National Securities Clearing Corporation

Unaudited Condensed Consolidated Financial Statements
as of March 31, 2016 and December 31, 2015 and for the
three months ended March 31, 2016 and 2015

NATIONAL SECURITIES CLEARING CORPORATION

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NATIONAL SECURITIES CLEARING CORPORATION

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

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,618,864	$ 1,320,379
Reverse repurchase agreements	100,000	-
Investments in marketable securities	7,400	7,400
Participants' segregated cash	19,296	26,581
Accounts receivable	109,089	79,679
Clearing Fund:		
Cash deposits	5,114,455	3,847,082
Other deposits, at fair value	403,555	290,388
Other current assets	3,608	1,587
Total current assets	7,376,267	5,573,096
NON-CURRENT ASSETS		
Premises and equipment - net of accumulated depreciation of $56,160 and $54,632 at March 31, 2016 and December 31, 2015, respectively	23,059	24,221
Intangible assets - net of accumulated amortization of $124,149 and $119,129 at March 31, 2016 and December 31, 2015, respectively	31,983	33,418
Total non-current assets	55,042	57,639
TOTAL ASSETS	$ 7,431,309	$ 5,630,735
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Commercial paper	$ 1,415,993	$ 1,007,124
Loan payable to DTCC	99,000	99,000
Accounts payable	6	170
Payable to Participants	19,738	26,846
Clearing Fund:		
Cash deposits	5,114,455	3,847,082
Other deposits, at fair value	403,555	290,388
Other current liabilities	6,353	-
Total current liabilities	7,059,100	5,270,610
NON-CURRENT LIABILITIES		
Non-current liabilities	7,410	6,875
Total non-current liabilities	7,410	6,875
Total liabilities	7,066,510	5,277,485
COMMITMENTS AND CONTINGENCIES (Note 11)		
SHAREHOLDER'S EQUITY		
Common stock, $0.50 par value - 30,000 shares authorized, 20,000 shares issued and outstanding	10	10
Paid-in capital	69,442	69,442
Retained earnings	295,347	283,798
Total shareholder's equity	364,799	353,250
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 7,431,309	$ 5,630,735

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

NATIONAL SECURITIES CLEARING CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands)

	For the three months ended March 31, 2016	2015
REVENUES:		
Clearing services	$ 69,410	$ 64,950
Investment product services	26,361	25,299
Settlement and asset services	191	343
Total revenues	95,962	90,592
EXPENSES:		
Employee compensation and related benefits	28,573	33,637
Information technology	8,107	6,737
Professional and other services	26,599	24,511
Occupancy	3,222	1,938
Depreciation and amortization	6,548	6,473
Other general and administrative, net	2,938	1,495
Total expenses	75,987	74,791
Total operating income	19,975	15,801
NON-OPERATING INCOME (EXPENSE):		
Interest income	1,441	107
Interest expense	(1,695)	(4)
Total non-operating expense	(254)	103
Income before taxes	19,721	15,904
Provision for income taxes	8,172	6,553
Net income	$ 11,549	$ 9,351

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NATIONAL SECURITIES CLEARING CORPORATION

UNAUDITED CONDENSED CONSOLIDATED 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	$ 34,442	$ 251,095	$ 285,547
Capital contribution from DTCC	-	35,000	-	35,000
Net income	-	-	32,703	32,703
BALANCE - December 31, 2015 (audited)	$ 10	$ 69,442	$ 283,798	$ 353,250
Net income	-	-	11,549	11,549
BALANCE - March 31, 2016 (unaudited)	$ 10	$ 69,442	$ 295,347	$ 364,799

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

NATIONAL SECURITIES CLEARING CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the three months March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 11,549	$ 9,351
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,548	6,473
Deferred income taxes	371	(634)
Changes in operating assets and liabilities:		
Increase in Accounts receivable	(29,410)	(29,953)
Increase in Other assets	(1,844)	-
(Increase) decrease in Other Participants' assets	(177)	5
Decrease in Accounts payable	(164)	(802)
Increase in Other liabilities	6,517	7,167
(Decrease) increase in Payable to Participants	(7,108)	15,937
Net cash (used in) provided by operating activities	(13,718)	7,544
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Reverse repurchase agreements	(100,000)	-
Decrease (increase) in Participants' segregated cash	7,285	(15,942)
Purchases of software	(3,585)	(2,804)
Purchases of Premises and equipment	(366)	(478)
Net cash used in investing activities	(96,666)	(19,224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Commercial paper	408,869	-
Net cash provided by financing activities	408,869	-
Net increase (decrease) in cash and cash equivalents	298,485	(11,680)
Cash and cash equivalents - Beginning of period	1,320,379	197,490
Cash and cash equivalents - End of period	$ 1,618,864	$ 185,810
SUPPLEMENTAL DISCLOSURES:		
Cash interest paid	$ 416	$ -

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

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND OWNERSHIP

National Securities Clearing Corporation and subsidiary (NSCC or the Company), 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 capture, clearance, netting, settlement and risk management services.

NSCC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include The Depository Trust Company (DTC), Fixed Income Clearing Corporation (FICC), 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 Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The Unaudited Condensed Consolidated 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 Consolidated Financial Statements include the accounts of NSCC and its wholly-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation. The Unaudited Condensed Consolidated Financial Statements should be read in conjunction with NSCC's Audited Consolidated 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 Consolidated 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

Recently Issued Accounting Standards.

FASB ASC Topic 606, Revenue from Contracts with Customers. In March 2016, the FASB issued Accounting Standard Update (ASU) No. 2016-08 – Principal versus Agent Considerations. This ASU amends the principal versus agent implementation guidance with regard to determination of the appropriate unit of account under the new revenue standard, ASU No. 2014-09. The standard also provides guidance for applying the indicators of whether an entity is a principal or agent in accordance with the control principle. The new standard is effective for the Company on January 1, 2019, but may be adopted for not public businesses as of January 1, 2018. Early adoption is not permitted. The standard permits the use of the cumulative effect transition method. The Company is evaluating the impact this ASU will have on its Unaudited Condensed Consolidated Financial Statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

FASB ASC Topic 825, Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the FASB issued ASU No. 2016-01 – Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU 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. Additionally, the impairment assessment of equity method investments that do not possess readily determinable fair values will be simplified by requiring a qualitative assessment to identify impairments. 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. An entity will be required to present separately the financial assets and financial liabilities by measurement category and form of financial asset and financial liability on the balance sheet or notes to the financial statements. The ASU seeks to make targeted improvements to U.S. GAAP in order to enhance and simplify the reporting model of financial instruments. The new standard will be effective for the Company (non public businesses) on January 1, 2018. Early adoption is not permitted. The standard permits the use of the cumulative effect transition method. The Company is evaluating the impact this ASU will have on its Unaudited Condensed Consolidated Financial Statements and related disclosures. The Company has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

FASB ASC Topic 606, Revenue from Contracts with Customers. In August 2015, the FASB issued ASU No. 2015-14 - Revenue from Contracts with Customers – Deferral of Effective Date. This ASU defers the effective date of ASU No. 2014-09 which requires an entity to recognize the amount of revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2019. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the impact this ASU will have on its Unaudited Condensed Consolidated Financial Statements and its related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Recently Adopted Accounting Standards.

FASB ASC Topic 810, Consolidation. In February 2015, the FASB issued an update that changes the analysis that the Company must perform to determine whether it should consolidate certain types of legal entities. The Company is required to reevaluate its interests in legal entities in scope of the new guidance under the revised consolidation model. The guidance is effective for the Company beginning January 1, 2016. Early adoption is permitted. The guidance was adopted effective January 1, 2016, and did not have an impact on the Company's Unaudited Condensed Consolidated Statements of Financial Condition, Income, or Cash Flows.

FASB ASC Topic 740, Income Taxes. In November 2015, the FASB issued ASU No. 2015-17, as 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 that deferred tax assets and liabilities 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. The Company early adopted this standard prospectively and reclassified all of its deferred tax liabilities to noncurrent deferred tax liabilities on its Statement of Financial Condition as of December 31, 2015. The adoption did not have an impact to the Company's Unaudited Condensed Consolidated Statements of Income or Cash Flows. This standard was not retrospectively applied and prior periods were not adjusted.

FASB ASC Topic 740, Income Taxes. In July 2013, the FASB issued ASU No. 2013-11, requiring 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. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendment was adopted effective January 1, 2015. The adoption of this guidance did not have an impact on the Company's Unaudited Condensed Consolidated Statements of Financial Condition, Income or Cash Flows.

4. PARTICIPANTS' SEGREGATED CASH, OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS

Details for Participants' segregated cash, Other Participants' assets and Payable to Participants as of March 31, 2016 and December 31, 2015 were as follows (in thousands):

	2016	2015
Assets:		
Participants' segregated cash	$ 19,296	$ 26,581
Other Participants' assets	442	265
Total	$ 19,738	$ 26,846
Liabilities:		
Payable to Participants	19,738	26,846
Total	$ 19,738	$ 26,846

At March 31, 2016 and December 31, 2015, Payable to Participants reflects segregated cash received from Participants to facilitate their compliance with customer protection rules of the SEC, and cash received from the Company's Participants to collateralize their short positions totaled $19,296,000 and $26,581,000, respectively. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of March 31, 2016 and December 31, 2015 (in thousands):

	2016	2015
Clearing and transaction fees due from participants	$ 32,469	$ 32,653
Other receivables	76,620	47,026
Total	$ 109,089	$ 79,679

There was no allowance for doubtful accounts recorded by NSCC as of March 31, 2016 and December 31, 2015.

6. CLEARING FUND

The rules of NSCC 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 Consolidated Statements of Financial Condition.

A summary of the deposits held at March 31, 2016 and December 31, 2015 were as follows (in thousands):

	2016	2015
Required deposits	$ 4,632,133	$ 3,164,627
Excess deposits	885,877	972,843
Total deposits	$ 5,518,010	$ 4,137,470

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

	2016	2015
Cash deposits	$ 5,114,455	$ 3,847,082
Securities on deposit - at fair value	403,555	290,388
Total	$ 5,518,010	$ 4,137,470

Participant cash deposits. Participant cash deposits to the clearing fund, which may be applied to satisfy obligations of the depositing participant, as provided in NSCC rules, as of March, 31, 2016 and December 31, 2015, were invested as follows (in thousands):

	2016	2015
Reverse repurchase agreements	$ 750,000	$ 615,000
Money market fund investments	919,000	2,382,000
Bank deposits	3,445,455	850,082
Total	$ 5,114,455	$ 3,847,082

Refunds to Participants. The total amounts of Interest income the Company earned from the investment of cash deposits in the Clearing Fund was $5,893,000 and $1,223,000 for the three months ended March 31, 2016 and 2015, respectively, in the Unaudited Condensed Consolidated Statements of Income.

7. COMMERCIAL PAPER

Details for commercial paper as of March 31, 2016 and December 31, 2015 were as follows (in thousands):

	2016	2015
Commercial paper	$ 1,415,993	$ 1,007,124

At March 31, 2016 and December 31, 2015, $1,416 million and $1,007 million was outstanding under the program and the average interest rate on these borrowings were 0.45% and 0.40%, respectively. Total Interest expense included in the accompanying Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2016 and 2015 was $1,251,000 and $0, respectively.

8. DEBT

The Company's borrowings at March 31, 2016 and December 31, 2015, consisted of the following (in thousands):

	2016	2015
Loan payable to DTCC	$ 99,000	$ 99,000

On May 1, 2015, the Company received a loan from DTCC, its parent, in the amount of $100 million, the outstanding balance of which was subsequently reduced to $99 million as of December 31, 2015 and remained outstanding as of March 31, 2016. 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.

Total Interest expense included in the accompanying Unaudited Condensed Consolidated Statements of Income for March 31, 2016 and 2015 was $439,000 and $0, respectively.

The following table summarizes the interest rate, term and maturity of the loan payable as of March 31, 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	$ 99,000	$ 99,000

Line of credit. The Company maintains a line of credit to support settlement. Terms of the outstanding line of credit as of March 31, 2016 and December 31, 2015 were as follows:

2016	**Amount**	**Denomination**	**No. of Participants / Lenders**	**Borrowing rate**
Committed	$12.1 billion	USD	31/38	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.
2015				
Committed	$12.1 billion	USD	31/38	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.

There were no borrowings under the line of credit as of March 31, 2016 and December 31, 2015.

Debt covenants. The negative covenants related to the committed line of credit include a minimum net worth requirement of $100 million and a Clearing Fund balance greater than or equal to $1 billion. Affirmative covenants include timely access to financial statements, notices of material events, maintenance of business and insurance and compliance with laws. The committed line of credit also defines events of default.

As of March 31, 2016 and December 31, 2015, the Company was in compliance with the applicable debt covenants.

9. 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 on the proportion of each subsidiary’s allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. At the close of business on March 31, 2016 and 2015, the benefit plan costs allocated to NSCC was $988,000 and $2,084,000, respectively. These costs are included in Employee compensation and related benefits in the Unaudited Condensed Consolidated Statements of Income.

10. SHAREHOLDER'S EQUITY

Common stock. NSCC has 30,000 authorized shares of common stock with a par value of $0.50 per share. As of March 31, 2016 and December 31, 2015, 20,000 shares of common stock were issued and outstanding.

On May 1, 2015, the Company received a capital contribution from DTCC, its parent, in the amount of $35 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.

11. 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 Consolidated Statements of Financial Position, Income or Cash Flows.

12. GUARANTEES

NSCC provides central counterparty (CCP) services, including clearing, settlement and risk management services. Acting as a CCP, NSCC guarantees the settlement of trades in the event one or more of its Participants defaults. A Participant default is defined in NSCC's rules. In its guarantor role, NSCC has equal claims to and from Participants on opposite sides of netted transactions. To cover its guarantee risk, NSCC uses risk-based margining to collect cash and securities collateral ("Clearing Fund").

The following table summarizes certain NSCC's open positions for which a trade guarantee applied at March 31, 2016 and December 31, 2015 (in billions):

	2016	2015
NSCC	$ 219	$ 157

There were no defaults by Participants to these obligations.

For additional information, refer to Note 18 in NSCC's Audited Consolidated Financial Statements for the year ended December 31, 2015 and 2014.

13. 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") 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 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 March 31, 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	31,133,201	31,133,201
Total	$ 35,595,163	$ 35,595,163

As of March 31, 2016, DTCC had delivered to the Trustee of the LBI estate $5,154,013,000 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.

14. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after March 31, 2016 through April 29, 2016, for potential recognition or disclosure in these Unaudited Condensed Consolidated Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these Unaudited Condensed Consolidated Financial Statements.