

National Securities Clearing Corporation

Financial Statements (Unaudited) as of September 30, 2024 and
December 31, 2023 and for the three and nine months ended
September 30, 2024 and 2023

NATIONAL SECURITIES CLEARING CORPORATION

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NATIONAL SECURITIES CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands, except share data)	As of September 30, 2024	As of December 31, 2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,589,009	\$ 13,459,115
Participants' segregated cash	6,845	57
Short-term investments	750,000	200,000
Accounts receivable - net of allowance for credit losses	26,488	24,276
Clearing Fund	10,823,261	12,386,378
Other Participants' assets	303	928
Other current assets	71,998	29,518
Total current assets	24,267,904	26,100,272
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$1,925 and \$1,853 as of September 30, 2024 and December 31, 2023, respectively	2,701	2,773
Intangible assets - net of accumulated amortization of \$69,872 and \$57,805 as of September 30, 2024 and December 31, 2023, respectively	34,739	36,863
Other non-current assets	24,825	816
Total non-current assets	62,265	40,452
TOTAL ASSETS	\$ 24,330,169	\$ 26,140,724
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Commercial paper - net of unamortized discount	\$ 7,540,893	\$ 9,076,862
Long-term debt, current portion	1,798,012	398,813
Accounts payable and accrued expenses	154,480	291,592
Clearing Fund	10,823,261	12,386,378
Payable to Participants	7,148	985
Other current liabilities	16,333	10,162
Total current liabilities	20,340,127	22,164,792
OTHER NON-CURRENT LIABILITIES:		
Long-term debt	3,203,166	3,332,961
Other non-current liabilities	6,728	5,621
Total non-current liabilities	3,209,894	3,338,582
Total liabilities	23,550,021	25,503,374
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
Additional paid-in capital	69,442	69,442
Retained earnings	710,696	567,898
Total shareholder's equity	780,148	637,350
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 24,330,169	\$ 26,140,724

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

NATIONAL SECURITIES CLEARING CORPORATION
STATEMENTS OF INCOME (UNAUDITED)

(In thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
REVENUES				
Clearing services	\$ 137,596	\$ 115,406	\$ 409,136	\$ 345,660
Wealth management services	31,870	30,762	96,166	91,910
Other services	2,498	2,261	7,462	6,921
Total revenues	<u>171,964</u>	<u>148,429</u>	<u>512,764</u>	<u>444,491</u>
EXPENSES				
Employee compensation and related benefits	54,681	49,405	168,067	156,442
Information technology	20,216	17,741	56,159	50,528
Professional and other services	36,779	37,275	104,798	98,214
Occupancy	3,604	3,567	9,729	10,125
Depreciation and amortization	4,357	5,268	12,139	17,285
General and administrative	9,902	7,296	31,574	21,484
Impairment of intangible assets	—	11,914	—	11,914
Total expenses	<u>129,539</u>	<u>132,466</u>	<u>382,466</u>	<u>365,992</u>
Total operating income	<u>42,425</u>	<u>15,963</u>	<u>130,298</u>	<u>78,499</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	334,163	347,959	1,045,709	983,352
Refunds to Participants	(146,505)	(152,061)	(497,994)	(427,561)
Interest expense	(168,605)	(163,830)	(489,776)	(455,013)
Other non-operating income, net	2,340	2,472	7,651	7,651
Total non-operating income	<u>21,393</u>	<u>34,540</u>	<u>65,590</u>	<u>108,429</u>
Income before taxes	63,818	50,503	195,888	186,928
Provision for income taxes	17,211	14,832	53,090	54,050
Net income	<u>\$ 46,607</u>	<u>\$ 35,671</u>	<u>\$ 142,798</u>	<u>\$ 132,878</u>

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

NATIONAL SECURITIES CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2024	\$ 10	\$ 69,442	\$ 567,898	\$ 637,350
Net income	—	—	48,215	48,215
BALANCE - March 31, 2024	10	69,442	616,113	685,565
Net income	—	—	47,976	47,976
BALANCE - June 30, 2024	10	69,442	664,089	733,541
Net income	—	—	46,607	46,607
BALANCE - September 30, 2024	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 710,696</u>	<u>\$ 780,148</u>

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2023	\$ 10	\$ 69,442	\$ 575,964	\$ 645,416
Net income	—	—	50,267	50,267
BALANCE - March 31, 2023	10	69,442	626,231	695,683
Net income	—	—	46,940	46,940
BALANCE - June 30, 2023	10	69,442	673,171	742,623
Net income	—	—	35,671	35,671
BALANCE - September 30, 2023	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 708,842</u>	<u>\$ 778,294</u>

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

NATIONAL SECURITIES CLEARING CORPORATION

STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	For the nine months ended September 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 142,798	\$ 132,878
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	12,139	17,285
Impairment of intangible assets	—	11,914
Deferred income taxes	(2,595)	(5,867)
Accretion of discount on Commercial paper, net of associated interest paid	(34,741)	9,630
Accretion of discount and amortization of debt issuance costs	6,820	7,230
Other	9	—
Net change in:		
Accounts receivable	(2,220)	562
Other assets	(42,479)	(32,111)
Accounts payable and accrued expenses	62,888	33,789
Other liabilities	7,589	27,324
Clearing Fund liabilities	(1,770,263)	(222,586)
Payable to Participants	6,163	(2,649)
Net cash used in operating activities	<u>(1,613,892)</u>	<u>(22,601)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Short-term investments	(1,850,000)	(1,150,000)
Maturities of Short-term investments	1,300,000	1,150,000
Capitalized software development costs	(9,943)	(12,510)
Net cash used in investing activities	<u>(559,943)</u>	<u>(12,510)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Commercial paper	30,621,447	41,876,152
Repayments of Commercial paper	(32,122,675)	(43,134,128)
Repayments on Long-term debt	—	(1,000,000)
Proceeds from issuance of Long-term debt, net of debt issuance costs	1,240,857	990,283
Dividend on common stock	(200,000)	(100,000)
Net cash used in financing activities	<u>(460,371)</u>	<u>(1,367,693)</u>
Net decrease in Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets	(2,634,206)	(1,402,804)
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	<u>25,239,082</u>	<u>25,040,127</u>
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 22,604,876</u>	<u>\$ 23,637,323</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 463,372</u>	<u>\$ 397,356</u>
Income taxes paid - net of refunds	<u>\$ 48,100</u>	<u>\$ 38,460</u>

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

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2024 AND DECEMBER 31, 2023 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

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 central counterparty (CCP) services, including clearing, settlement and risk management services to its members (referred to herein as its Participants) for 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, DTCC Solutions LLC and DTCC Digital (US) Inc.

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 risk management, operation and governance, as established by the SEC's Standards for Covered Clearing Agencies (CCAS).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying unaudited interim financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The interim financial statements exclude some of the disclosures required in audited financial statements and should be read in conjunction with NSCC's Audited Financial Statements for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, for additional information on the Company's Summary of Significant Accounting Policies.

The interim 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 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, impairment of intangible assets, fair value measurements, expense allocations 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.

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 Statements of Financial Condition, Income or Cash Flows.

Revenue recognition. The Company recognizes revenue to depict the transfer of promised services and related performance obligations to customers in an amount that reflects the consideration to which the entity expects to be entitled, upon satisfaction, in exchange for those services.

The Company derives its revenue from transaction fees, subscription revenue, and usage fees. Revenue from transaction fees is billed monthly and calculated based on the value and volume of executed transactions and the established fee schedules, less any applicable volume discounts. The volume targets or thresholds for the discounts primarily reset monthly. Subscription revenues are recognized ratably over the performance period of the relevant contract using a time elapsed measure of progress as the customer receives the benefits of the services throughout the term of the contract. Usage fees are recognized when services are provided based on contractual terms.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2024 AND DECEMBER 31, 2023 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Clearing services. Revenue derived from this revenue stream is in the form of transaction fees that are based on either the volume or value of trading activity. Services include the clearing and settlement of equity, corporate and municipal bond and unit investment trust transactions.

Wealth management services. Revenue derived from this revenue stream is in the form of transaction fees. Services include centralized, automated processing and information services for mutual fund, alternative investment, and insurance and retirement products.

Other services. Revenue derived from this revenue stream may be in the form of subscription revenue and usage fees, which include referential and activity-based announcement, security reference, and liquidity data through the DTCC Data Services product. These offerings are delivered in fixed or configurable formats, sourced from the Company's transaction, reference, position and asset servicing data.

Expense allocations. Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries, including NSCC, based upon their estimated use of such goods or services as determined by various allocation factors including level of support provided and utilization of technology resources. Accordingly, the expenses in the accompanying Statements of Income represent allocated costs including Employee compensation and related benefits, Information technology, Professional and other services, Occupancy and General and administrative.

Reconciliation of Cash and cash equivalents and other limited use cash. When reconciling the beginning and ending total amounts shown in the Statements of Cash Flows, the Company includes all cash on the Statements of Financial Condition, regardless of which line it is included. The Statement of Cash Flows includes Cash and cash equivalents and cash balances that are not available for general corporate purposes due to certain limitations, including - Participants' segregated cash, Clearing Fund cash deposits and Cash in Other Participants' assets.

A reconciliation of Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, and Cash in Other Participants' assets, reported within the Statements of Financial Condition that sum to the total of the same such amounts shown on the accompanying Statements of Cash Flows follows (in thousands):

	September 30, 2024	December 31, 2023	September 30, 2023
Cash and cash equivalents	\$ 12,589,009	\$ 13,459,115	\$ 12,655,328
Participants' segregated cash	6,845	57	143
Clearing Fund cash deposits (see Note 4)	10,008,719	11,778,982	10,979,190
Cash in Other Participants' assets	303	928	2,662
Total Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits and Cash in Other Participants' assets shown on the Statements of Cash Flows	<u>\$ 22,604,876</u>	<u>\$ 25,239,082</u>	<u>\$ 23,637,323</u>

Common stock dividend. On December 14, 2022, the Board of Directors approved a dividend in the amount of \$100 million from NSCC to DTCC, which was paid on March 24, 2023. On December 20, 2023, the Board of Directors approved a dividend in the amount of \$200 million from NSCC to DTCC, which was paid on January 8, 2024.

Global Events and Crises. Global pandemics, sanctions, war, global cyber outage or natural disasters may have an adverse impact on market, economic and geopolitical conditions and trigger a period of global economic slowdown. Such a slowdown may have a material impact on the Company's financial results including changes in revenue, interest rates, liquidity/credit, and government and regulatory policy. At this time, the Company has not experienced any material adverse financial impacts from these events and crises.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2024 AND DECEMBER 31, 2023 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Impact on the financial statements or other significant matters
<i>Financial Accounting Standards Board Standard Issued, but not yet Adopted</i>		
ASU 2023-09 - Income Taxes (Topic 740): Improvements to Income Tax Disclosures <i>Issued December 2023</i>	<ul style="list-style-type: none"> Enhances disclosures related to the rate reconciliation and income taxes paid. The amendment requires consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disaggregated by jurisdiction. The amendment requires disclosures of pretax income (or loss) and income tax expense (or benefit) to be consistent with the SEC Regulation S-X 210.4-08(h), Rules of General Application—General Notes to Financial Statements: Income Tax Expense, and eliminates disclosures that no longer are considered cost beneficial or relevant. 	<ul style="list-style-type: none"> Effective January 1, 2025. The adoption of the standard will not have a material impact on the Company's financial statements and related disclosures.

4. CLEARING FUND

Details for the Clearing Fund deposits as of September 30, 2024 and December 31, 2023 follow (in thousands):

	2024	2023
Total deposits	\$ 10,823,261	\$ 12,386,378
Less: Required deposits	9,567,079	8,349,399
Excess deposits	<u>\$ 1,256,182</u>	<u>\$ 4,036,979</u>

Cash and Securities. Details for cash and securities of the Clearing Fund, which may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company pursuant to NSCC's rules, as of September 30, 2024 and December 31, 2023 follow (in thousands):

	2024	2023
Cash and cash equivalents ⁽¹⁾	\$ 10,008,719	\$ 11,778,982
U.S. Treasury Securities	814,542	607,396
Total	<u>\$ 10,823,261</u>	<u>\$ 12,386,378</u>

(1) The Company's cash and cash equivalents of the Clearing Fund are all bank deposits as of September 30, 2024 and December 31, 2023.

5. INTANGIBLE ASSETS

The Company recognized impairment charges of \$0 and \$11,914,000 related to capitalized software for the three months and nine months ended September 30, 2024 and 2023, respectively. The impairment charges are included in Impairment of intangible assets in the accompanying Consolidated Statements of Income.

During the three and nine months ended September 30, 2023, the Company recognized impairments of internally developed software related to the Securities Financing Transactions project due to experienced delays in revenues and a significant reduction in revenue projections compared to the original forecast triggering an evaluation for impairment. The evaluation concluded that the \$11,914,000 carrying value of its internally developed software was not recoverable and exceeded its fair value.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2024 AND DECEMBER 31, 2023 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

6. COMMERCIAL PAPER

Details for Commercial paper as of September 30, 2024 and December 31, 2023 follow (in thousands):

	<u>2024</u>	<u>2023</u>
Commercial paper - net of unamortized discount of \$48,841 and \$92,370 as of September 30, 2024 and December 31, 2023, respectively	\$ 7,540,893	\$ 9,076,862
Weighted-average interest rate	5.19 %	5.46 %

Interest expense on Commercial paper, included in Interest expense in the accompanying Statements of Income, was \$110,044,000 and \$121,867,000 for the three months ended September 30, 2024 and 2023, respectively, and \$349,540,000 and \$353,762,000 for the nine months ended September 30, 2024 and 2023, respectively.

7. LONG-TERM DEBT

Details for Long-term debt as of September 30, 2024 and December 31, 2023 follow (in thousands):

	<u>2024</u>	<u>2023</u>
Senior notes ⁽¹⁾	\$ 5,001,178	\$ 3,731,774
Less: Current portion of long-term debt	(1,798,012)	(398,813)
Non-current portion of long-term debt	<u>\$ 3,203,166</u>	<u>\$ 3,332,961</u>

(1) The balances include (i) unamortized discount, (ii) unamortized debt issuance costs and (iii) the impact of the fair value hedge accounting on certain fixed-rate notes that have been swapped to floating rate through the use of interest rate swaps.

Details for principal payments due on Long-term debt for each of the next five years and thereafter follow (in thousands):

2024	\$ 400,000
2025	2,150,000
2026	625,000
2027	600,000
2028	600,000
Thereafter	625,000
Total	<u>\$ 5,000,000</u>

Senior notes. The proceeds from the issuances constitute liquid resources that, together with other liquid resources of the Company, are available to enable NSCC to affect the settlement of its payment obligations in the event of the default of any of its Participants pursuant to NSCC's rules.

Details of the senior notes as of September 30, 2024 follow (in thousands):

<u>Issue Date</u>	<u>Maturity</u>	<u>Payable</u>	<u>Rate</u>	<u>Principal Balance</u>	<u>Carrying Value</u>
April 23, 2020	April 23, 2025	Semi-annually	1.50%	\$ 1,000,000	\$ 999,052
December 7, 2020	December 7, 2025	Semi-annually	0.75%	750,000	748,304
November 21, 2022	November 21, 2024	Semi-annually	5.05%	400,000	399,812
November 21, 2022	November 21, 2027	Semi-annually	5.10%	600,000	600,289
May 30, 2023	May 30, 2025	Semi-annually	5.15%	400,000	399,148
May 30, 2023	May 30, 2028	Semi-annually	5.00%	600,000	595,841
June 26, 2024	June 26, 2026	Semi-annually	5.15%	625,000	621,906
June 26, 2024	June 26, 2029	Semi-annually	4.90%	625,000	636,826
				<u>\$ 5,000,000</u>	<u>\$ 5,001,178</u>

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7. LONG-TERM DEBT (CONTINUED)

Interest expense and amortization of discount and issuance costs, included in Interest expense in the accompanying Statements of Income, were \$48,955,000 and \$34,062,000 for the three months ended September 30, 2024 and 2023, respectively, and \$114,916,000 and \$84,539,000 for the nine months ended September 30, 2024 and 2023, respectively. The weighted-average interest rate was 3.70% and 2.65% as of September 30, 2024 and 2023, respectively. The aggregate unamortized debt issuance costs and discount associated with the senior notes were \$20,237,000 and \$17,915,000, as of September 30, 2024 and December 31, 2023, respectively.

Fair value hedge. The Company uses interest rate swaps to hedge the fair value of related fixed-rate senior notes. The Company designated the interest rate swaps as a fair value hedge of the related long-term debt and applied the short-cut method for hedge accounting purposes. The fair value of interest rate swaps are included in other assets or other liabilities in the accompanying Statement of Financial Condition.

Details of the outstanding fair value hedges as of September 30, 2024 and December 31, 2023 follow (in thousands):

Date Entered	Notional of Swap	Debt Amount Hedged	Fixed Rate Receivable	Floating Rate Payable	Fair Value in Other Assets / (Other Liabilities)	
					2024	2023
November 21, 2022	\$ 600,000	\$ 600,000	5.10 %	USD-Federal Funds-OIS Compound plus 1.365%	\$ 3,215	\$ 1,184
May 30, 2023	\$ 600,000	\$ 600,000	5.00 %	USD-Federal Fund-OIS Compound plus 1.4621%	1,081	(1,495)
June 26, 2024	\$ 625,000	\$ 625,000	4.90 %	USD-Federal Fund-OIS Compound plus 0.9138%	17,119	—
					<u>\$ 21,415</u>	<u>\$ (311)</u>

Interest rate swaps may expose the Company to credit-related losses in the event of nonperformance by its counterparty. Credit risk is monitored on an ongoing basis. See Note 15, Off Balance Sheet and Concentrations of Credit Risks, in NSCC's Audited Financial Statements for the years ended December 31, 2023 and 2022, for the Company's concentration of credit risk related to interest rate swaps.

Line of credit. The Company maintains a committed line of credit, pursuant to NSCC's rules, to support settlement of its payment obligations in the event any of its Participants default. Details for the terms of the outstanding line of credit as of September 30, 2024 and December 31, 2023 follow:

	2024	2023
Committed Amount	\$9.6 billion	\$9.5 billion
Number of Participants/Lenders	29/34	29/35
Borrowing Rate	The greatest of the FRBNY rate, Adjusted Daily Secure Overnight Financing Rate (SOFR), or zero on the day of borrowing, plus 1.40%	The greatest of the FRBNY rate, Adjusted Daily Secure Overnight Financing Rate (SOFR), or zero on the day of borrowing, plus 1.40%
Maturity Date	July 2025	April 2024
Annual Facility Fee	0.10% ⁽¹⁾	0.10% ⁽¹⁾

(1) The annual facility fee associated with maintaining the line of credit is included in Professional and other services in the accompanying Statements of Income.

There were no borrowings under the line of credit during 2024 and 2023.

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AS OF SEPTEMBER 30, 2024 AND DECEMBER 31, 2023 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

7. LONG-TERM DEBT (CONTINUED)

Details for debt covenants related to the line of credit as of September 30, 2024 and December 31, 2023 follow:

	2024	2023
Minimum Net Worth	\$200 million	\$200 million
Minimum Clearing Fund deposits	\$1.5 billion	\$1.5 billion

As of September 30, 2024 and December 31, 2023, 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 issuer credit ratings and ratings outlooks for the Company as of September 30, 2024 follow:

Moody's ⁽¹⁾			S&P		
Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
Aaa	P-1	Negative	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. FAIR VALUE MEASUREMENTS

See Note 9 in NSCC's Audited Financial Statements for the years ended December 31, 2023 and 2022, for the Company's valuation basis, including valuation techniques and inputs, as well as the fair value hierarchy used in measuring the Company's financial assets and liabilities that are both accounted for at fair value and at other than fair value.

Financial assets and liabilities measured at fair value on a recurring basis.

Fair value measurements for those items measured on a recurring basis as of September 30, 2024 and December 31, 2023 are summarized below (in thousands):

	2024			
	Total	Level 1	Level 2	Level 3
Assets:				
Clearing Fund				
U.S. Treasury Securities	\$ 814,542	\$ 814,542	\$ —	\$ —
Other non-current assets				
Interest rate swaps	21,415	—	21,415	—
Total	\$ 835,957	\$ 814,542	\$ 21,415	\$ —
Liabilities:				
Clearing Fund				
Securities liabilities	\$ 814,542	\$ 814,542	\$ —	\$ —
Total	\$ 814,542	\$ 814,542	\$ —	\$ —

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2024 AND DECEMBER 31, 2023 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

8. FAIR VALUE MEASUREMENTS (CONTINUED)

	2023			
	Total	Level 1	Level 2	Level 3
Assets:				
Clearing Fund				
U.S. Treasury Securities	\$ 607,396	\$ 607,396	\$ —	\$ —
Total	<u>\$ 607,396</u>	<u>\$ 607,396</u>	<u>\$ —</u>	<u>\$ —</u>
Liabilities:				
Clearing Fund				
Securities liabilities	\$ 607,396	\$ 607,396	\$ —	\$ —
Other non-current liabilities				
Interest rate swaps	311	—	311	—
Total	<u>\$ 607,707</u>	<u>\$ 607,396</u>	<u>\$ 311</u>	<u>\$ —</u>

Financial assets and liabilities measured at other than fair value. The carrying values, fair values and fair value hierarchy levels of all financial instruments measured at other than fair value on the accompanying Statements of Financial Condition as of September 30, 2024 and December 31, 2023 follow (in thousands):

	2024				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$12,589,009	\$12,589,009	\$12,589,009	\$ —	\$ —
Participants' segregated cash	6,845	6,845	6,845	—	—
Short-term investments	750,000	750,000	—	750,000	—
Clearing Fund:					
Cash deposits - Bank deposits	10,008,719	10,008,719	10,008,719	—	—
Other Participants' assets	303	303	303	—	—
Total	<u>\$23,354,876</u>	<u>\$23,354,876</u>	<u>\$22,604,876</u>	<u>\$ 750,000</u>	<u>\$ —</u>
Liabilities:					
Commercial paper	\$ 7,540,893	\$ 7,540,893	\$ —	\$ 7,540,893	\$ —
Clearing Fund:					
Cash deposits - Bank deposits	10,008,719	10,008,719	10,008,719	—	—
Payable to Participants	7,148	7,148	7,148	—	—
Long-term debt	4,979,763	5,008,022	—	5,008,022	—
Total	<u>\$22,536,523</u>	<u>\$22,564,782</u>	<u>\$10,015,867</u>	<u>\$12,548,915</u>	<u>\$ —</u>

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8. FAIR VALUE MEASUREMENTS (CONTINUED)

	Carrying Amount	Total Fair Value	2023		
			Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 13,459,115	\$ 13,459,115	\$ 13,459,115	\$ —	\$ —
Participants' segregated cash	57	57	57	—	—
Short-term investments	200,000	200,000	—	200,000	—
Clearing Fund:					
Cash deposits - Bank deposits	11,778,982	11,778,982	11,778,982	—	—
Other Participants' assets	928	928	928	—	—
Total	<u>\$ 25,439,082</u>	<u>\$ 25,439,082</u>	<u>\$ 25,239,082</u>	<u>\$ 200,000</u>	<u>\$ —</u>
Liabilities:					
Commercial paper	\$ 9,076,862	\$ 9,076,862	\$ —	\$ 9,076,862	\$ —
Clearing Fund:					
Cash deposits - Bank deposits	11,778,982	11,778,982	11,778,982	—	—
Payable to Participants	985	985	985	—	—
Long-term debt	3,731,774	3,682,992	—	3,682,992	—
Total	<u>\$ 24,588,603</u>	<u>\$ 24,539,821</u>	<u>\$ 11,779,967</u>	<u>\$ 12,759,854</u>	<u>\$ —</u>

Assets and liabilities measured at fair value on a non-recurring basis. There were no financial assets or liabilities measured at fair value on a non-recurring basis during the periods ended September 30, 2024 and December 31, 2023.

9. RETIREMENT PLANS

Defined contribution retirement plans. Eligible U.S. DTCC employees participate in one of two defined contribution plans, The Depository Trust & Clearing Corporation Employee Savings Plan (Employee Savings Plan) and The Depository Trust & Clearing Corporation Operations Level Employee Savings Plan (Operations Level Savings Plan). The Employee Savings Plan is a single employer plan covering non-bargaining unit employees. The Operations Level Savings Plan is a single employer plan covering bargaining unit employees.

Defined benefit pension and other postretirement benefit plans. Eligible DTCC employees participate in DTCC's non-contributory defined benefit pension and other postretirement plans, which provide for certain benefits upon retirement. DTCC's sponsored non-contributory plans include a defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan. The other postretirement plans include retiree medical and life insurance plans for eligible retired employees and their beneficiaries.

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 defined contribution retirement plans costs allocated to NSCC were expense of \$3,006,000 and \$2,984,000 for the three months ended September 30, 2024 and 2023, respectively, and expense of \$9,034,000 and \$8,416,000 for the nine months ended September 30, 2024 and 2023, respectively, and are included in Employee compensation and related benefits in the accompanying Statements of Income. The defined benefit pension and other postretirement benefit plans costs allocated to NSCC were expense of \$102,000 and \$96,000 for the three months ended September 30, 2024 and 2023, respectively, and income of \$294,000 and expense of \$332,000 for the nine months ended September 30, 2024 and 2023, respectively, and are included in Employee compensation and related benefits, Interest expense, and Other non-operating income, net, in the accompanying Statements of Income.

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10. INCOME TAXES

Rollforward of unrecognized tax benefits for the nine months ended September 30, 2024 and 2023 follow (in thousands):

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 4,720	\$ 1,747
Increases:		
Current period tax positions	688	345
Unrecognized tax benefit	5,408	2,092
Accrued interest	1,320	445
Ending balance	<u>\$ 6,728</u>	<u>\$ 2,537</u>

See Note 11 in NSCC's Audited Financial Statements for the years ended December 31, 2023 and 2022 for additional information pertaining to the Company's income taxes.

11. CAPITAL REQUIREMENTS

As required by Rule 17Ad-22(e)(15) of the CCAS and pursuant to the Clearing Agency Policy on Capital Requirements, the Company must meet its total capital requirement by holding liquid net assets funded by equity. The total capital requirement for NSCC is equal to the sum of the general business risk capital requirement and corporate contribution, as described below.

General Business Risk Capital Requirement. This 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 corporate contribution is applied to losses of the Company as provided in NSCC's rules. The amount of the corporate contribution is generally equal to 50% of the Company's general business risk capital requirement.

Details for the general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the Company as of September 30, 2024 and December 31, 2023 follow (in thousands):

	<u>2024</u>	<u>2023</u>
General business risk capital requirement	\$ 266,431	\$ 270,191
Corporate contribution	133,216	135,096
Total requirement	399,647	405,287
Liquid net assets funded by equity	748,097	637,350
Excess	<u>\$ 348,450</u>	<u>\$ 232,063</u>

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12. 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 default risk, NSCC uses risk-based margining to determine Participants' required cash and eligible securities deposits to its Clearing Fund, which are collected at the start of each business day and may also be collected on an intraday basis. NSCC's trade guaranty generally attaches at the point of validation for locked-in submissions, or at the point of comparison and validation for bilateral submissions.

Details for NSCC's open positions for which a trade guaranty applied as of September 30, 2024 and December 31, 2023 follow (in billions):

	<u>2024</u>	<u>2023</u>
NSCC	\$ 154	\$ 197

There were no defaults by Participants to these obligations in 2024 and 2023.

See Note 14 in NSCC's Audited Financial Statements for the years ended December 31, 2023 and 2022 for additional information on the Company's guarantees.

13. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2024 through October 29, 2024, the date these financial statements were available to be issued, for potential recognition or disclosure. No events or transactions occurred during such period that would require recognition or disclosure in these financial statements.