

National Securities Clearing Corporation

Consolidated Financial Statements as of and for the
Nine Months Ended September 30, 2014 and for the
Year Ended December 31, 2013

NATIONAL SECURITIES CLEARING CORPORATION

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NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except for share data)

	September 30, 2014 (unaudited)	December 31, 2013 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 173,706	\$ 181,045
Participant's segregated cash	100,788	118,232
Accounts receivable	37,336	24,556
Notes receivable from DTCC	16,635	18,415
Clearing fund:		
Cash deposits	4,710,101	3,101,838
Other deposits, at fair value	252,335	235,680
Other participant assets	183	235
Total current assets	<u>5,291,084</u>	<u>3,680,001</u>
NON-CURRENT ASSETS		
Premises and equipment - net of accumulated depreciation of \$63,381 and \$60,360 at September 30, 2014 and December 31, 2013, respectively	30,386	25,368
Intangible assets - net of accumulated amortization of \$99,550 and \$87,473 at September 30, 2014 and December 31, 2013, respectively	37,511	37,851
Other non-current assets	9,202	9,080
Total non-current assets	<u>77,099</u>	<u>72,299</u>
TOTAL ASSETS	<u>\$ 5,368,183</u>	<u>\$ 3,752,300</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,196	\$ 16,257
Clearing fund:		
Cash deposits and marketable securities	4,710,101	3,101,838
Other deposits, at fair value	252,335	235,680
Payable to participants	100,971	118,467
Other current liabilities	10,636	8,048
Current portion of long-term debt	3,023	2,705
Total current liabilities	<u>5,078,262</u>	<u>3,482,995</u>
NON-CURRENT LIABILITIES		
Long-term debt and other borrowings	13,612	19,657
Other non-current liabilities	4,904	4,848
Total non-current liabilities	<u>18,516</u>	<u>24,505</u>
Total liabilities	<u>5,096,778</u>	<u>3,507,500</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)		
SHAREHOLDER'S EQUITY		
Common stock, \$0.50 par value - 30,000 shares authorized, 20,000 shares issued and outstanding	10	10
Paid-in capital	34,442	34,442
Retained earnings	236,953	210,743
	<u>271,405</u>	<u>245,195</u>
Accumulated other comprehensive loss		
Unrealized loss on derivative, net of tax	-	(395)
Total shareholder's equity	<u>271,405</u>	<u>244,800</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 5,368,183</u>	<u>\$ 3,752,300</u>

See notes to consolidated financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (In thousands)

	For the nine months ended September 30,	
	2014	2013
REVENUES:		
Clearing services	\$ 177,996	\$ 148,416
Investment product services	73,469	70,439
Settlement and asset services	430	285
Other revenue	2,109	3,587
Total revenues	254,004	222,727
EXPENSES:		
Employee compensation and related benefits	89,357	80,221
Information technology	23,655	20,013
Professional and other services	67,267	57,325
Occupancy	8,649	8,595
Depreciation and amortization	15,098	11,038
Other general and administrative, net	4,003	1,000
Total expenses	208,029	178,192
Total operating income	45,975	44,535
NON-OPERATING INCOME (EXPENSE):		
Interest income	548	422
Interest expense	(1,033)	(648)
Total non-operating income (expense)	(485)	(226)
Income before taxes	45,490	44,309
Provision for income taxes	19,280	18,009
Net income	26,210	26,300
OTHER COMPREHENSIVE INCOME		
Unrealized gain on derivatives, net of tax	395	274
COMPREHENSIVE INCOME	\$ 26,605	\$ 26,574

See notes to consolidated financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (In thousands)

	For the three months ended September 30,	
	2014	2013
REVENUES:		
Clearing services	\$ 57,833	\$ 49,402
Investment product services	24,473	23,837
Settlement and asset services	243	143
Other revenue	594	1,033
Total revenues	<u>83,143</u>	<u>74,415</u>
EXPENSES:		
Employee compensation and related benefits	30,808	28,261
Information technology	8,836	7,379
Professional and other services	24,101	24,611
Occupancy	2,958	2,911
Depreciation and amortization	5,282	4,233
Other general and administrative, net	1,558	387
Total expenses	<u>73,543</u>	<u>67,782</u>
Total operating income	<u>9,600</u>	<u>6,633</u>
NON-OPERATING INCOME (EXPENSE):		
Interest income	53	204
Interest expense	(652)	(210)
Total non-operating income (expense)	<u>(599)</u>	<u>(6)</u>
Income before taxes	9,001	6,627
Provision for income taxes	<u>4,283</u>	<u>2,301</u>
Net income	4,718	4,326
OTHER COMPREHENSIVE INCOME		
Unrealized gain on derivatives, net of tax	403	12
COMPREHENSIVE INCOME	<u>\$ 5,121</u>	<u>\$ 4,338</u>

See notes to consolidated financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (In thousands)

For the years ended:	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Total Shareholder's Equity
				Derivative Instruments	
BALANCE - December 31, 2012 (audited)	\$ 10	\$ 34,442	\$ 176,036	\$ (741)	\$ 209,747
Net income	-	-	34,707	-	34,707
Other comprehensive gain on derivative, net of tax	-	-	-	346	346
BALANCE - December 31, 2013 (audited)	\$ 10	\$ 34,442	\$ 210,743	\$ (395.00)	\$ 244,800
Net income	-	-	26,210	\$ -	26,210
Other comprehensive gain on derivative, net of tax	-	-	-	\$ 395.00	395
BALANCE - September 30, 2014 (unaudited)	\$ 10	\$ 34,442	\$ 236,953	\$ -	\$ 271,405

See notes to consolidated financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the nine months ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 26,210	\$ 26,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,098	11,039
Net premium amortized on investments in marketable securities	-	-
Deferred income taxes	(137)	4,428
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(12,780)	14,043
Decrease (increase) in other assets	1,795	(673)
Decrease in other participant assets	52	52
(Decrease) increase in accounts payable	(15,061)	1,855
Increase (decrease) in other liabilities	3,039	(15,054)
(Decrease) increase in payable to participants	(17,496)	79
Net cash provided by operating activities	<u>720</u>	<u>42,069</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in marketable securities	-	20,028
Repayment of notes receivable to DTCC	-	21,600
Change in segregated cash	17,444	(131)
Purchases of software	(11,736)	(13,253)
Purchases of equipment	(8,040)	(3,069)
Net cash (used in) provided by investing activities	<u>(2,332)</u>	<u>25,175</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(5,727)	(1,713)
Net cash used in financing activities	<u>(5,727)</u>	<u>(1,713)</u>
Net (decrease) increase in cash and cash equivalents	<u>(7,339)</u>	<u>65,531</u>
Cash and cash equivalents - Beginning of period	\$ 181,045	\$ 105,118
Cash and cash equivalents - End of period	<u>\$ 173,706</u>	<u>\$ 170,649</u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid - net of refunds	<u>\$ 17,884</u>	<u>\$ 18,922</u>
Interest paid	<u>\$ 264</u>	<u>\$ 300</u>

See notes to consolidated financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

1. BUSINESS AND OWNERSHIP

National Securities Clearing Corporation and subsidiary (NSCC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the financial community (participants), consisting principally of securities trade capture, clearance, netting, settlement and risk management services.

NSCC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include The Depository Trust Company (DTC), Fixed Income Clearing Corporation (FICC), OMGEO LLC (Omgeo), DTCC Deriv/SERV LLC, DTCC Solutions LLC, Business Entity Data B.V. (BED) and Avox Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The quarterly financial statements of NSCC have been prepared in accordance with generally accepted accounting principles in the United States, should be read in conjunction with the annual financial statements as of December 31, 2013. The consolidated financial statements include the accounts of NSCC and its wholly-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Management makes estimates regarding the collectability of receivables, the outcome of litigation, the realization of deferred taxes, the recognition of unrecognized tax benefits, the fair value measurements, and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could materially differ from those estimates.

Cash and Cash Equivalents. All highly liquid investments purchased with an original maturity of three months or less at the date of acquisition are classified as cash and cash equivalents. Cash equivalents consist primarily of highly liquid investments in time deposits held in banks.

Participant's Segregated Cash. NSCC receives cash from Participants for the exclusive benefit of the Participants' customers for the Participants' compliance with SEC rule 15c3-3 (customer protection).

Investments in Marketable Securities. The Company's investments consist principally of U.S. Treasury securities. The maturity of marketable securities is typically 12 months or less. All of the marketable securities are classified as held-to-maturity and are recorded at amortized cost. The Company intends and has the ability to hold all held-to-maturity securities to maturity. The Company does not intend to reclassify any amount of held-to-maturity investments to available-for-sale or trading investments.

The Company performs a periodic review of its investment portfolio for impairment. A debt security is considered impaired if its fair value is less than its carrying value. The decline in fair value is determined to be other-than-temporary impairment if (a) The Company has the intent to sell the impaired debt security or (b) it is more likely than not the Company will be required to sell the security before the recovery of the amortized cost. Additionally, regardless of whether there is intention to sell or requirement to sell, if the Company does not expect to recover the entire amortized cost basis, the impaired debt security is considered an other-than-temporary impairment. NSCC does not intend to sell those securities and it is not more likely than not that NSCC will have to sell.

Fair Value Measurements. The guidance related to "Fair Value Measurements" included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

Valuation Hierarchy. FASB ASC Topic 820 established a three-level valuation hierarchy for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets as of the valuation date.

Level 2 — Inputs to the valuation methodology are other than unadjusted quoted market prices for similar assets and liabilities in active markets, which are either directly or indirectly observable as of the valuation date or can be derived principally from or corroborated by observable market data.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial Instruments Measured at Fair Value. The Company has established processes for determining fair values. Fair value is based upon quoted market prices in active markets, where available. Where quotes from recent exchange transactions are not available, the Company determines fair values based on discounted cash flow analyses, comparison to similar instruments. Discounted cash flow analyses are dependent upon estimated future cash flows and the level of interest rates.

Financial Instruments Not Measured at Fair Value. The carrying amounts of the financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods. However, active markets do not exist for a significant portion of these instruments. For financial instruments where quoted prices for identical assets and liabilities in active markets do not exist, the Company determines fair value based on discounted cash flow analyses and comparable pricing of similar instruments.

The Company uses recently executed transactions, other observable market data such as exchange data, broker/dealer quotes, third-party pricing vendors and aggregation services for determining the fair values of financial instruments. The Company assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches to ensure that the highest-ranked market data source is used to validate fair value of financial instruments.

Accounts Receivable. Accounts receivable are stated at cost, net of allowance. The Company establishes an allowance for doubtful accounts for accounts receivable to ensure the Company has not overstated receivable balances due to uncollectibility. The Company determines the need for an allowance based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, historical experience and the financial condition of customers, and other debtors.

Clearing Fund. Margin deposits and participant contributions are maintained within the Clearing Fund on the Consolidated Statements of Financial Condition due to the benefits and risk ownership incurred by the Company. Deposits and contributions may be in the form of cash and cash equivalents or securities. These deposits may be applied to satisfy obligations of the depositing participant, other participants, or the Company as provided in the Company's rules.

Cash Deposits. Deposits and contributions received in the form of cash may be invested in reverse repurchase agreements, investment in commercial paper bank sweep deposits, money market funds, direct obligations of the U.S. Government and bank deposits. Reverse repurchase agreements provide for NSCC's delivery of cash in exchange for securities having a fair value, which is at least 102% of the amount of the agreements. Securities purchased under reverse repurchase agreements are typically U.S. Treasury and agency securities. Reverse repurchase agreements are recorded at the contract amounts. Any interest earned on these investments is accrued and is included within interest income in the Consolidated Statements of Income and Comprehensive Income. Any amounts that were passed through to participants are included as refunds to participants.

Other Deposits, at Fair Value. Other deposits may include U.S. Treasury Securities, U.S. agency-issued debt securities, and U.S. agency residential mortgage-backed securities. Any interest earned on these investments is accrued and included within interest income in the Consolidated Statements of Income and Comprehensive Income. Any amounts that were passed through to participants are included as refunds to participants.

Premises and Equipment. Premises and equipment are stated at cost, net of accumulated depreciation. Routine maintenance, repairs and replacement costs are expensed as incurred and improvements that appreciably extend the useful life of the assets are capitalized. When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income. Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable.

Leasehold improvements are amortized using the straight line method over their useful lives or the remaining term of the related lease, whichever is shorter. Furniture and equipment are depreciated over estimated useful lives ranging from five to seven years, using accelerated double declining methods. Building and improvements are primarily amortized over 39 years using the straight line method. Depreciation expense for leasehold improvements, furniture and equipment, and buildings and improvements is included in depreciation and amortization in the Consolidated Statements of Income and Comprehensive Income.

Identified Intangible Assets. Identified intangible assets with finite lives are amortized in a pattern consistent with the assets' identifiable cash flows or using a straight-line method over their remaining estimated benefit periods if the pattern of cash flows is not estimable. Intangible assets with finite lives are reviewed for possible impairments when events or changed circumstances may affect the underlying basis of the asset.

Capitalized Software. The Company capitalizes costs relating to acquired software and internal-use software projects that provide new or significantly improved functionality. The Company capitalizes projects that are expected to result in longer-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. Once the software is ready for its intended use, the Company amortizes the capitalized cost on a straight line basis over an estimated useful life of two to five years. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is recorded in intangible assets.

The Company considers many factors, including estimated future utility to estimate cash flows. Impairments are reviewed annually or more frequently if certain events or circumstances exist. The Company calculates the estimated fair value of finite lived intangible assets using undiscounted cash flows expected to result from the use of intangible assets or group of assets.

Impairment of Long-Lived Assets. The Company evaluates long-lived assets for impairment losses when indicators of impairment are present. The Company periodically evaluates the recoverability of long lived assets when events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. When indicators of impairment are present, the carrying values of the assets are evaluated in relation to the operating performance and future undiscounted cash flows of the underlying business. The net book value of the underlying asset is adjusted to its fair value if the sum of the future undiscounted cash flows is less than its book value. Fair values are based on estimates of market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk. Impairment losses are included in general and administrative expenses on the accompanying Consolidated Statements of Income and Comprehensive Income.

The Company considers the following to be important factors that could trigger an event driven impairment review:

- Significant underperformance relative to historical or projected future operating results;
- Identification of other impaired assets within a reporting unit;
- A more likely than not expectation a reporting unit or a significant portion of a reporting unit will be sold;
- Significant adverse changes in business climate or regulations;
- Significant changes in the manner of use of the acquired assets or the strategy for the Company's overall business or significant negative industry or economic trends.

Derivatives and Hedging. The Company enters into various derivative financial instruments for non-trading purposes primarily as part of its asset/liability management process. These derivatives are designated as either fair value or cash flow hedges of certain assets and liabilities when NSCC enters into the derivative contracts. Gains and losses associated with fair value hedges are recorded in income as well as any change in the value of the related hedged item associated with the designated risks being hedged. Gains and losses on cash flow hedges are recorded in Other Comprehensive Income (OCI), until reclassified into earnings to meet the risks being hedged. The Company formally documents all relationships between

hedging instruments and hedged items, as well as the Company's risk-management objectives and strategy for undertaking various hedging transactions. Hedge accounting is applied when a derivative is highly effective at reducing the risk associated with the hedged exposure and the risk management objective and strategy are documented. Hedge documentation identifies the derivative hedging instrument, the asset or liability and type of risk hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively.

Revenue Recognition. Revenue is generally recognized as services are rendered. Activities are captured daily and billed on a monthly basis. Interest income is recorded on an accrual basis. The Company's revenue primarily consists of clearing services and investment product services.

Income Taxes. Deferred tax assets and liabilities are reported in other current and non-current assets and liabilities, net, in the Consolidated Statements of Financial Condition and represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the tax authorities.

Expense Allocations. Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries including NSCC, based upon their use of such goods or services as determined by applicable allocation factors, including headcount, square footage and utilization of technology resources. Accordingly, the expense classifications on the Consolidated Statements of Income and Comprehensive Income represents the allocated expenses, including employee compensation and related benefits, information technology, occupancy, depreciation and amortization, and other general and administrative expenses.

3. OTHER PARTICIPANT ASSETS & PAYABLE TO PARTICIPANTS

Details for other participant assets, included in other current assets within the Consolidated Statements of Financial Condition and payable to participants as of September 30, 2014 and December 31, 2013 were as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Assets:		
Participant's segregated cash	\$ 100,788	\$ 118,232
Other participant assets	183	235
Total	<u>\$ 100,971</u>	<u>\$ 118,467</u>
Liabilities:		
Payable to participants	<u>\$ 100,971</u>	<u>\$ 118,467</u>

Payable to participants reflects segregated cash received from participants to facilitate their compliance with customer protection rules of the SEC, totaled \$100,788,000 at September 30, 2014, and \$118,232,000 at December 31, 2013, and cash received from the Company's participants to collateralize their short positions. Respectively, participant unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

4. CLEARING FUND

Clearing Fund Deposits. NSCC's rules require its participants to maintain deposits with the Clearing Fund based on calculated requirements as determined by the Company, which were \$4,189,987,000 and \$2,287,336,000 at September 30, 2014 and December 31, 2013 respectively. The deposits are available to secure participants' obligations and certain liabilities of the Company. All clearing fund cash is reflected as clearing fund on the accompanying Statement of Financial Condition.

A summary of the total deposits held at September 30, 2014 and December 31, 2013, including \$772,449,000 and \$1,050,182,000, respectively, in excess of calculated requirements follows (in thousands):

	<u>2014</u>	<u>2013</u>
Cash deposits	\$ 4,710,101	\$ 3,101,838
U.S. treasury and agency securities, at fair value	252,335	235,680
Total	<u>\$ 4,962,436</u>	<u>\$ 3,337,518</u>

Participant cash deposits. Participant cash deposits to the Clearing Fund, which may be applied to satisfy obligations of the depositing participant, as provided in respective clearing agency rules, are invested at September 30, 2014 and December 31, 2013 as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Reverse repurchase agreements	\$ 700,000	\$ 1,850,000
Money market investments	3,490,000	491,000
Bank deposits	450,000	750,000
Investments in commercial paper bank sweep deposits	70,101	10,838
Total	<u>\$ 4,710,101</u>	<u>\$ 3,101,838</u>

Refunds to Participants. The total amount of interest income the Company earned from the investment of the cash deposits in the Clearing Fund was \$2,250,000 and \$2,424,000 in September 2014 and 2013, respectively.

5. OTHER ASSETS

Details for other assets as of September 30, 2014 and December 31, 2013 were as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Participant assets	\$ 183	\$ 235
Total current assets	<u>\$ 183</u>	<u>\$ 235</u>
Deferred tax asset, net	\$ 7,806	\$ 7,669
Long term incentive plan assets	1,396	1,411
Total non-current assets	<u>\$ 9,202</u>	<u>\$ 9,080</u>
Total	<u>\$ 9,385</u>	<u>\$ 9,315</u>

6. OTHER LIABILITIES

Details for other liabilities as of September 30, 2014 and December 31, 2013 were as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Deferred tax liabilities, net	\$ 6,012	\$ 6,012
Taxes payable	4,619	1,822
Other payables	5	214
Total current liabilities	<u>\$ 10,636</u>	<u>\$ 8,048</u>
Unrecognized tax benefits	\$ 4,845	\$ 4,845
Other payables	59	3
Total non-current liabilities	<u>\$ 4,904</u>	<u>\$ 4,848</u>
Total	<u>\$ 15,540</u>	<u>\$ 12,896</u>

7. DEBT

Details for debt as of September 30, 2014 and December 31, 2013 consists of the following (in thousands):

	<u>2014</u>	<u>2013</u>
Notes payable	\$ -	\$ 3,947
Hudson County Improvement Authority Bond	16,635	18,415
Total debt	\$ 16,635	\$ 22,362
Current portion of long-term debt	(3,023)	(2,705)
Total long term debt and other borrowings	\$ 13,612	\$ 19,657

At September 30, 2014, principal payment due on long-term debt over the next five years from 2014 to 2018 and thereafter are as follows (in thousands):

2014	600
2015	2,460
2016	2,545
2017	2,625
2018	2,710
Thereafter	5,695
Total	<u>\$ 16,635</u>

Notes Payable. On September 2, 2014, the Company executed an optional repayment of the note payable. Notes payable include unsecured borrowings totaling \$0 (\$3,947,000 in 2013) from an insurance company to finance the acquisition of real estate, at a fixed rate of 5.03%. Principal payments are due annually on December 15 of each year through 2023. Interest payments are due semi-annually on September 15 and December 15 of each year through the maturity. Interest expense for the nine months ended September 30, 2014 and 2013 totaled \$99,000 and \$109,000, respectively.

Hudson County Improvement Authority Bond (HCIA Bond). On December 17, 2010, the Company entered into a Recovery Zone Facility Bond arrangement with the Hudson County Improvement Authority, with a principal balance of \$24,905,000. The debt has a variable interest rate that is equal to the sum of the LIBOR index rate plus 1.65%, multiplied by a factor of 68%, and matures on December 1, 2020. The weighted average interest rate of the debt was 1.23% and 1.24% for quarters ended September 30, 2014 and 2013, respectively. Repayment of the debt commenced on February 1, 2011. The Hudson County Improvement Authority has the ability to call the debt immediately due and payable if the Company fails to pay in accordance with the terms of the debt agreement or fails to comply with the other provisions stipulated in the agreement. Interest expense for the nine months ended September 30, 2014 and 2013 was totaled \$165,000 and \$191,000, respectively.

In connection with this Recovery Zone Facility Bond arrangement with the Hudson County Improvement Authority, NSCC made a loan to DTCC in the principal amount of \$24,905,000 with the same terms and conditions.

Cash Flow Hedge for HCIA Bond. On December 17, 2010, the Company entered into an interest rate swap arrangement to hedge the Hudson County Improvement Authority floating rate debt payments in the principal amount of \$24,905,000. The rate on the swap is fixed at 3.12% until December 1, 2020 when the swap terminates. The Company terminated this swap in August 2014.

As of September 30, 2014, the fair value of the swap resulted in a net of tax gain of \$395,000 versus a gain of \$346,000 as of December 31, 2013. It is reported as other comprehensive loss, net of tax in the Consolidated Statements of Income and Comprehensive Income. There were no undesignated derivatives at September 30, 2014 and December 31, 2013.

Debt covenants. NSCC currently holds, a Recovery Zone Facility Bond, as well as a revolving line of credit. The negative covenants relating to the Recovery Zone Facility Bond require a minimum net worth of \$15 million, as well as a minimum fixed charge coverage ratio of 1.25% to 1.00% and minimum funded debt to EBITDA of 3.50% to 1.00%. The negative covenants relating to the revolving line of credit require a minimum net worth of \$100 million, clearing fund deposit greater than or equal to \$1 billion.

Customary affirmative covenants include access to financial statements, notice of default and certain material events, maintenance of business and insurance, and events of default. As of September 30, 2014 and December 31, 2013, the Company was in compliance with applicable debt covenants.

Lines of Credit. The Company maintains lines of credit to support settlement. Terms and outstanding lines of credits for September 30, 2014 and December 2013 were as follows:

2014	Amount	Denomination	No. of Participants / Lenders	Borrowing rate
Committed	\$13.47 billion	USD	29/37	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.
2013				
Committed	\$12.72 billion	USD	27/38	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.

There were no borrowings under any of these credit facilities in 2014 and 2013.

8. COMMITMENTS AND CONTINGENCIES

Litigation. NSCC was 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 NSCC's consolidated financial position, operations or cash flows.

9. GUARANTEES

NSCC provides central counterparty services (CCP), including clearing, settlement, and risk management services. Acting as a CCP, NSCC guarantees the settlement of trades in the event that 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, the NSCC uses risk-based margining to collect cash and securities collateral (Clearing Fund).

NSCC is the leading provider of U.S. clearance, netting, risk management and settlement for virtually all U.S. broker-to-broker trades involving equities, corporate and municipal debt, exchange traded funds and unit investment trusts. Through its Continuous Net Settlement (CNS) System, NSCC is interposed between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of the later of midnight of T+1 or midnight of the day they are reported to the membership as compared/recorded. Because NSCC stands between the participants delivering and receiving CNS trades, the failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open CNS positions are marked-to-market daily. Such marks are debited from or credited to the involved participants through the settlement process. At the close of business on September 30, 2014 and December 31, 2013, open positions due to and from NSCC totaling \$259.7 billion and \$147.8 billion, respectively. There were no defaults by participants to these obligations.

If an NSCC participant defaults, such participant's deposits to the Clearing Fund would be liquidated to satisfy an outstanding obligation and/or loss. If those funds are insufficient to cover the liquidation of the defaulting participant's outstanding obligations, NSCC would then use any funds available from its multilateral netting contract and limited cross-guaranty agreements with FICC, under which these clearing agencies have agreed to make payments to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that these clearing agencies have excess resources belonging to the defaulting participant.

If there is still a deficit, NSCC will apply no less than 25% of their retained earnings to cover the loss. Any remaining deficiency would be satisfied through a loss allocation to non-defaulting Participants by using the Clearing Fund based upon a loss allocation formula set out in NSCC's rules.

10. OFF BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments held by NSCC. NSCC's exposure to credit risk arises mostly from clearing and settlement service operations. Credit risk also arises from financial assets, which consist principally of cash and cash equivalents, investments, and accounts receivable (including the Clearing Fund).

Concentrations of credit risk may arise due to large connected individual exposures and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors including economic conditions affecting the securities industry and debt-issuing countries.

NSCC acts as central counterparty to transactions processed through its CNS System, and also guarantees transactions processed through its Balance Order Accounting Operation. As a result, NSCC is exposed to significant credit risk of third parties, including its customer base, which extends to companies within the global financial services industry. Customers are based in the United States and include participating brokers, dealers, banks, mutual fund companies, insurance carriers, and other financial intermediaries.

Cash and Cash Equivalents. The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located in the U.S., and the Company's policy is designed to limit exposure with any one financial institution. As part of its cash and risk and management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions with whom it places funds. The Company generally makes deposits with banks and financial institutions having a credit rating of at least A-/A3 or better from recognized rating agencies and that are approved via its internal credit review process. The Company also monitors the financial condition of the financial institutions with whom it places funds on an ongoing basis to identify any significant change in a financial institution's financial condition. If such a change takes place, the amounts deposited in such financial institutions may be adjusted.

Marketable Securities. In addition to making investments in reverse repurchase agreements, money market funds and interest-bearing deposits, the Company also makes direct investments in U.S. Treasury Securities. Credit risk related to marketable securities involves the risk of nonperformance by the counterparty, which could result in a material loss. To mitigate the risk of credit loss, the Company only makes investments in debt obligations of the U.S. government or those U.S. government agencies guaranteed by the U.S. government.

Accounts Receivable. Credit risk related to accounts receivable involves the risk of non-payment by the counterparty. Credit risk is diversified due to the large number of participants comprising the Company's customer base. The Company also performs ongoing credit evaluations of the financial conditions of its customers and evaluates the delinquency status of the receivables.

Clearing Fund. In addition to risk management policies described above for cash and cash equivalents, when Participants provide cash deposits to the Clearing Fund, the Company may invest the cash in reverse repurchase agreements (reverse repos). The Company bears credit risk related to reverse repurchase agreements only to the extent that cash advanced to the counterparty exceeds the value of collateral received. Securities purchased under reverse repos are generally U.S. Treasury and agency securities having minimal credit risk due to low probability of U.S. government default and the highly liquid nature of these securities. Reverse repo investments are secured; collateral must have a market value greater than or equal to 102% of the cash invested. Additionally, reverse repo investments are typically placed with financial institutions with a credit rating of A-/A3 or better from recognized rating agencies and that are approved via the company's credit review process. To avoid concentration of credit risk exposures, the Company sets credit limits for each counterparty.

The participant cash deposits may also be invested in money market mutual funds under Rule 2a-7 of the Investment Company Act of 1940 with a credit rating of AAA/Aaa from recognized rating agencies. Since the Company only invests in highly rated money market mutual funds and cash is returned each morning, the Company has minimal credit risk related to these investments.

NSCC is exposed to credit risk on a daily basis. This risk arises at NSCC as it guarantees certain obligations of its participants under specified circumstances. The Company provides risk management/mitigation by identifying, measuring and responding to these risks in order to protect the safety and soundness of the NSCC clearing and settlement system. Various tools are utilized to mitigate these risks including, but not limited to, setting capital adequacy standards, assessing new applicants, performing continuous monitoring of participants' financial condition, reviewing participants' daily trading activity and determining appropriate margin requirements, maintaining the Clearing Fund, trade and continuous trade netting, marking unsettled trades to market, and utilizing a variety of advanced quantitative analytical methodologies, such as back and stress testing.

In order to become a participating member at NSCC, an applicant must meet minimum eligibility criteria (which are specified in NSCC's rules). All applicants to be a NSCC participant must provide the Company with certain financial and operational information. This information is reviewed to ensure that the applicant has sufficient financial ability to make anticipated contributions to NSCC's Clearing Fund and to meet their obligations to NSCC. The credit quality of the participant is evaluated at the time of application and monitored on an ongoing basis to determine if the participant continues to be financially stable and continue to meet the financial requirements of membership. As part of its review, the Company utilizes an internal credit risk rating matrix to risk rate its bank and broker participants. The resulting rating determines the level of financial review that will be performed on each participant and may impact their Participants and Clearing Fund requirements.

NSCC collects Clearing Fund deposits from its participants using a risk-based margin methodology. The risk-based methodology enables them to identify the risks posed by a participant's unsettled portfolio and to quickly adjust and collect additional deposits as needed to cover those risks. At multiple times during the day, Clearing Fund requirements are calculated for each participant based on their then-current unsettled and pending transactions. Security pricing is updated on an intraday basis and additional charges may be collected to cover significant price movements from those participants with a significant exposure in the identified security. The Company monitors participants overall trading activities throughout the trading day to determine whether exposures are building up that would require special actions to increase their Clearing Fund deposits.

The Company regularly performs back and stress testing of the quality and accuracy of its risk management systems to ensure the adequacy of Clearing Fund requirements and to respond to other risk factors the tests may reveal.

The Company also limits its exposure to potential losses from default by Participants through its multilateral netting contract and limited cross-guaranty agreements with DTC, FICC and OCC. This arrangement is designed to provide a mechanism for the sharing of excess net resources of a common defaulting participant held at one clearing agency to cover losses incurred at another clearing agency. NSCC and The OCC also have an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant's failure. Further, DTC and NSCC have a netting contract and limited cross-guaranty agreement with DTC which includes certain arrangements so that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized.

11. OTHER MATTERS

Lehman Brothers 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 remains 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 LBI, DTCC and its subsidiaries held the following at September 30, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</u>
Segregated cash	\$ 4,101,862	\$ 32,556,821
Participant and clearing funds	1,160,135	1,160,135
Matured money market investment accounts	<u>30,776,310</u>	<u>29,616,175</u>
Total	<u>\$ 36,038,307</u>	<u>\$ 63,333,131</u>

As of September 30, 2014, DTCC had delivered to the Trustee of the LBI estate \$5,153,238,000 in cash and Clearing fund securities valued at \$159,479,000, attributable to the LBI estate.

MF Global Inc. 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 and DTC, 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 and DTC they will be remitted to the Trustee.

With respect to MFG., DTCC and its subsidiaries held the following at September 30, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</u>
Segregated cash	\$ 22,887,767	\$ 22,877,984
Participant and clearing funds	<u>6,124,600</u>	<u>6,120,422</u>
Total	<u>\$ 29,012,367</u>	<u>\$ 28,998,406</u>

As of September 30, 2014, DTCC had delivered cash to the Trustee of the MFG estate \$227,287,000 attributable to the MFG estate.

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

12. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2014 through October 31, 2014 for potential recognition or disclosure in these consolidated financial statements. No events or transactions occurred during such period that would require recognition or disclosure in these consolidated financial statements.