National Securities Clearing Corporation

Unaudited Condensed Consolidated 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

NATIONAL SECURITIES CLEARING CORPORATION

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NATIONAL SECURITIES CLEARING CORPORATION

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

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,299,940	$ 1,320,379
Reverse repurchase agreements	100,000	—
Investments in marketable securities	—	7,400
Participants' segregated cash	83,260	26,581
Accounts receivable	38,727	79,679
Clearing Fund:		
Cash deposits	7,223,157	3,847,082
Other deposits, at fair value	471,688	290,388
Other current assets	19,160	1,587
Total current assets	10,235,932	5,573,096
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $57,347 and $54,632 at June 30, 2016 and December 31, 2015, respectively	21,871	24,221
Intangible assets - net of accumulated amortization of $129,589 and $119,129 at June 30, 2016 and December 31, 2015, respectively	31,314	33,418
Total non-current assets	53,185	57,639
TOTAL ASSETS	$ 10,289,117	$ 5,630,735
LIABILITIES AND SHAREHOLDER'S EQUITY:		
CURRENT LIABILITIES:		
Commercial paper	$ 2,071,753	$ 1,007,124
Loan payable to DTCC	55,000	99,000
Accounts payable	25	170
Payable to Participants	83,815	26,846
Clearing Fund:		
Cash deposits	7,223,157	3,847,082
Other deposits, at fair value	471,688	290,388
Other current liabilities	1,839	—
Total current liabilities	9,907,277	5,270,610
NON-CURRENT LIABILITIES:		
Non-current liabilities	8,020	6,875
Total liabilities	9,915,297	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	304,368	283,798
Total shareholder's equity	373,820	353,250
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 10,289,117	$ 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 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	$ 65,890	$ 62,841	$ 135,491	$ 127,791
Wealth management services	26,185	25,388	52,546	50,687
Settlement and asset services	—	336	—	679
Total revenues	92,075	88,565	188,037	179,157
EXPENSES:				
Employee compensation and related benefits	27,956	34,540	56,529	68,177
Information technology	6,373	2,916	14,480	9,653
Professional and other services	26,705	25,477	53,304	49,988
Occupancy	5,262	2,820	8,484	4,758
Depreciation and amortization	6,627	6,205	13,175	12,678
Other general and administrative, net	3,327	1,652	6,265	3,152
Total expenses	76,250	73,610	152,237	148,406
Total operating income	15,825	14,955	35,800	30,751
NON-OPERATING INCOME (EXPENSE):				
Interest income	2,659	124	4,100	231
Interest expense	(3,082)	(42)	(4,777)	(46)
Other non-operating expense	—	(12)	—	(7)
Total non-operating income (expense)	(423)	70	(677)	178
Income before taxes	15,402	15,025	35,123	30,929
Provision for income taxes	6,381	6,244	14,553	12,797
Net income	$ 9,021	$ 8,781	$ 20,570	$ 18,132

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 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	—	—	20,570	20,570
BALANCE - June 30, 2016 (unaudited)	$ 10	$ 69,442	$ 304,368	$ 373,820

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 six months ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 20,570	$ 18,132
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,175	12,678
Disposal of Premises and equipment	—	102
Deferred income taxes	742	(639)
Changes in operating assets and liabilities:		
Decrease (increase) in Accounts receivable	40,952	(55,991)
Increase in Other assets	(17,283)	—
Increase in Other Participants' assets	(290)	(13)
Decrease in Accounts payable	(145)	(1,366)
Increase in Other liabilities	2,242	4,479
Increase in Payable to Participants	56,969	12,563
Net cash provided by (used in) operating activities	116,932	(10,055)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Reverse repurchase agreements	(100,000)	—
Maturities of investments in marketable securities	7,400	—
Increase in Participants' segregated cash	(56,679)	(12,550)
Purchases of software	(8,356)	(6,422)
Purchases of Premises and equipment	(365)	—
Net cash used in investing activities	(158,000)	(18,972)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Commercial paper, net of maturities within 90 days	1,064,629	—
Proceeds received on loan from DTCC	—	100,000
Principal payments on loan from DTCC	(44,000)	—
Capital contribution from DTCC	—	35,000
Net cash provided by financing activities	1,020,629	135,000
Net increase in cash and cash equivalents	979,561	105,973
Cash and cash equivalents - Beginning of period	1,320,379	197,490
Cash and cash equivalents - End of period	$ 2,299,940	$ 303,463
SUPPLEMENTAL DISCLOSURES:		
Cash interest paid	$ 855	$ —
Cash income taxes paid to DTCC - net of refunds	$ 10,400	$ 9,211

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

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

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 Consolidated 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 Consolidated 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 Consolidated 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. 2015-02, *FASB ASC Topic 810, Consolidation*	The standard changed 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.	February 2015/ January 1, 2016	The adoption of this guidance did not have a material impact on the Company's Unaudited Condensed Consolidated Statements of Financial Condition, Statements of Income or Cash Flows.
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 Consolidated Statement of Financial Condition as of December 31, 2015. The adoption did not have a material impact to the Company's Audited Condensed Consolidated 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 Consolidated Statements of Financial Condition, Statements of 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 June 30, 2016 and December 31, 2015 were as follows (in thousands):

	2016	2015
Assets:		
Participants' segregated cash	$ 83,260	$ 26,581
Other Participants' assets	555	265
Total	$ 83,815	$ 26,846
Liabilities:		
Payable to Participants	83,815	26,846
Total	$ 83,815	$ 26,846

At June 30, 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 $83,260,000 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 June 30, 2016 and December 31, 2015 (in thousands):

	2016	2015
Clearing and transaction fees due from Participants	$ 31,948	$ 32,653
Other receivables	6,779	47,026
Total	$ 38,727	$ 79,679

There was no allowance for doubtful accounts as of June 30, 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 June 30, 2016 and December 31, 2015 were as follows (in thousands):

	2016	2015
Required deposits	$ 6,663,288	$ 3,164,627
Excess deposits	1,031,557	972,843
Total	$ 7,694,845	$ 4,137,470

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

	2016	2015
Cash deposits	$ 7,223,157	$ 3,847,082
Securities on deposit - at fair value	471,688	290,388
Total	$ 7,694,845	$ 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's rules, as of June 30, 2016 and December 31, 2015, were invested as follows (in thousands):

	2016	2015
Reverse repurchase agreements	$ 950,000	$ 615,000
Money market fund investments	1,353,000	2,382,000
Bank deposits	4,920,157	850,082
Total	$ 7,223,157	$ 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 were $12,564,000 and $2,563,000 for the six months ended June 30, 2016 and 2015 and $6,671,000 and $1,340,000 for the three months ended June 30, 2016 and 2015, respectively, in the Unaudited Condensed Consolidated Statements of Income.

7. COMMERCIAL PAPER

Details for commercial paper as of June 30, 2016 and December 31, 2015 were as follows (in thousands):

	2016	2015
Commercial paper	$ 2,071,753	$ 1,007,124

Under the commercial paper program, $2,072 million and $1,007 million was outstanding at June 30, 2016 and December 31, 2015, respectively. The average interest rates on these borrowings were 0.55% and 0.40% at June 30, 2016 and December 31, 2015, respectively. Total Interest expense included in the accompanying Unaudited Condensed Consolidated Statements of Income was $3,922,000 and $0 for the six months ended June 30, 2016 and 2015 and $2,671,000 and $0 for the three months ended June 30, 2016 and 2015, respectively.

8. DEBT

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 $55 million and $99 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	$ 55,000	$ 99,000

Total Interest expense included in the accompanying Unaudited Condensed Consolidated Statements of Income was $855,000 and $217,000 for the six months ended June 30, 2016 and 2015 and $416,000 and $217,000 for the three months ended June 30, 2016 and 2015, respectively.

Line of credit. The Company maintains a line of credit to support settlement. Terms of the outstanding line of credit as of June 30, 2016 and December 31, 2015 were as follows:

	2016	2015
Committed Amount	$10.9 billion	$12.1 billion
Number of Participants / Lenders	31/37	31/38
Borrowing Rate	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 June 30, 2016 and December 31, 2015.

Debt covenants. As of June 30, 2016 and December 31, 2015, the Company was in compliance with the applicable debt covenants.

Committed Line of Credit	2016	2015
Minimum Net Worth	$125 million	$100 million
Minimum Clearing Fund deposits	1 billion	1 billion

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.

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 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 NSCC were $1,505,000 and $4,027,000 for the six months ended June 30, 2016 and 2015 and $517,000 and $1,943,000, for the three months ended June 30, 2016 and 2015, respectively. These costs are included in Employee compensation and related benefits in the accompanying 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. There were 20,000 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 $35 million 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 June 30, 2016 and December 31, 2015 (in billions):

	2016	2015
NSCC	$ 274	$ 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") 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.

14. 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 Consolidated Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these Unaudited Condensed Consolidated Financial Statements.