

National Securities Clearing Corporation

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

NATIONAL SECURITIES CLEARING CORPORATION

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NATIONAL SECURITIES CLEARING CORPORATION

CONDENSED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

<u>(In thousands, except share data)</u>	<u>As of March 31, 2017</u>	<u>As of December 31, 2016</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,893,878	\$ 2,767,668
Reverse repurchase agreements	—	100,000
Participants' segregated cash	29,586	15,886
Accounts receivable	32,815	32,284
Clearing Fund:		
Cash deposits	4,640,848	4,157,717
Securities on deposit - at fair value	201,602	242,239
Other Participants' assets	853	665
Other current assets	4,341	12,091
Total current assets	<u>7,803,923</u>	<u>7,328,550</u>
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$54,731 and \$53,631 as of March 31, 2017 and December 31, 2016, respectively	18,622	19,722
Intangible assets - net of accumulated amortization of \$90,356 and \$138,274 as of March 31, 2017 and December 31, 2016, respectively	32,283	32,907
Total non-current assets	<u>50,905</u>	<u>52,629</u>
TOTAL ASSETS	<u>\$ 7,854,828</u>	<u>\$ 7,381,179</u>
LIABILITIES AND SHAREHOLDER'S EQUITY:		
CURRENT LIABILITIES:		
Commercial paper - net of unamortized discount of \$2,706 and \$1,669 as of March 31, 2017 and December 31, 2016, respectively	\$ 2,542,860	\$ 2,554,020
Accounts payable	5,967	2,578
Payable to Participants	30,439	16,551
Clearing Fund:		
Cash deposits	4,640,848	4,157,717
Securities on deposit - at fair value	201,602	242,239
Other current liabilities	8,390	—
Total current liabilities	<u>7,430,106</u>	<u>6,973,105</u>
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	10,788	10,117
Total liabilities	<u>7,440,894</u>	<u>6,983,222</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
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	344,482	328,505
Total shareholder's equity	<u>413,934</u>	<u>397,957</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 7,854,828</u>	<u>\$ 7,381,179</u>

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

NATIONAL SECURITIES CLEARING CORPORATION

CONDENSED STATEMENTS OF INCOME (UNAUDITED)

(In thousands)	For the three months ended March 31,	
	2017	2016
REVENUES:		
Clearing services	\$ 70,558	\$ 68,993
Wealth management services	27,208	26,361
Other	785	608
Total revenues	<u>98,551</u>	<u>95,962</u>
EXPENSES:		
Employee compensation and related benefits	28,962	28,573
Information technology	9,062	8,107
Professional and other services	24,600	26,599
Occupancy	1,940	3,222
Depreciation and amortization	5,729	6,548
General and administrative	1,526	2,938
Total expenses	<u>71,819</u>	<u>75,987</u>
Total operating income	<u>26,732</u>	<u>19,975</u>
NON-OPERATING INCOME (EXPENSE):		
Interest income	5,867	1,441
Interest expense	<u>(5,486)</u>	<u>(1,695)</u>
Total non-operating income (expense)	<u>381</u>	<u>(254)</u>
Income before taxes	27,113	19,721
Provision for income taxes	11,136	8,172
Net income	<u>\$ 15,977</u>	<u>\$ 11,549</u>

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

NATIONAL SECURITIES CLEARING CORPORATION
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

(In thousands)	Common Stock	Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2016	\$ 10	\$ 69,442	\$ 283,798	\$ 353,250
Net income	—	—	44,707	44,707
BALANCE - December 31, 2016	10	69,442	328,505	397,957
Net income	—	—	15,977	15,977
BALANCE - March 31, 2017	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 344,482</u>	<u>\$ 413,934</u>

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

NATIONAL SECURITIES CLEARING CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	For the three months ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 15,977	\$ 11,549
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	5,729	6,548
Deferred income taxes	526	371
Net change in:		
Accounts receivable	(531)	(29,410)
Other assets	7,750	(1,844)
Other Participants' assets	(188)	(177)
Accounts payable	3,389	(164)
Other liabilities	8,535	6,517
Payable to Participants	13,888	(7,108)
Net cash provided by/(used in) operating activities	<u>55,075</u>	<u>(13,718)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (Purchase) of securities under Reverse repurchase agreements	100,000	(100,000)
Change in Participants' segregated cash	(13,700)	7,285
Purchases of Intangible assets	(4,005)	(3,585)
Purchases of Premises and equipment	—	(366)
Net cash provided by/(used in) investing activities	<u>82,295</u>	<u>(96,666)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in Commercial paper, net	(11,160)	408,869
Net cash provided by/(used in) financing activities	<u>(11,160)</u>	<u>408,869</u>
Net increase/(decrease) in Cash and cash equivalents	126,210	298,485
Cash and cash equivalents - Beginning of period	<u>2,767,668</u>	<u>1,320,379</u>
Cash and cash equivalents - End of period	<u>\$ 2,893,878</u>	<u>\$ 1,618,864</u>
SUPPLEMENTAL DISCLOSURE:		
Cash interest paid	<u>\$ 5,820</u>	<u>\$ 416</u>

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

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

1. BUSINESS AND OWNERSHIP

National Securities Clearing Corporation (NSCC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides central counterparty (CCP) services to members of the financial community (collectively referred to as Participants). Services provided by NSCC consist 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 and Business Entity Data, B.V..

NSCC is designated as a Systematically 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. As such, 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 NSCC'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 Notes 2 and 3 in NSCC'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 and Accounting and Reporting Developments, respectively.

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, by their nature, are based on judgment and available information as of March 31, 2017; therefore, actual results could differ materially from those estimates.

NATIONAL SECURITIES CLEARING CORPORATION**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)****AS OF MARCH 31, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016****3. 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, 2017 and December 31, 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Assets:		
Participants' segregated cash	\$ 29,586	\$ 15,886
Other Participants' assets	853	665
Total	<u>\$ 30,439</u>	<u>\$ 16,551</u>
Liabilities:		
Payable to Participants	\$ 30,439	\$ 16,551
Total	<u>\$ 30,439</u>	<u>\$ 16,551</u>

Participants' segregated cash represents cash received from Participants to facilitate their compliance with SEC customer protection rules. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

4. CLEARING FUND

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

	<u>2017</u>	<u>2016</u>
Required deposits	\$ 4,142,563	\$ 3,580,823
Excess deposits	699,887	819,133
Total	<u>\$ 4,842,450</u>	<u>\$ 4,399,956</u>

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

	<u>2017</u>	<u>2016</u>
Cash deposits	\$ 4,640,848	\$ 4,157,717
Securities on deposit - at fair value	201,602	242,239
Total	<u>\$ 4,842,450</u>	<u>\$ 4,399,956</u>

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

	<u>2017</u>	<u>2016</u>
Bank deposits	\$ 3,200,848	\$ 3,170,717
Money market fund investments	1,140,000	737,000
Reverse repurchase agreements	300,000	250,000
Total	<u>\$ 4,640,848</u>	<u>\$ 4,157,717</u>

Clearing Fund Cash deposits. Participant cash deposits to the Clearing Fund may be applied to satisfy obligations of the depositing Participants, as provided in NSCC's rules.

Refunds to Participants. Interest income earned from the investment of Clearing Fund deposits is refunded to Participants and totaled \$10,083,000 and \$5,893,000 for the three months ended March 31, 2017 and 2016, respectively. The amounts refunded are netted within Interest income in the accompanying Condensed Statements of Income.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

5. COMMERCIAL PAPER

Details for Commercial paper as of March 31, 2017 and December 31, 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Commercial paper - net of unamortized discount of \$2,706 and \$1,669 as of March 31, 2017 and December 31, 2016, respectively	\$ 2,542,860	\$ 2,554,020
Weighted-average interest rate	0.96%	0.75%

Interest expense on Commercial paper included in the accompanying Condensed Statements of Income was \$5,486,000 and \$1,251,000 for the three months ended March 31, 2017 and 2016, respectively.

Details for the cash flows associated with the issuance and maturities of Commercial paper for the three months ended March 31, 2017 and 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Maturities less than 90 days:		
Change in Commercial paper less than 90 days, net	\$ 68,999	\$ 373,008
Maturities greater than 90 days:		
Proceeds from Commercial paper	574,246	70,829
Repayments of Commercial paper	(654,405)	(34,968)
Change in Commercial paper greater than 90 days, net	<u>(80,159)</u>	<u>35,861</u>
Change in Commercial paper, net	<u>\$ (11,160)</u>	<u>\$ 408,869</u>

6. DEBT

During 2016, the Company repaid a loan from its parent, DTCC. Interest on the loan was \$0 and \$439,000 for the three months ended March 31, 2017 and 2016, respectively, and was included in Interest expense in the accompanying Condensed Statements of Income.

See Note 10 in NSCC's Audited Financial Statements for the years ended December 31, 2016 and 2015 for additional information.

Line of credit. The Company maintains a line of credit to support settlement. Details for the terms of the outstanding line of credit as of March 31, 2017 and December 31, 2016 follow:

	<u>2017</u>	<u>2016</u>
Committed Amount	\$10.9 billion	\$10.9 billion
Number of Participants / Lenders	31/37	31/37
Borrowing Rate	The greater of the federal funds offered rate, adjusted LIBOR, or lenders' cost of funds, on the day of borrowing, plus 1.40%.	

There were no borrowings under the line of credit as of March 31, 2017 and December 31, 2016.

Details for debt covenants related to the line of credit as of March 31, 2017 and December 31, 2016 follow:

	<u>2017</u>	<u>2016</u>
Minimum Net Worth	\$125 million	\$125 million
Minimum Clearing Fund deposits	1 billion	1 billion

As of March 31, 2017 and December 31, 2016, the Company was in compliance with its debt covenants.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

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 March 31, 2017 follow:

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

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

7. 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 NSCC were \$663,000 and \$988,000 for the three months ended March 31, 2017 and 2016, respectively. These costs are included in Employee compensation and related benefits in the accompanying Condensed Statements of Income.

8. 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.

9. GUARANTEES

NSCC provides 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 through its Clearing Fund.

Details for certain NSCC's open positions for which a trade guarantee applied as of March 31, 2017 and December 31, 2016 follow (in billions):

	2017	2016
NSCC	\$ 217	\$ 168

There were no defaults by Participants to these obligations.

See Note 17 in NSCC's Audited Financial Statements for the years ended December 31, 2016 and 2015 for additional information.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

10. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after March 31, 2017 through April 28, 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.