National Securities Clearing Corporation

Condensed Financial Statements
as of September 30, 2018 and December 31, 2017 and for the
three and nine months ended September 30, 2018 and 2017

NATIONAL SECURITIES CLEARING CORPORATION

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NATIONAL SECURITIES CLEARING CORPORATION

CONDENSED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands, except share data)	As of September 30, 2018	As of December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,892,665	$ 3,623,482
Participants' segregated cash	151,459	20,120
Accounts receivable	22,527	28,689
Clearing Fund	6,791,413	3,991,770
Other Participants' assets	1,478	1,196
Other current assets	28,335	18,004
Total current assets	13,887,877	7,683,261
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $4,726 and $4,352 as of September 30, 2018 and December 31, 2017, respectively	3,289	3,366
Intangible assets - net of accumulated amortization of $106,424 and $96,035 as of September 30, 2018 and December 31, 2017, respectively	29,835	27,606
Total non-current assets	33,124	30,972
TOTAL ASSETS	$ 13,921,001	$ 7,714,233
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Commercial paper - net of unamortized discount of $27,216 and $3,371 as of September 30, 2018 and December 31, 2017, respectively	$ 6,422,338	$ 3,222,571
Accounts payable and accrued expenses	8,270	1,868
Clearing Fund	6,791,413	3,991,770
Payable to Participants	152,937	21,316
Total current liabilities	13,374,958	7,237,525
OTHER NON-CURRENT LIABILITIES		
Other non-current liabilities	13,286	18,459
Total liabilities	13,388,244	7,255,984
COMMITMENTS AND CONTINGENCIES (Note 10)		
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	463,305	388,797
Total shareholder's equity	532,757	458,249
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 13,921,001	$ 7,714,233

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 September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
REVENUES				
Clearing services	$ 76,996	$ 67,763	$ 245,827	$ 208,774
Wealth management services	27,284	26,741	83,477	81,492
Other services	613	891	2,249	2,574
Total revenues	104,893	95,395	331,553	292,840
EXPENSES				
Employee compensation and related benefits	33,204	29,368	100,974	89,673
Information technology	10,330	8,772	31,372	26,561
Professional and other services	27,126	24,073	78,820	73,443
Occupancy	2,602	1,877	7,693	5,748
Depreciation and amortization	3,404	4,712	10,467	15,433
General and administrative	1,601	1,402	5,518	4,403
Total expenses	78,267	70,204	234,844	215,261
Total operating income	26,626	25,191	96,709	77,579
NON-OPERATING INCOME (EXPENSE)				
Interest income	62,701	26,098	154,574	62,515
Refunds to Participants	(32,560)	(15,285)	(89,444)	(38,180)
Interest expense	(33,545)	(11,254)	(71,899)	(27,589)
Other non-operating income	1,861	1,575	5,437	4,775
Total non-operating income (expense)	(1,543)	1,134	(1,332)	1,521
Income before taxes	25,083	26,325	95,377	79,100
Provision for income taxes	765	10,860	20,869	32,633
Net income	$ 24,318	$ 15,465	$ 74,508	$ 46,467

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, 2017	$ 10	$ 69,442	$ 328,505	$ 397,957
Net income	—	—	60,292	60,292
BALANCE - December 31, 2017	10	69,442	388,797	458,249
Net income	—	—	74,508	74,508
BALANCE - September 30, 2018	$ 10	$ 69,442	$ 463,305	$ 532,757

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 nine months ended September 30, 2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 74,508	$ 46,467
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	10,467	15,433
Deferred income taxes	3,587	1,581
Discount on Commercial paper outstanding	14,597	—
Net change in:		
Accounts receivable	6,162	(2,333)
Other assets	(10,331)	(7,198)
Other Participants' assets	(282)	(475)
Transfer of assets to DTCC	—	13,077
Accounts payable and accrued expenses	6,402	(2,563)
Other liabilities	(8,760)	4,444
Clearing Fund liabilities, net	2,648,672	431,433
Payable to Participants	131,621	(1,206)
Net cash provided by/(used in) operating activities	2,876,643	498,660
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of securities under Reverse repurchase agreements	—	100,000
Purchases of Investments in marketable securities	(8,600)	—
Maturities of investments in marketable securities	8,600	—
Purchases of Intangible assets	(12,619)	(8,811)
Net cash provided by/(used in) investing activities	(12,619)	91,189
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in Commercial paper, net	3,185,170	544,824
Net cash provided by/(used in) financing activities	3,185,170	544,824
Net increase/(decrease) in Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets	6,049,194	1,134,673
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	7,369,407	6,941,502
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	$ 13,418,601	$ 8,076,175
SUPPLEMENTAL DISCLOSURE:		
Cash interest paid	$ 50,855	$ 20,119
Cash income taxes paid to DTCC - net of refunds	$ 25,624	$ 24,488

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

1. BUSINESS AND OWNERSHIP

National Securities Clearing Corporation (NSCC or the Company) is organized as a business corporation under New York law, and is a clearing agency registered with the U.S. Securities and Exchange Commission (SEC). NSCC provides clearing, settlement, risk management, and central counterparty (CCP) services to its members (collectively referred to as Participants) for broker-to-broker trades involving equities, corporate and municipal debt, exchange-traded funds, and unit investment trusts.

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), DTCC ITP LLC (formerly known as Omgeo LLC), DTCC Deriv/SERV LLC, Business Entity Data, B.V. and DTCC Solutions LLC.

NSCC is designated as a Systemically Important Financial Market Utility (SIFMU) by the U.S. Financial Stability Oversight Council pursuant to Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which subjects the Company to enhanced standards for operation and governance, as established by the SEC's Standards for Covered Clearing Agencies (CCAS).

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 NSCC's Audited Financial Statements for the years ended December 31, 2017 and 2016, which are located on the Company's website at *http://www.dtcc.com/legal/financial-statements*. See Note 2 in NSCC's Audited Financial Statements for the years ended December 31, 2017 and 2016, 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.

The Company reclassified prior period amounts related to Refunds to Participants and certain components of net periodic pension cost allocated to conform to the current year presentation. See below and Note 3 for additional information.

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; therefore, actual results could differ materially from those estimates.

Revenue recognition. On January 1, 2018, the Company adopted Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers* under the full retrospective method of adoption. See Note 3 for additional information.

The Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that principle, the Company applies the following steps: identify the contract(s) with the customer, identify the performance obligations in the contract(s), determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation.

The Company enters into contracts that can include various services, in which each service, an explicit promise, is generally distinct and accounted for as separate performance obligations. Certain promised services are substantially the same and have the same pattern of transfer to the customer and therefore are considered as a series of services.

The Company recognizes revenue from contracts with customers as performance obligations are satisfied when promised services are transferred to the customer. The majority of the promised services and related performance obligations are recognized at the point in time when the control of the promised service is transferred to the customer. The amount of revenue recognized reflects the consideration the Company expects to be entitled to for transferring the promised services to the customer. For certain contracts with customers, the consideration in which the Company expects to be entitled to in exchange for transferring promised service to a customer consists of variable consideration. The variable consideration primarily relates to volume based discounts for certain services, however, the volume targets or thresholds typically reset on a monthly basis therefore, the variable consideration does not have an impact on the revenue recognition.

The Company derives its revenue from transaction fees and other services. Revenue from transaction fees is recognized at a point in time on the transaction date, as the customer obtains the control and benefit of the service at that point. Other services, which represents fees generated from offering referential based data and business processing solutions to financial institutions globally, is recognized when services are provided based on contractual terms. The Company typically bills its customers 30 days in arrears.

Revenue streams

Details for each revenue stream presented in the Company's Condensed Statements of Income follow:

Clearing services. The Company delivers clearing services across the U.S. equities markets. Clearing services include continuous net settlement and mortgage backed securities clearing.

Wealth management services. Drives centralized, automated processing and information services. Provides seamless, end-to-end communications with broker/dealers and other distribution partners are enabled for funds, asset managers and insurance companies and their service providers. Wealth management services include mutual fund, alternative investment, and insurance and retirement services.

Other services. DTCC Data Services offers referential and activity-based data, delivered in fixed or configurable formats, sourced from the Company's transaction, reference and position. Other services include data on market and benchmark analytics and security reference.

Accounts receivable and deferred revenue

The period in which the Company recognizes revenue may differ from the timing of payments received from customers. The Company records a receivable when revenue is recognized prior to payment and there is an unconditional right to payment. See Accounts receivable on the Condensed Statements of Financial Condition for the Company's receivables related to revenues from contracts with customers. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied. Deferred revenue represents the Company's contract liabilities related to billings or payments received in advance for other services, where the performance obligation has not yet been satisfied.

Impacts to previously reported results

The impact of the new revenue recognition standard on the Company's previously reported results for the three and nine months ended September 30, 2017 follows (in thousands):

	For the three months ended September 30, 2017			For the nine months ended September 30, 2017		
	As Previously Reported	New Revenue Standard Adjustment	As Restated	As Previously Reported	New Revenue Standard Adjustment	As Restated
Interest income	$ 10,813	$ 15,285	$ 26,098	$ 24,335	$ 38,180	$ 62,515
Refunds to Participants	—	(15,285)	(15,285)	—	(38,180)	(38,180)

Retirement benefits. On January 1, 2018, the Company adopted ASU 2017-07, *Compensation: Retirement Benefits* under the retrospective method of adoption. See Note 3 for additional information.

Impacts to previously reported results

The impact of the new retirement benefits standard on the Company's previously reported results for the three and nine months ended September 30, 2017 follows (in thousands):

	For the three months ended September 30, 2017			For the nine months ended September 30, 2017		
	As Previously Reported	New Retirement Benefits Standard Adjustment	As Restated	As Previously Reported	New Retirement Benefits Standard Adjustment	As Restated
Employee compensation and related benefits	$ 29,586	$ (218)	$ 29,368	$ 90,334	$ (661)	$ 89,673
Interest expense	(9,461)	(1,793)	(11,254)	(22,153)	(5,436)	(27,589)
Other non-operating income	—	1,575	1,575	—	4,775	4,775

Restricted cash. As a result of the adoption of ASU 2016-18, *Statement of Cash Flows: Restricted Cash* under the full retrospective method of adoption, (see Note 3), the Company has reported the cash and cash equivalents related to Participants' segregated cash, Clearing Fund cash deposits, Other Participants' assets within the beginning and ending balances of Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Other Participants' assets.

A reconciliation of Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets, reported within the Condensed Statements of Financial Condition that sum to the total of the same such amounts shown on the Condensed Statements of Cash Flows as of September 30, 2018 and December 31, 2017 follows (in thousand):

	2018	2017
Cash and cash equivalents	$ 6,892,665	$ 3,623,482
Participants' segregated cash	151,459	20,120
Clearing Fund cash deposits	6,374,246	3,725,574
Cash in Other Participants' assets	231	231
Total Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets shown on the Condensed Statements of Cash Flows	$ 13,418,601	$ 7,369,407

As a result of this accounting change, net cash provided by operating activities of approximately $3 billion is primarily driven by the change in Clearing Fund liabilities and Payable to Participants.

Impacts to previously reported results

The impact of the new cash flows standard on the Company's previously reported results as of September 30, 2017 follows (in thousands):

	As Previously Reported	New Restricted Cash Standard	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Clearing Fund liabilities, net	$ —	$ 431,433	$ 431,433
Net cash provided by/(used in) operating activities	67,227	431,433	498,660
CASH FLOWS FROM INVESTING ACTIVITIES			
Change in Participants' segregated cash	$ 1,681	$ (1,681)	$ —
Net cash provided by/(used in) investing activities	92,870	(1,681)	91,189

3. ACCOUNTING AND REPORTING DEVELOPMENTS

See Note 3 in NSCC's Audited Financial Statements for the years ended December 31, 2017 and 2016, for additional information on the Company's Accounting and Reporting Developments.

Standard	Description	Impact on the financial statements or other significant matters
Financial Accounting Standards Board Standard Issued, but not yet Adopted		
ASU 2018-14 Changes to the Disclosure Requirements for Defined Benefit Plans *Issued August 2018*	• Eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent.	• Effective January 1, 2021. • The Company is evaluating the impact on related disclosures in its Condensed Financial Statements.
ASU 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (CCA) That Is a Service Contract *Issued August 2018*	• Implementation costs incurred by customers in CCA that is a service contract are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance.	• Effective January 1, 2020. • The Company is evaluating the impact on its Condensed Financial Statements and related disclosures.
ASU 2018-13 Changes to the Disclosure Requirements for Fair Value Measurement *Issued August 2018*	• Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. • Public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. • Modifies certain disclosure requirements for nonpublic entities to make them less burdensome.	• Effective January 1, 2020. • The Company is evaluating the impact on related disclosures in its Condensed Financial Statements.

Standard	Description	Impact on the financial statements or other significant matters
Recently Adopted Accounting Standards		
ASU 2014-09 Revenue Recognition - Revenue from Contracts with Customers *Issued May 2014*	• Requires revenue from contracts with customers to 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.	• Adopted January 1, 2018. • The Company adopted the revenue recognition standard under the full retrospective transition method of adoption. • The Company's implementation efforts included the identification of revenue within the scope of the standard and the evaluation of revenue contracts using the practical expedient portfolio approach. • The adoption of the standard did not have a material impact to the recognition and timing of its revenues, but required the Company to change the presentation of Interest Income and Refunds to Participants from a net basis to a gross basis in the accompanying Condensed Statements of Income. See Note 2 for additional information.
ASU 2017-07 Compensation - Retirement Benefits *Issued March 2017*	• Requires the service cost component of net periodic pension and postretirement benefit cost to be reported separately in the Company's Condensed Statements of Income • Requires retrospective application and presentation in the Condensed Statements of Income. • Requires the service cost component in the same line item as other employee compensation costs and presentation of the other components in a different line item from the service cost component.	• Adopted January 1, 2018. • The adoption of the standard did not change the Company's net income, but required the Company to reclassify certain components of net periodic pension cost allocated to the Company (Note 8) from Total operating income to Total non-operating income (expense). The service cost component is presented in Employee compensation and related benefits, the interest cost component is presented in Interest expense, and all other components of net periodic pension cost are presented in Other non-operating income (expense) in the accompanying Condensed Statements of Income. See Note 2 for additional information.

Standard	Description	Impact on the financial statements or other significant matters
Recently Adopted Accounting Standards (continued)		
ASU 2016-18 Statement of Cash Flows - Restricted Cash *Issued November 2016*	• Requires inclusion of restricted cash in the cash and cash equivalents balances in the Condensed Statements of Cash Flows. • Requires additional disclosures to supplement the Condensed Statements of Cash Flows. • Requires retrospective application to all periods presented.	• Adopted April 1, 2018. • The Company adopted the new restricted cash standard under the retrospective method of adoption. • The adoption of the standard did not change the Company's Condensed Statements of Financial Condition or Statements of Income; however, it resulted in a presentation change related to the Condensed Statements of Cash Flows by broadening the definition of cash and cash equivalents to include items that are not on the balance sheet's cash line, e.g., Participants' segregated cash, Clearing Fund cash deposits and Cash in Other Participants' assets. See Note 2 for additional information.

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 September 30, 2018 and December 31, 2017 follow (in thousands):

	2018	2017
Assets:		
Participants' segregated cash	$ 151,459	$ 20,120
Other Participants' assets	1,478	1,196
Total	$ 152,937	$ 21,316
Liabilities:		
Payable to Participants	$ 152,937	$ 21,316

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.

5. CLEARING FUND

Details for the Clearing Fund deposits as of September 30, 2018 and December 31, 2017 follow (in thousands):

	2018	2017
Required deposits	$ 6,115,968	$ 3,360,160
Excess deposits	675,445	631,610
Total	$ 6,791,413	$ 3,991,770

Details for the Clearing Fund deposits as of September 30, 2018 and December 31, 2017 follow (in thousands):

	2018	2017
Cash deposits	$ 6,374,246	$ 3,725,574
Securities on deposit - at fair value	417,167	266,196
Total	$ 6,791,413	$ 3,991,770

Details for the Clearing Fund cash deposits as of September 30, 2018 and December 31, 2017 follow (in thousands):

	2018	2017
Bank deposits	$ 4,380,246	$ 2,820,574
Money market fund investments	1,609,000	595,000
Reverse repurchase agreements	385,000	310,000
Total	$ 6,374,246	$ 3,725,574

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

6. COMMERCIAL PAPER

Details for Commercial paper as of September 30, 2018 and December 31, 2017 follow (in thousands):

	2018	2017
Commercial paper - net of unamortized discount of $27,216 and $3,371 as of September 30, 2018 and December 31, 2017, respectively	$ 6,422,338	$ 3,222,571
Weighted-average interest rate	2.27%	1.43%

Interest expense on Commercial paper included in the accompanying Condensed Statements of Income was $31,424,000 and $9,461,000 for the three months ended September 30, 2018 and 2017, respectively, and $65,453,000 and $22,153,000 for the nine months ended September 30, 2018 and 2017, respectively.

Details for the cash flows associated with the issuance and maturities of Commercial paper for the nine months ended September 30, 2018 and 2017 follow (in thousands):

	2018	2017
Maturities less than 90 days:		
Proceeds from/(Repayments of) Commercial paper less than 90 days, net	$ 340,932	$ 283,436
Maturities greater than 90 days:		
Proceeds from Commercial paper	5,066,469	1,925,934
Repayments of Commercial paper	(2,222,231)	(1,664,546)
Proceeds from/(Repayments of) Commercial paper greater than 90 days, net	2,844,238	261,388
Change in Commercial paper, net	$ 3,185,170	$ 544,824

7. LINE OF CREDIT AND CREDIT RATINGS

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 September 30, 2018 and December 31, 2017 follow:

	2018	2017
Committed Amount	$12.1 billion	$12.2 billion
Number of Participants/Lenders	33/41	32/41

There were no borrowings under the line of credit as of September 30, 2018 and December 31, 2017.

Details for debt covenants related to the line of credit as of September 30, 2018 and December 31, 2017 follow:

	2018	2017
Minimum Net Worth	$125 million	$125 million
Minimum Clearing Fund deposits	$1 billion	$1 billion

As of September 30, 2018 and December 31, 2017, the Company was in compliance with its debt covenants.

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, 2018 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 the agency's Clearing Houses Rating Methodology.

8. PENSION AND POSTRETIREMENT BENEFITS

Eligible DTCC 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 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 health care program, which provides benefits to eligible retired employees.

Cost allocation. DTCC allocates the cost of these plans to its subsidiaries based primarily upon the estimated proportion of each subsidiary's salary cost relative to DTCC's total salary cost. The benefit plan costs allocated to NSCC were 506,000 and $712,000 for the three months ended September 30, 2018 and 2017, respectively, and $2,025,000 and $2,044,000 for the nine months ended September 30, 2018 and 2017, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income in the accompanying Condensed Statements of Income.

9. CAPITAL REQUIREMENTS

The capital requirements for NSCC is equal to the sum of the general business risk capital requirement and corporate contribution, as described below. The Company must meet the capital requirements by holding liquid net assets funded by equity, as described in rule 17Ad-22(e)(15) of the CCAS and clearing agency policy on capital requirements.

General Business Risk Capital Requirement. The general business risk capital requirement is determined according to Rule 17Ad-22(e)(15) of the CCAS and NSCC's clearing agency policy on capital requirements. The capital requirement is held to cover potential general business losses so that the Company can continue operations and provide services as a going concern if those losses materialize. It is determined based on the Company's general business risk profile and estimated time to execute a recovery or orderly wind-down of critical operations and, at a minimum, is equal to six months of operating expenses.

Corporate Contribution. The Company maintains an amount referred to as the corporate contribution, to be applied to losses of the Company as provided in the clearing agency rules. The amount of the corporate contribution is generally equal to 50% of the Company's general business risk capital requirement.

Details for general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the Company as of September 30, 2018 and December 31, 2017 follow (in thousands):

	2018	2017
General business risk capital requirement	$ 148,533	$ 142,035
Corporate contribution	74,267	71,017
Total requirement	222,800	213,052
Liquid net assets funded by equity	443,111	397,540
Excess/(shortfall)	$ 220,311	$ 184,488

10. 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.

11. 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. NSCC's trade guaranty attaches at the point of validation for locked-in submissions, or at the point of comparison and validation for bilateral submissions.

Details for certain NSCC's open positions for which a trade guarantee applied as of September 30, 2018 and December 31, 2017 follow (in billions):

	2018	2017
NSCC	$ 182	$ 135

There were no defaults by Participants to these obligations.

If NSCC incurs a loss resulting from the liquidation of a defaulting Participant and there is still a deficit after applying such Participant's deposits to the Clearing Fund (along with any other resources of, or attributable to, the defaulting Participant that NSCC may access under NSCC's rules), NSCC will, in accordance with NSCC's rules, satisfy this deficit by applying the corporate contribution, as described in Note 9, or such greater amount as the Board of Directors may determine, before allocating any remaining loss to Participants.

For purposes of loss allocation, Participant defaults are grouped together chronologically into discrete "event periods" of 10 business days. If there is remaining loss or liability from a group of Participant default events that occurred within the same event period, NSCC will assess its non-defaulting Participants as provided for in its rules. The process, in general, allocates any remaining losses or liabilities among the Participants of NSCC who were Participants on the first day of the event period, ratably in accordance with their average daily required deposit to the Clearing Fund over the prior 70 business days.

See Note 15 in NSCC's Audited Financial Statements for the years ended December 31, 2017 and 2016 for additional information.

12. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2018 through October 30, 2018, 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.