

Fixed Income Clearing Corporation

Condensed Financial Statements
as of September 30, 2017 and December 31, 2016 and for the
three and nine months ended September 30, 2017 and 2016

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION
CONDENSED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands, except share data)	As of September 30, 2017	As of December 31, 2016
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 236,412	\$ 210,109
Accounts receivable	12,663	14,342
Clearing Fund:		
Cash deposits	8,216,523	9,660,414
Investments in marketable securities	25,000	25,000
Securities on deposit - at fair value	12,907,912	13,648,443
Other Participants' assets	1,055	867
Other current assets	2,246	2,265
Total current assets	<u>21,401,811</u>	<u>23,561,440</u>
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$17,633 and \$17,617 as of September 30, 2017 and December 31, 2016, respectively	707	723
Intangible assets - net of accumulated amortization of \$73,424 and \$111,504 as of September 30, 2017 and December 31, 2016, respectively	17,332	15,443
Total non-current assets	<u>18,039</u>	<u>16,166</u>
TOTAL ASSETS	<u><u>\$ 21,419,850</u></u>	<u><u>\$ 23,577,606</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY:		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 9,330	\$ 4,218
Clearing Fund:		
Cash deposits	8,241,523	9,685,414
Securities on deposit - at fair value	12,907,912	13,648,443
Payable to Participants	1,055	867
Other current liabilities	2,307	2,140
Total current liabilities	<u>21,162,127</u>	<u>23,341,082</u>
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	10,202	6,525
Total liabilities	<u>21,172,329</u>	<u>23,347,607</u>
COMMITMENTS AND CONTINGENCIES (Note 7)		
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	160,894	143,372
Total shareholder's equity	<u>247,521</u>	<u>229,999</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u><u>\$ 21,419,850</u></u>	<u><u>\$ 23,577,606</u></u>

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

FIXED INCOME CLEARING CORPORATION
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

(In thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
REVENUES:				
Clearing services	\$ 59,326	\$ 55,031	\$ 173,895	\$ 154,188
EXPENSES:				
Employee compensation and related benefits	18,433	20,700	57,048	57,413
Information technology	4,648	5,058	14,003	12,544
Professional and other services	20,755	17,728	61,405	51,019
Occupancy	1,339	(156)	4,001	4,522
Depreciation and amortization	2,046	2,110	6,456	9,904
General and administrative	739	(224)	2,298	2,591
Total expenses	47,960	45,216	145,211	137,993
Total operating income	11,366	9,815	28,684	16,195
NON-OPERATING INCOME (EXPENSE):				
Interest income	25,363	10,910	62,741	27,819
Refunds to Participants	(24,746)	(12,093)	(61,413)	(27,662)
Interest expense	—	(138)	—	(588)
Total non-operating income (expense)	617	(1,321)	1,328	(431)
Income before taxes	11,983	8,494	30,012	15,764
Provision for income taxes	4,964	3,285	12,490	6,683
Net income	\$ 7,019	\$ 5,209	\$ 17,522	\$ 9,081

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

FIXED INCOME CLEARING CORPORATION

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

<u>(In thousands)</u>	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholder's Equity</u>
BALANCE - January 1, 2016	\$ 10	\$ 86,617	\$ 127,524	\$ 214,151
Net income	—	—	15,848	15,848
BALANCE - December 31, 2016	10	86,617	143,372	229,999
Net income	—	—	17,522	17,522
BALANCE - September 30, 2017	<u>\$ 10</u>	<u>\$ 86,617</u>	<u>\$ 160,894</u>	<u>\$ 247,521</u>

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

FIXED INCOME CLEARING CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	For the nine months ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 17,522	\$ 9,081
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	6,456	9,904
Discount on Investments in marketable securities	(30)	(13)
Deferred income taxes	2,104	1,086
Net change in:		
Accounts receivable	1,679	15,802
Other assets	19	5,795
Accounts payable and accrued expenses	5,142	2,827
Other liabilities	1,740	715
Clearing Fund deposits	—	(75,000)
Net cash provided by/(used in) operating activities	<u>34,632</u>	<u>(29,803)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of Investments in marketable securities	50,000	100,000
Purchases of Investments in marketable securities	(50,000)	(25,000)
Purchases of Intangible assets	(8,329)	(4,434)
Net cash provided by/(used in) investing activities	<u>(8,329)</u>	<u>70,566</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment on loan payable to DTCC	—	(22,000)
Net cash provided by/(used in) financing activities	<u>—</u>	<u>(22,000)</u>
Net increase/(decrease) in Cash and cash equivalents	26,303	18,763
Cash and cash equivalents - Beginning of period	<u>210,109</u>	<u>215,440</u>
Cash and cash equivalents - End of period	<u>\$ 236,412</u>	<u>\$ 234,203</u>
SUPPLEMENTAL DISCLOSURES:		
Cash interest paid	<u>\$ —</u>	<u>\$ 607</u>
Cash income taxes paid to DTCC - net of refunds	<u>\$ 10,120</u>	<u>\$ (1,920)</u>

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

FIXED INCOME CLEARING CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

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 central counterparty (CCP) services to firms that participate in the U.S. government and mortgage-backed securities markets (collectively referred to as Participants). Services provided by FICC consist 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, Business Entity Data, B.V. and DTCC Solutions LLC.

FICC is designated as a Systemically Important Financial Market Utility (SIFMU) by the U.S. Financial Stability Oversight Council under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

2. BASIS OF PRESENTATION AND USE OF ESTIMATES

Basis of presentation. The accompanying Condensed Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The accompanying interim financial statements have not been audited. These interim financial statements do not include all of the information and notes required by U.S. GAAP for complete financial statements and should be read in conjunction with FICC's Audited Financial Statements for the years ended December 31, 2016 and 2015, which are located on the Company's website at <http://www.dtcc.com/legal/financial-statements>. See Note 2 in FICC's Audited Financial Statements for the years ended December 31, 2016 and 2015, for additional information on the Company's Summary of Significant Accounting Policies.

The 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.

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 Condensed 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 are based on judgment and available information as of September 30, 2017; therefore, actual results could differ materially from those estimates.

FIXED INCOME CLEARING CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

3. ACCOUNTING AND REPORTING DEVELOPMENTS

See Note 3 in FICC's Audited Financial Statements for the years ended December 31, 2016 and 2015, for additional information on the Company's Accounting and Reporting Developments.

Standard	Summary of guidance	Effects on financial statements
<i>Financial Accounting Standards Board Standards Issued, but not yet Adopted</i>		
Revenue Recognition - Revenue from contracts with customers <i>Issued May 2014</i>	<ul style="list-style-type: none"> Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service in the amount of consideration expected to be received. Changes the accounting for certain contract costs, including whether they may be offset against revenue in the accompanying Condensed Statements of Income, and requires additional disclosures about revenue and contract costs. May be adopted using a full retrospective approach or a modified, cumulative effect approach wherein the guidance is applied only to existing contracts as of the day of initial application, and to new contracts transacted after that date. 	<ul style="list-style-type: none"> The required effective date is January 1, 2018. The Company plans to adopt the revenue recognition guidance in the first quarter of 2018. The Company's implementation efforts include the identification of revenue within the scope of this guidance, as well as the evaluation of revenue contracts and related accounting policies. The Company does not anticipate changes to the recognition and timing of its revenues. The Company's review is ongoing, therefore additional impacts may be determined prior to adoption.

4. CLEARING FUND

Details for the Clearing Fund deposits as of September 30, 2017 and December 31, 2016 follow (in thousands):

	2017			2016		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	\$ 10,737,621	\$ 4,551,389	\$ 15,289,010	\$ 11,734,745	\$ 6,553,783	\$ 18,288,528
Excess deposits	5,158,015	702,410	5,860,425	4,176,982	868,347	5,045,329
Total	<u>\$ 15,895,636</u>	<u>\$ 5,253,799</u>	<u>\$ 21,149,435</u>	<u>\$ 15,911,727</u>	<u>\$ 7,422,130</u>	<u>\$ 23,333,857</u>

Details for the Clearing Fund deposits as of September 30, 2017 and December 31, 2016 follow (in thousands):

	2017			2016		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Cash deposits	\$ 5,707,296	\$ 2,509,227	\$ 8,216,523	\$ 6,001,717	\$ 3,658,697	\$ 9,660,414
Investments in marketable securities	—	25,000	25,000	—	25,000	25,000
Securities on deposit - at fair value	10,188,340	2,719,572	12,907,912	9,910,010	3,738,433	13,648,443
Total	<u>\$ 15,895,636</u>	<u>\$ 5,253,799</u>	<u>\$ 21,149,435</u>	<u>\$ 15,911,727</u>	<u>\$ 7,422,130</u>	<u>\$ 23,333,857</u>

FIXED INCOME CLEARING CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

Details for the Clearing Fund Cash deposits and Investments in marketable securities as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Bank deposits	\$ 5,565,523	\$ 6,441,414
Money market fund investments	1,976,000	2,669,000
Reverse repurchase agreements	675,000	550,000
U.S. Treasury bills	25,000	25,000
Total	<u>\$ 8,241,523</u>	<u>\$ 9,685,414</u>

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 \$24,746,000 and \$12,093,000 for the three months ended September 30, 2017 and 2016, respectively, and \$61,413,000 and \$27,662,000 for the nine months ended September 30, 2017 and 2016, respectively. The amounts refunded are included in Refunds to Participants in the accompanying Condensed Statements of Income.

5. DEBT

During 2016, the Company repaid a loan from its parent, DTCC. Interest on the loan from parent was \$0 and \$138,000 for the three months ended September 30, 2017 and 2016, respectively, and \$0 and \$588,000 for the nine months ended September 30, 2017 and 2016, respectively. These amounts were included in Interest expense in the accompanying Condensed Statements of Income.

See Note 8 in FICC's Audited Financial Statements for the years ended December 31, 2016 and 2015 for additional information.

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 September 30, 2017 follow:

Moody's ⁽¹⁾			S&P		
<u>Long-term</u>	<u>Short-term</u>	<u>Outlook</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Outlook</u>
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 the agency's Clearing Houses Rating Methodology introduced in January 2016.

6. PENSION AND POSTRETIREMENT BENEFITS

Eligible DTCC employees participate in DTCC's trustee non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. Eligible DTCC 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 its subsidiaries based primarily upon the proportion of each subsidiary's salary cost relative to DTCC's total salary cost. The benefit plan costs allocated to FICC were \$500,000 and \$471,000 for the three months ended September 30, 2017 and 2016, respectively, and \$1,383,000 and \$1,389,000 for the nine months ended September 30, 2017 and 2016, respectively. These costs are included in Employee compensation and related benefits in the accompanying Condensed Statements of Income.

FIXED INCOME CLEARING CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

7. 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 Condensed Statements of Financial Condition, Income or Cash Flows.

8. GUARANTEES

FICC, through GSD and MBSD, provides CCP services, including clearing, settlement and risk management services. 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 separate Clearing Funds for each of GSD and MBSD.

Details for each Division's open positions for which a trade guarantee applied as of September 30, 2017 and December 31, 2016 follow (in billions):

	<u>2017</u>	<u>2016</u>
GSD	\$ 1,006	\$ 890
MBSD	335	304

There were no defaults by Participants to these obligations.

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

9. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2017 through October 27, 2017, for potential recognition or disclosure in these accompanying Condensed Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these accompanying Condensed Financial Statements.