

National Securities Clearing Corporation

Condensed Financial Statements
as of March 31, 2019 and December 31, 2018 and for the
three months ended March 31, 2019 and 2018

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 March 31, 2019	As of December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,687,575	\$ 7,125,729
Participants' segregated cash	103,610	77,988
Short-term investments	700,000	800,000
Accounts receivable	22,776	22,865
Clearing Fund	8,315,763	8,265,535
Other Participants' assets	1,870	1,783
Other current assets	16,177	32,304
Total current assets	14,847,771	16,326,204
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$3,972 and \$3,948 as of March 31, 2019 and December 31, 2018, respectively	3,238	3,262
Intangible assets - net of accumulated amortization of \$111,623 and \$109,052 as of March 31, 2019 and December 31, 2018, respectively	33,423	30,991
Total non-current assets	36,661	34,253
TOTAL ASSETS	\$ 14,884,432	\$ 16,360,457
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Commercial paper - net of unamortized discount of \$44,253 and \$43,856 as of March 31, 2019 and December 31, 2018, respectively	\$ 5,847,406	\$ 7,436,141
Accounts payable and accrued expenses	13,557	4,805
Clearing Fund	8,315,763	8,265,535
Payable to Participants	105,480	79,771
Other current liabilities	6,149	—
Total current liabilities	14,288,355	15,786,252
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	16,154	15,473
Total liabilities	14,304,509	15,801,725
COMMITMENTS AND CONTINGENCIES (Note 2)		
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	510,471	489,280
Total shareholder's equity	579,923	558,732
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 14,884,432	\$ 16,360,457

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,	
	2019	2018
REVENUES		
Clearing services	\$ 81,990	\$ 87,409
Wealth management services	26,211	28,375
Other services	933	989
Total revenues	<u>109,134</u>	<u>116,773</u>
EXPENSES		
Employee compensation and related benefits	34,696	34,795
Information technology	8,435	8,010
Professional and other services	25,794	24,590
Occupancy	2,117	2,026
Depreciation and amortization	2,595	3,609
General and administrative	5,225	5,261
Total expenses	<u>78,862</u>	<u>78,291</u>
Total operating income	<u>30,272</u>	<u>38,482</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	95,260	40,595
Refunds to Participants	(50,494)	(26,832)
Interest expense	(47,821)	(14,484)
Other non-operating income	2,130	1,656
Total non-operating income (expense)	<u>(925)</u>	<u>935</u>
Income before taxes	29,347	39,417
Provision for income taxes	8,156	11,395
Net income	<u>\$ 21,191</u>	<u>\$ 28,022</u>

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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, 2019	\$ 10	\$ 69,442	\$ 489,280	\$ 558,732
Net income	—	—	21,191	21,191
BALANCE - March 31, 2019	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 510,471</u>	<u>\$ 579,923</u>

(In thousands)	Common Stock	Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2018	\$ 10	\$ 69,442	\$ 388,797	\$ 458,249
Net income	—	—	28,022	28,022
BALANCE - March 31, 2018	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 416,819</u>	<u>\$ 486,271</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,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 21,191	\$ 28,022
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	2,595	3,609
Deferred income taxes	509	366
Discount on Commercial paper outstanding	3,598	—
Net change in:		
Accounts receivable	89	861
Other assets	16,127	11,258
Other Participants' assets	50	964
Accounts payable and accrued expenses	8,752	4,925
Other liabilities	6,321	7,742
Clearing Fund liabilities, net	183,800	4,596,006
Payable to Participants	25,709	12,273
Net cash provided by/(used in) operating activities	<u>268,741</u>	<u>4,666,026</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Short-term investments	(300,000)	—
Maturities of Short-term investments	400,000	—
Purchases of Intangible assets	(5,003)	(2,945)
Net cash provided by/(used in) investing activities	<u>94,997</u>	<u>(2,945)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in Commercial paper, net (see Note 5)	(1,592,333)	20,279
Net cash provided by/(used in) financing activities	<u>(1,592,333)</u>	<u>20,279</u>
Net increase/(decrease) in Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets	(1,228,595)	4,683,360
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	<u>14,856,465</u>	<u>7,369,407</u>
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 13,627,870</u>	<u>\$ 12,052,767</u>
SUPPLEMENTAL DISCLOSURES:		
Cash interest paid	<u>\$ 42,207</u>	<u>\$ 12,059</u>
Cash income taxes paid to DTCC - net of refunds	<u>\$ (335)</u>	<u>\$ —</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, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

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, DTCC Deriv/SERV LLC 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, 2018 and 2017, 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, 2018 and 2017, 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; therefore, actual results could differ materially from those estimates.

Impacts to previously reported results. The Company reclassified prior period amounts related to capitalized software consultant cost, allocated depreciation and amortization and pension to conform to the current year presentation.

The impact of the change in presentation for capitalized software consultant cost on the Company's previously reported results for the three months ended March 31, 2018 follows (in thousands):

	For the three months ended March 31, 2018		
	As Previously Reported	Reclassification Presentation Adjustment	As Restated
Employee compensation and related benefits:			
Capitalized software consultant cost	\$ 33,773	\$ 1,022	\$ 34,795
Professional and other services:			
Capitalized software consultant cost	25,612	(1,022)	24,590

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

2. BASIS OF PRESENTATION AND USE OF ESTIMATES (CONTINUED)

The impact of the change in presentation for allocated depreciation and amortization on the Company's previously reported results for the three months ended March 31, 2018 follows (in thousands):

	For the three months ended March 31, 2018		
	As Previously Reported	Reclassification Presentation Adjustment	As Restated
Information technology	\$ 10,801	\$ (2,791)	\$ 8,010
Occupancy	2,575	(549)	2,026
General and administrative	1,921	3,340	5,261

The impact of the change in presentation for pension on the Company's previously reported results for the three months ended March 31, 2018 follows (in thousands):

	For the three months ended March 31, 2018		
	As Previously Reported	Reclassification Presentation Adjustment	As Restated
Employee compensation and related benefits: Pension	\$ 749	\$ 1,165	\$ 1,914
Employee compensation and related benefits: Other benefits	4,257	(1,165)	3,092

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, the Company has reported the cash and cash equivalents related to Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets within the beginning and ending balances of Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets on the accompanying Condensed Statements of Cash Flows.

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 accompanying Condensed Statements of Cash Flows for the three months ended March 31, 2019 and 2018 follow (in thousand):

	2019	2018
Cash and cash equivalents	\$ 5,687,575	\$ 3,697,599
Participants' segregated cash	103,610	32,267
Clearing Fund cash deposits	7,834,833	8,321,580
Cash in Other Participants' assets	1,852	1,321
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	<u>\$ 13,627,870</u>	<u>\$ 12,052,767</u>

As a result of this accounting change, net cash provided by operating activities of approximately \$269 million is primarily driven by the change in Clearing Fund liabilities and Payable to Participants.

Commitments and Contingencies. 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.

NATIONAL SECURITIES CLEARING CORPORATION**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)****AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018****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, 2019 and December 31, 2018 follow (in thousands):

	<u>2019</u>	<u>2018</u>
Assets:		
Participants' segregated cash	\$ 103,610	\$ 77,988
Other Participants' assets:		
Cash in Other Participants' assets	1,852	1,715
Other	18	68
Total Other Participants' assets	<u>1,870</u>	<u>1,783</u>
Total	<u>\$ 105,480</u>	<u>\$ 79,771</u>
Liabilities:		
Payable to Participants	<u>\$ 105,480</u>	<u>\$ 79,771</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, 2019 and December 31, 2018 follow (in thousands):

	<u>2019</u>	<u>2018</u>
Required deposits	\$ 6,324,375	\$ 6,830,444
Excess deposits	1,991,388	1,435,091
Total	<u>\$ 8,315,763</u>	<u>\$ 8,265,535</u>

Details for the Clearing Fund deposits as of March 31, 2019 and December 31, 2018 follow (in thousands):

	<u>2019</u>	<u>2018</u>
Cash deposits	\$ 7,834,833	\$ 7,651,033
Securities on deposit - at fair value	480,930	614,502
Total	<u>\$ 8,315,763</u>	<u>\$ 8,265,535</u>

Details for the Clearing Fund cash deposits as of March 31, 2019 and December 31, 2018 follow (in thousands):

	<u>2019</u>	<u>2018</u>
Bank deposits	\$ 5,820,833	\$ 5,720,033
Money market fund investments	1,639,000	1,556,000
Reverse repurchase agreements	375,000	375,000
Total	<u>\$ 7,834,833</u>	<u>\$ 7,651,033</u>

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

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

5. COMMERCIAL PAPER

Details for Commercial paper as of March 31, 2019 and December 31, 2018 follow (in thousands):

	<u>2019</u>	<u>2018</u>
Commercial paper - net of unamortized discount of \$44,253 and \$43,856 as of March 31, 2019 and December 31, 2018, respectively	\$ 5,847,406	\$ 7,436,141
Weighted-average interest rate	2.74%	2.59%

Interest expense on Commercial paper included in the accompanying Condensed Statements of Income was \$45,805,000 and \$12,483,000 for the three months ended March 31, 2019 and 2018, respectively.

Details for the cash flows associated with the issuance and maturities of Commercial paper for the three months ended March 31, 2019 and 2018 follow (in thousands):

	<u>2019</u>	<u>2018</u>
Maturities less than 90 days:		
Proceeds from/(Repayments of) Commercial paper less than 90 days, net	\$ (1,117,413)	\$ (71,034)
Maturities greater than 90 days:		
Proceeds from Commercial paper	1,253,692	551,005
Repayments of Commercial paper	(1,728,612)	(459,692)
Proceeds from/(Repayments of) Commercial paper greater than 90 days, net	(474,920)	91,313
Change in Commercial paper, net	<u>\$ (1,592,333)</u>	<u>\$ 20,279</u>

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 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 \$1,728,000 and \$1,914,000 for the three months ended March 31, 2019 and 2018, 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 based on the nature of the pension expense component.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

7. 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 the 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 the 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 March 31, 2019 and December 31, 2018 follow (in thousands):

	2019	2018
General business risk capital requirement	\$ 159,218	\$ 153,054
Corporate contribution	79,609	76,527
Total requirement	238,827	229,581
Liquid net assets funded by equity	495,916	445,732
Excess	\$ 257,089	\$ 216,151

8. 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 March 31, 2019 and December 31, 2018 follow:

	2019	2018
Committed Amount	\$12.1 billion	\$12.1 billion
Number of Participants/Lenders	33/41	33/41

There were no borrowings under the line of credit during 2019 and 2018.

Details for debt covenants related to the line of credit as of March 31, 2019 and December 31, 2018 follow:

	2019	2018
Minimum Net Worth	\$125 million	\$125 million
Minimum Clearing Fund deposits	\$1 billion	\$1 billion

As of March 31, 2019 and December 31, 2018, the Company was in compliance with its debt covenants.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

8. LINE OF CREDIT AND CREDIT RATINGS (CONTINUED)

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, 2019 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.

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. 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 guaranty applied as of March 31, 2019 and December 31, 2018 follow (in billions):

	2019		2018
NSCC	\$ 176	\$	176

There were no defaults by Participants to these obligations.

See Note 16 in NSCC's Audited Financial Statements for the years ended December 31, 2018 and 2017 for additional information.

10. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after March 31, 2019 through April 30, 2019, 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.