

Fixed Income Clearing Corporation

Financial Statements

as of and for the nine months ended September 30, 2013 and the
year ended December 31, 2012

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2013 AND DECEMBER 31, 2012

(In thousands)

	September 30, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
Cash and cash equivalents	\$11,857,410	\$ 7,818,522
Investments in marketable securities	199,975	215,956
Accounts receivable	13,088	12,313
Notes receivable from affiliates	-	20,000
Clearing fund securities, at fair value	8,865,852	8,411,178
Fixed assets - less accumulated depreciation and amortization of \$95,424 and \$88,317 at September 30, 2013 and December 31, 2012, respectively	34,407	33,216
TOTAL ASSETS	\$20,970,732	\$16,511,185
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	\$ 27,799	\$ 78,875
Deferred income taxes, net	4,645	4,081
Clearing fund:		
Cash deposits	11,918,150	7,869,887
Securities, at fair value	8,865,852	8,411,178
Total liabilities	20,816,446	16,364,021
SHAREHOLDER'S EQUITY:		
Common stock, \$.50 par value: 105,000 shares authorized, 20,400 shares issued and outstanding	10	10
Paid in capital	26,617	26,617
Retained earnings	127,659	120,537
Total shareholder's equity	154,286	147,164
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$20,970,732	\$16,511,185

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

UNAUDITED STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(In thousands)

	September 30, 2013	September 30, 2012
REVENUES:		
Revenue from clearing and other services	\$127,777	\$130,612
Interest income	<u>5,725</u>	<u>8,182</u>
Total revenues	133,502	138,794
Refunds to participants	<u>(5,657)</u>	<u>(7,910)</u>
Net revenues	<u>127,845</u>	<u>130,884</u>
EXPENSES:		
Employee compensation and related benefits	56,809	50,001
Information technology	12,795	10,205
Professional and other services	40,457	36,225
Occupancy	4,783	5,481
Other general and administrative	<u>518</u>	<u>1,531</u>
Total expenses	<u>115,362</u>	<u>103,443</u>
INCOME BEFORE PROVISIONS FOR INCOME TAXES	12,483	27,441
PROVISION FOR INCOME TAXES	<u>5,361</u>	<u>11,907</u>
NET INCOME	<u>\$ 7,122</u>	<u>\$ 15,534</u>

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

UNAUDITED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(In thousands)

	September 30, 2013	September 30, 2012
REVENUES:		
Revenue from clearing and other services	\$39,877	\$43,003
Interest income	1,453	3,144
Total revenues	41,330	46,147
Refunds to participants	(1,402)	(3,041)
Net revenues	39,928	43,106
EXPENSES:		
Employee compensation and related benefits	20,816	16,275
Information technology	4,748	3,728
Professional and other services	15,236	14,646
Occupancy	1,622	1,709
Other general and administrative	188	452
Total expenses	42,610	36,810
INCOME BEFORE PROVISIONS FOR INCOME TAXES	(2,682)	6,296
PROVISION FOR INCOME TAXES	(922)	2,992
NET INCOME	\$ (1,760)	\$ 3,304

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

UNAUDITED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(In thousands)

	September 30, 2013	September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$7,122	\$15,534
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of fixed assets	7,107	6,467
Net (discount accreted) premium amortized on investments in marketable securities	(19)	(13)
Deferred income taxes - net	564	(2,981)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(775)	(346)
Decrease in accounts payable and other liabilities	(51,076)	(170,898)
Increase in clearing fund cash deposits	4,048,263	198,125
Net cash provided by operating activities	<u>4,011,186</u>	<u>45,888</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in marketable securities	316,000	357,000
Purchases of investments in marketable securities	(300,000)	(318,882)
Decrease in note receivable from DTCC	20,000	-
Purchases of fixed assets	(8,298)	(8,744)
Net cash provided by investing activities	<u>27,702</u>	<u>29,374</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,038,888	75,262
CASH AND CASH EQUIVALENTS - Beginning of period	<u>7,818,522</u>	<u>8,264,254</u>
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 11,857,410</u>	<u>\$ 8,339,516</u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid to DTCC - net of refunds	<u>\$ 7,485</u>	<u>\$ 4,372</u>

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2013

1. BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the government and mortgage-backed securities markets (participants), consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification. FICC has two Divisions, the Government Securities Division (GSD) and the Mortgage Backed-Securities (MBSD) Division.

FICC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include National Securities and Clearing Corporation (NSCC), Depository Trust Company (DTC), DTCC Deriv/SERC LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited and Avox Limited.

The quarterly financial statements of FICC, which have been prepared in accordance with accounting principles generally accepted in the United States of America, should be read in conjunction with the annual financial statements as of December 31, 2012.

2. CLEARING FUND

FICC's rules require its participants to maintain clearing fund deposits based on calculated requirements, which at September 30, 2013 totaled \$15,539,851,000. The clearing fund is available to secure participants' obligations and in certain circumstances to satisfy other losses and liabilities of FICC, should they occur. All clearing fund cash and securities are recorded on the balance sheet. A summary of the total deposits held at September 30, 2013 including \$5,244,151,000 in excess of calculated requirements, follows:

(In thousands)	As of September 30, 2013		
	GS Division	MBS Division	Total
Cash	\$ 6,614,375	\$ 5,303,775	\$ 11,918,150
U.S. Treasury and Agency securities, at market	<u>6,849,419</u>	<u>2,016,433</u>	<u>8,865,852</u>
Total Deposits	<u>\$13,463,794</u>	<u>\$ 7,320,208</u>	<u>\$ 20,784,002</u>

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2013

(In thousands)	As of December 31, 2012		
	GS Division	MBS Division	Total
Cash	\$ 4,195,624	\$ 3,674,263	\$ 7,869,887
U.S. Treasury and Agency securities, at market	4,676,035	3,735,143	8,411,178
Total Deposits	<u>\$ 8,871,659</u>	<u>\$ 7,409,406</u>	<u>\$ 16,281,065</u>

3. OTHER MATTERS

Lehman Brothers Inc. and MF Global Inc. — On September 19, 2008, a Trustee was appointed, under the Securities Investor Protection Act (SIPA), to administer and liquidate the business of Lehman Brothers Inc. (LBI). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. (“Barclays”), which assets did not, however, include the accounts that LBI maintained at NSCC, FICC, and DTC.

As a result, the trustee, Barclays, and DTCC, on behalf and for the benefit of NSCC, FICC, and DTC (collectively, the “Clearing Agency Subsidiaries”) entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the close out of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify, and hold harmless DTCC, each of NSCC, FICC, and DTC, and their officers, directors, employees, owners, agents, and representatives against any and all losses, claims, damages, expenses (including legal fees), or liabilities that any of them may incur as a result of winding down and closing out the respective accounts, which guaranty is limited to a \$250,000,000 cash deposit (the “Cash Deposit”) it provided for that purpose.

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of LBI’s Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remain after the close out of the LBI Accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee.

The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the Trustee.

With respect to Lehman Brothers Inc., at September 30, 2013, DTCC and its subsidiaries held funds in the aggregate amount of \$63,978,000, including the balances of the Barclays’ Cash Deposit, Clearing and Participant Funds and matured money market instrument (MMI) accounts. As of September 30,

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2013

2013, DTCC had delivered to the Trustee of the LBI estate \$5,125,811,000 in cash and Clearing Fund securities valued at \$159,479,000, attributable to the LBI estate.

On October 31, 2011, a Trustee was appointed, under the SIPA, to administer and liquidate the business of MF Global Inc. ("MFG"). As part of the liquidation of MFG, any losses will first be satisfied in accordance with the rules and procedures of NSCC, FICC, DTC and EuroCCP, respectively (including through application of MFG's Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remains after the close out of the MFG Accounts and satisfaction of all obligations of NSCC, FICC, DTC and EuroCCP they will be remitted to the Trustee.

With respect to MF Global Inc., at September 30, 2013, DTCC and its subsidiaries held funds in the aggregate amount of \$28,992,000, including Clearing and Participant Funds and matured MMI accounts. As of September 30, 2013, DTCC had delivered to the Trustee of MFG \$237,987,000 in cash, attributable to the MF Global Inc. estate.

Management does not expect that there will be any losses attributable to the liquidation of the LBI or MFG accounts to be assessed against retained earnings or participants.