presentation of deferred tax assets and liabilities with International Financial Reporting Standards.	November 2015/ January 1, 2017	The Company early adopted this standard prospectively and reclassified all of its deferred tax liabilities to noncurrent deferred tax liabilities on its Audited Statement of Financial Condition as of December 31, 2015. The adoption did not have a material impact to the Company's Audited Statements of Income or Cash Flows. This standard was not retrospectively applied and prior periods were not adjusted.
ASU No. 2013-11, *FASB ASC Topic 740, Income Taxes*	The standard required public and private entities to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss or tax credit carry forward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date.	July 2013/ January 1, 2015	The adoption of this guidance did not have a material impact on the Company's Unaudited Condensed Statements of Financial Condition, Statements of Income or Cash Flows.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following on June 30, 2016 and December 31, 2015 (in thousands):

	2016	2015
Clearing and transaction fees due from Participants	$ 17,216	$ 14,002
Other receivables	1,117	18,579
Total	$ 18,333	$ 32,581

There was no allowance for doubtful accounts as of June 30, 2016 and December 31, 2015.

5. CLEARING FUND

The rules of FICC require Participants to maintain deposits related to their respective activities based on calculated requirements. The deposits are available to secure Participants' obligations and certain liabilities of the Company. All deposits of cash and securities are recorded in Clearing Fund on the accompanying Unaudited Condensed Statements of Financial Condition.

A summary of the deposits held at June 30, 2016 and December 31, 2015 follows (in thousands):

	2016			2015		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	$10,771,756	$ 5,236,004	$16,007,760	$ 8,076,283	$ 3,893,878	$11,970,161
Excess deposits	3,704,745	855,613	4,560,358	2,795,034	750,432	3,545,466
Total	$14,476,501	$ 6,091,617	$20,568,118	$10,871,317	$ 4,644,310	$15,515,627

A summary of the total deposits held at June 30, 2016 and December 31, 2015, including the excess of the calculated requirements, follows (in thousands):

	2016			2015		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Cash deposits	$ 5,079,298	$ 4,084,146	$ 9,163,444	$ 4,850,476	$ 3,028,081	$ 7,878,557
Investments in marketable securities	—	25,000	25,000	—	100,000	100,000
U.S. Treasury and Agency securities, at fair value	9,397,203	1,982,471	11,379,674	6,020,841	1,516,229	7,537,070
Total	$14,476,501	$ 6,091,617	$20,568,118	$10,871,317	$ 4,644,310	$15,515,627

Cash deposits and Investments in marketable securities. Cash deposits and investments in marketable securities of the Clearing Fund, which may be applied to satisfy obligations of the depositing Participants as provided in FICC's rules, as of June 30, 2016 and December 31, 2015, were invested as follows (in thousands):

	2016	2015
Reverse repurchase agreements	$ 650,000	$ 1,465,000
Money market fund investments	1,770,000	4,793,000
Bank deposits	6,743,444	1,620,557
U.S. Treasury bills	25,000	100,000
Total	$ 9,188,444	$ 7,978,557

Refunds to Participants. The total amounts of Interest income the Company earned from the investment of cash deposits in the Clearing Fund were $15,569,000 and $3,069,000 for the six months ended June 30, 2016 and 2015 and $8,768,000 and $1,393,000 for the three months ended June 30, 2016 and 2015, respectively, in the Unaudited Condensed Statements of Income.

6. DEBT

On May 1, 2015, the Company received a loan from DTCC, its parent, in the amount of $55 million, the outstanding balance of which was subsequently reduced to $30 million and $52 million as of June 30, 2016 and December 31, 2015, respectively. The loan is interest bearing and structured as a demand loan, having no fixed term. The proceeds of the loan supplement the Company's liquid financial resources pursuant to the SEC's proposed standards for covered clearing agencies. The amount of the loan may vary over time, depending upon the Company's regulatory capital requirements and its general funding needs.

The following table summarizes the Company's loan payable including the interest rate, term and maturity of the loan payable at June 30, 2016 and December 31, 2015, (in thousands):

				Outstanding Balance	
	Rate	Issue Date	Maturity	2016	2015
Loan payable to DTCC	LIBOR+ 1.30%	5/1/2015	On demand	$ 30,000	$ 52,000

Total Interest expense included in the accompanying Unaudited Condensed Statements of Income was $450,000 and $119,000 for the six months ended June 30, 2016 and 2015 and $219,000 and $119,000 for the three months ended June 30, 2016 and 2015, respectively.

Credit ratings. On May 17, 2016, Standard & Poor's Financial Services LLC (S&P) placed the AA long-term issuer credit rating of DTCC, along with related issue ratings, and the AA+ long-term issuer credit ratings of FICC, NSCC and DTC on CreditWatch with negative implications. The short-term issuer credit ratings on all four entities, as well as the short-term issue rating on commercial paper issued by NSCC, remain unchanged at A-1+ and are not on CreditWatch.

7. PENSION AND POST RETIREMENT BENEFITS

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. 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 $918,000 and $2,234,000 for the six months ended June 30, 2016 and 2015 and $309,000 and $1,097,000 for the three months ended June 30, 2016 and 2015, respectively. These costs are included in Employee compensation and related benefits in the Company's accompanying Unaudited Condensed Statements of Income.

8. SHAREHOLDER'S EQUITY

Common Stock. FICC has 105,000 authorized shares of common stock with a par value of $0.50 per share. There were 20,400 shares of common stock issued and outstanding at June 30, 2016 and December 31, 2015.

On May 1, 2015, the Company received a capital contribution from DTCC, its parent, 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 proposed 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 Company's Unaudited Condensed Financial Position, Income or Cash Flows.

10. GUARANTEES

Through GSD and MBSD, FICC provides central counterparty (CCP) services, which includes clearing, settlement and risk management services. In its capacity as a CCP, FICC guarantees the settlement of trades in the event a Participant 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.

The following table summarizes, by FICC division, positions for which a trade guarantee applied at June 30, 2016 and December 31, 2015 (in billions):

	2016	2015
GSD	$ 848	$ 829
MBSD	362	245

There were no defaults by Participants to these obligations.

For additional information, refer to Note 16, in FICC's Audited Financial Statements for the years ended December 31, 2015 and 2014.

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.

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. The guaranty is limited to a $250,000,000 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.

With respect to LBI, DTCC and its subsidiaries held the following deposits/balances at June 30, 2016 and December 31, 2015:

	2016	2015
Segregated cash	$ 3,301,827	$ 3,301,827
Participants and Clearing Funds	1,160,135	1,160,135
Matured money market investment accounts	2,396,785	31,133,201
Total	$ 6,858,747	$ 35,595,163

As of June 30, 2016, DTCC had delivered to the Trustee of the LBI estate $5,182,715,000 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 June 30, 2016 through July 29, 2016, for potential recognition or disclosure in these Unaudited Condensed Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these Unaudited Condensed Financial Statements.