National Securities Clearing Corporation

Consolidated Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Report of Independent Registered Public Accounting Firm

NATIONAL SECURITIES CLEARING CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
National Securities Clearing Corporation
New York, NY

We have audited the accompanying consolidated statements of financial condition of National Securities Clearing Corporation and subsidiary (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in shareholder's equity, and cash flows for each of the two years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of National Securities Clearing Corporation and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 27, 2015

NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except for share data)

	As of December 31, 2014	As of December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 197,490	$ 181,045
Participants' segregated cash	42,009	118,232
Accounts receivable	32,368	24,556
Notes receivable from DTCC	-	18,415
Clearing fund:		
Cash deposits	3,798,764	3,101,838
Other deposits, at fair value	340,285	235,680
Other current assets	2,108	235
Total current assets	4,413,024	3,680,001
NON-CURRENT ASSETS		
Premises and equipment - net of accumulated depreciation of $64,973 and $60,360 at December 31, 2014 and 2013, respectively	28,950	25,368
Intangible assets - net of accumulated amortization of $102,589 and $87,473 at December 31, 2014 and 2013, respectively	36,981	37,851
Other non-current assets	-	9,080
Total non-current assets	65,931	72,299
TOTAL ASSETS	$ 4,478,955	$ 3,752,300
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,378	$ 16,257
Payable to participants	42,203	118,467
Clearing fund:		
Cash deposits and marketable securities	3,798,764	3,101,838
Other deposits, at fair value	340,285	235,680
Other current liabilities	3,874	8,048
Current portion of long-term debt	-	2,705
Total current liabilities	4,186,504	3,482,995
NON-CURRENT LIABILITIES		
Long-term debt and other borrowings	-	19,657
Other non-current liabilities	6,904	4,848
Total non-current liabilities	6,904	24,505
Total liabilities	4,193,408	3,507,500
COMMITMENTS AND CONTINGENT LIABILITIES (Note 16)		
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	251,095	210,743
	285,547	245,195
Accumulated other comprehensive loss		
Unrealized loss on derivative, net of tax	-	(395)
Total shareholder's equity	285,547	244,800
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 4,478,955	$ 3,752,300

See notes to consolidated financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands)

	For the years ended December 31, 2014	2013
REVENUES:		
Clearing services	$ 244,957	$ 198,842
Investment product services	99,036	94,578
Settlement and asset services	385	450
Total revenues	344,378	293,870
EXPENSES:		
Employee compensation and related benefits	113,313	99,277
Information technology	30,848	29,649
Professional and other services	94,102	79,418
Occupancy	10,566	11,031
Depreciation and amortization	20,863	16,743
Other general and administrative, net	5,615	(145)
Total expenses	275,307	235,973
Total operating income	69,071	57,897
NON-OPERATING EXPENSE:		
Interest income	752	477
Interest expense	(1,067)	(1,272)
Total non-operating expense	(315)	(795)
Income before taxes	68,756	57,102
Provision for income taxes	28,404	22,395
Net income	40,352	34,707
OTHER COMPREHENSIVE INCOME		
Unrealized gain on derivatives, net of tax	-	346
COMPREHENSIVE INCOME	$ 40,352	$ 35,053

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: Derivative Instruments	Total Shareholder's Equity
BALANCE - December 31, 2012	$ 10	$ 34,442	$ 176,036	$ (741)	$ 209,747
Net income	-	-	34,707	-	34,707
Other comprehensive income on derivative, net of tax	-	-	-	346	346
BALANCE - December 31, 2013	$ 10	$ 34,442	$ 210,743	$ (395)	$ 244,800
Net income	-	-	40,352	-	40,352
Amounts reclassified from comprehensive income on derivative, net of tax	-	-	-	395	395
BALANCE - December 31, 2014	$ 10	$ 34,442	$ 251,095	$ -	$ 285,547

See notes to consolidated financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 40,352	$ 34,707
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,863	16,743
Impairment on intangible assets	722	-
Net premium amortized on investments in marketable securities	-	28
Deferred income taxes	1,407	3,480
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(7,812)	13,226
Decrease in other assets	1,411	104
Decrease in other participant assets	41	80,798
(Decrease) increase in accounts payable	(14,879)	12,528
Increase (decrease) in other liabilities	2,625	(16,770)
Decrease in payable to participants	(76,264)	-
Net cash (used in) provided by operating activities	(31,534)	144,844
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in marketable securities	-	20,000
Repayment of notes receivable from DTCC	18,415	22,298
Change in segregated cash	76,223	(80,786)
Purchases of software	(16,102)	(18,863)
Purchases of equipment	(8,195)	(8,873)
Net cash provided by (used in) investing activities	70,341	(66,224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt	(22,362)	(2,693)
Net cash used in financing activities	(22,362)	(2,693)
Net increase in cash and cash equivalents	16,445	75,927
Cash and cash equivalents - Beginning of year	$ 181,045	$ 105,118
Cash and cash equivalents - End of year	$ 197,490	$ 181,045
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid - net of refunds	$ 24,834	$ 24,428
Interest paid	$ 315	$ 813

See notes to consolidated financial statements.

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, Clarient Global LLC (Clarient), Global Markets Entity Identifier (GMEI) and Avox Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. 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 uncertain tax positions, 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 in compliance with SEC rule 15c3-3 (customer protection).

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, and comparable pricing of 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. As discussed in Note 8, Fair Value Measurements, these instruments are discussed on a uniform fair value basis. 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 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 being accrued to the Company. Deposits and contributions may be in the form of cash and cash equivalents and securities. These deposits may be applied to satisfy obligations of the depositing participant, other participants, or the Company as provided in the Company rules.

Cash Deposits. Deposits and contributions received in the form of cash may be invested in overnight reverse repurchase agreements, commercial paper bank sweep deposits, money market funds, direct obligations of the U.S. Government and bank deposits. Overnight 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 overnight reverse repurchase agreements are typically U.S. Treasury and Agency securities. Overnight reverse repurchase agreements are recorded at the contract amounts. Any interest earned on these investments is accrued and passed through to participants within interest income in the Consolidated Statements of Income and Comprehensive Income.

Other Deposits, at Fair Value. Other deposits may include US Treasury Securities, US agency-issued debt securities, and US agency residential mortgage-backed securities. Any interests earned on these investments is accrued and passed through to participants within interest income in the Consolidated Statements of Income and Comprehensive Income. Refer to Note 8, Fair Value Measurements, for additional details of the fair value classification and measurement of these instruments.

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 straight line 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 accompanying 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. Refer to Note 7, Intangible Assets.

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 that 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.

Information relating to the Company's derivatives holdings and swap agreements are in Note 8, Fair Value Measurements and Note, 11 Debt.

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 fees generated from 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 represent the allocated expenses, including employee compensation and related benefits, information technology, professional and other services, occupancy, depreciation and amortization, and other general and administrative expenses.

Recently Issued Accounting Standards

FASB ASC Topic 606, Revenue from Contracts with Customers. In May 2014, the FASB issued Accounting Standard Update (ASU) No. 2014-09 - Revenue from Contracts with Customers." This ASU requires an entity to recognize revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. The ASU will replace most existing revenue recognition guidance in U.S. General Accepted Accounting Principles (GAAP) when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the impact this ASU will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

FASB ASC Topic 205, Presentation of Financial Statements and FASB ASC Topic 306 Property, Plant, and Equipment. In April 2014, the FASB issued ASU No. 2014-08 - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU changes the criteria for determining which future disposals can be presented as discontinued operations and modifies related disclosure requirements. This ASU is effective for periods beginning on or after December 15, 2014. Early adoption is permitted. NSCC is evaluating the impact of this guidance on the Company's consolidated financial condition, results of operations, and cash flows upon adoption of this guidance.

FASB ASC Topic 405, Liabilities. In February 2013, the FASB issued ASU No. 2013-04, adding disclosure requirements for entities with joint and severally liable agreements with other co-obligors. This update requires entities to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. Required disclosures include a description of the nature of the arrangement, how the liability arose, the relationship with co-obligors and the terms and conditions of the arrangement (ASC 460-10, Guarantees). For nonpublic entities, the ASU is effective for fiscal years beginning after December 15, 2014, and interim and annual periods thereafter. Early adoption is permitted. The amendments in the ASU should be applied prospectively. NSCC is evaluating the impact of this guidance on the Company's consolidated financial condition, results of operations, and cash flows upon adoption of this guidance.

FASB ASC Topic 740, Income Taxes. In July 2013, the FASB issued ASU No. 2013-11, requiring public and private entities to present unrecognized tax benefits as a decrease in net operating loss, similar tax loss or tax credit carry forward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after

December 15, 2014. The amendments should be applied prospectively to unrecognized tax benefits that exist at the effective date. Early adoption is permitted. NSCC is evaluating the impact of this guidance on the Company's consolidated financial condition, results of operations, and cash flows upon adoption of this guidance.

3. OTHER PARTICIPANT ASSETS & PAYABLE TO PARTICIPANTS

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

	2014	2013
Assets:		
Participants' segregated cash	$ 42,009	$ 118,232
Other participant assets	194	235
Total	$ 42,203	$ 118,467
Liabilities:		
Payable to participants	42,203	118,467
Total	$ 42,203	$ 118,467

Payable to participants reflects segregated cash received from participants to facilitate their compliance with customer protection rules of the SEC, totaled $42,009,000 at December 31, 2014, and $118,232,000 at December 31, 2013, and cash received from the Company's participants to collateralize their short positions. Participant unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

4. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at December 31, 2014 and 2013 (in thousands):

	2014	2013
Clearing and transaction fees due from participants	$ 31,441	$ 24,379
Other receivables	927	177
Total	$ 32,368	$ 24,556

There was no allowance for doubtful accounts recorded by NSCC as of December 31, 2014 and 2013.

5. CLEARING FUND

Clearing fund deposits. NSCC's rules require its participants to maintain deposits in the Clearing Fund based on calculated requirements as determined by the Company. The deposits are available to secure participants' obligations and certain liabilities of the Company. All participants' cash deposits to the clearing fund are reflected as clearing fund cash deposits on the accompanying Consolidated Statements of Financial Condition.

A summary of the required and excess deposits held at December 31, 2014 and 2013 follows (in thousands):

	2014	2013
Required deposits	$ 3,144,669	$ 2,287,336
Excess deposits	994,380	1,050,182
Total deposits	$ 4,139,049	$ 3,337,518

A summary of the total deposits held at December 31, 2014 and 2013, including the excess of the calculated requirements follows (in thousands):

	2014	2013
Cash deposits	$ 3,798,764	$ 3,101,838
U.S. Treasury and Agency securities, at fair value	340,285	235,680
Total	$ 4,139,049	$ 3,337,518

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, were invested at December 31, 2014 and 2013 follows (in thousands):

	2014	2013
Overnight reverse repurchase agreements	$ 1,390,000	$ 1,850,000
Money market investments	1,883,000	491,000
Interest bearing deposits	450,000	750,000
Commercial paper bank sweep deposits	75,764	10,838
Total	$ 3,798,764	$ 3,101,838

Refunds to Participants. The total amount of interest income the Company earned from the investment of the cash deposits in the clearing fund was $3,323,000 and $3,248,000 in December 2014 and 2013, respectively, and reflected as net interest income in the accompanying Consolidated Statements of Income and Comprehensive Income.

6. PREMISES AND EQUIPMENT

Premises and equipment consist of the following at December 31, 2014 and 2013 (in thousands):

	2014			2013		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	$ 58,342	$ 44,456	$ 13,886	$ 50,147	$ 40,937	$ 9,210
Building and improvements	17,971	4,447	13,524	17,971	3,402	14,569
Leasehold improvements	10,514	10,514	-	10,514	10,465	49
Leased property under capital leases	5,556	5,556	-	5,556	5,556	-
Land	1,540	-	1,540	1,540	-	1,540
Total	$ 93,923	$ 64,973	$ 28,950	$ 85,728	$ 60,360	$ 25,368

Depreciation expense for premises and equipment for the years ended December 31, 2014 and 2013 was approximately $4,613,000 and $3,978,000, respectively, and are included within depreciation and amortization in the accompanying Consolidated Statements of Income and Comprehensive Income.

7. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization, and net carrying value of intangible assets at December 31, 2014 and 2013 were as follows (in thousands):

	2014			2013		
	Cost	**Accumulated Amortization**	**Net Carrying Value**	**Cost**	**Accumulated Amortization**	**Net Carrying Value**
Capitalized software	139,570	102,589	36,981	125,324	87,473	37,851
Total	$ 139,570	$ 102,589	$ 36,981	$ 125,324	$ 87,473	$ 37,851

Capitalized software. Capitalized software that was either developed for internal use or purchased during 2014 and 2013 totaled $16,102,000 and $18,863,000, respectively. Amortization expense for capitalized software for the years ended December 31, 2014 and 2013 was approximately $16,250,000 and $12,765,000 respectively, and is included within depreciation and amortization in the accompanying Consolidated Statements of Income and Comprehensive Income.

The Company recognized a $722,000 impairment charge related to capitalized software as of December 31, 2014 that were determined to have no realizable value. During 2013, there was no impairment of capitalized software costs.

There were no disposals of capitalized software in 2014 and 2013.

Estimated amortization expense relating to intangible assets for each of the next three years is as follows (in thousands):

2015	$ 17,383
2016	13,203
2017	6,395
Total future estimated amortization	$ 36,981

8. FAIR VALUE MEASUREMENTS

Financial Assets and Liabilities measured at fair value on a recurring basis. The following is a description of the valuation basis, including valuation techniques and inputs, used in measuring our financial assets and liabilities that are accounted for at fair value on a recurring basis:

U.S. Government and Federal Agency Securities

U.S. Treasury Securities — US Treasury securities are measured based on quoted market prices and classified within Level 1 of the fair value hierarchy.

U.S. Agency-Issued Debt Securities — U.S. Agency securities are comprised of non-callable U.S. Agency-Issued debt securities and measured primarily based on quoted market prices obtained from external pricing services. Non-callable U.S. Agency securities are classified within Level 1.

Derivative — Over-the-Counter Interest Rate Swap — The over-the-counter interest rate swap is measured using standard valuation models with market-based observable inputs including interest rate curves and is classified within Level 2 of the fair value hierarchy.

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2014 (in thousands):

	2014			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund - U.S. government and Federal Agency securities	$ 340,285	$ -	$ -	$ 340,285
Liabilities - Clearing fund - U.S. government securities and Federal Agency securities	$ 340,285	$ -	$ -	$ 340,285

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2013 (in thousands):

	2013			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund - U.S. government and Federal Agency securities	$ 235,680	$ -	$ -	$ 235,680
Liabilities:				
Clearing fund - U.S. government securities and Federal Agency securities	$ 235,680	$ -	$ -	$ 235,680
Derivative - over-the-counter interest rate swap	-	779	-	779
Total	$ 235,680	$ 779	$ -	$ 236,459

There were no transfers between Level 1 and Level 2 nor were any amounts classified as Level 3 during the years ended December 31, 2014 and 2013.

Financial Assets and Liabilities not Measured at Fair Value. A summary of the practices used for determining fair value and the respective level in the valuation hierarchy for financial assets and liabilities not recorded at fair value follows:

Cash and Cash Equivalents — Consists primarily of highly liquid investments in time deposits held in banks, commercial paper bank sweep deposits and money market funds which are classified as Level 1 within the valuation hierarchy.

Clearing Fund Cash Deposits — Consists primarily of highly liquid investments in time deposits held in banks, commercial paper bank sweep deposits and money market funds which are classified as Level 1 and overnight reverse repurchase agreements which are classified as Level 2 within the valuation hierarchy. The fair value is determined using discounted cash flow analysis. Inputs primarily consist of current LIBOR market rates and time to maturity.

Participant's Segregated Cash — Participant's segregated cash is comprised of cash and classified within Level 1 of the fair value hierarchy.

Interest-Bearing and Non-Interest-Bearing-Deposits — Interest-bearing deposits are comprised of time deposits, commercial paper and money market funds. Except for interest-bearing time deposits, book value is considered to approximate fair value for these deposits due to their short duration to maturity or payable on demand feature. The fair value of interest-bearing time deposits is determined using discounted cash flow analysis. Inputs primarily consist of current LIBOR market rates and time to maturity. For all non-interest bearing deposits, book value is considered to approximate fair value as a result of the short duration of the deposit. Interest-bearing and noninterest-bearing deposits are classified as Level 2 within the valuation hierarchy.

Long Term Debt and Other Borrowings — Borrowings primarily consist of notes payable and capital lease obligations. The estimated fair value of long term debt is based on current rates for instruments of the same remaining maturity or quoted market prices for the same or similar issues. Long term debt is classified as Level 2 within the valuation hierarchy.

The carrying amounts reported in the Consolidated Statements of Financial Condition for cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximate fair value because of their relatively short-term nature.

The table below presents the carrying value, fair value and fair value hierarchy level of certain financial instruments not measured at fair value in the Consolidated Statements of Financial Condition at December 31, 2014 (in thousands):

	2014				
	Carrying Amount	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 197,490	$ 197,490	$ 197,490	$ -	$ -
Clearing fund cash deposits	3,798,764	3,798,764	2,408,764	1,390,000	-
Total	3,996,254	3,996,254	2,606,254	1,390,000	-
Liabilities:					
Clearing fund cash deposits	3,798,764	3,798,764	3,798,764	-	-
Total	$ 3,798,764	$ 3,798,764	$ 3,798,764	$ -	$ -

The table below presents the carrying value, fair value and fair value hierarchy level of certain financial instruments not measured at fair value in the Consolidated Statements of Financial Condition at December 31, 2013 (in thousands):

	2013				
	Carrying Amount	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 181,045	$ 181,045	$ 181,045	$ -	$ -
Clearing fund cash deposits	3,101,838	3,101,838	1,251,838	1,850,000	-
Total	3,282,883	3,282,883	1,432,883	1,850,000	-
Liabilities:					
Clearing fund cash deposits	3,101,838	3,101,838	3,101,838	-	-
Long-term debt and other borrowings	22,362	22,221	-	22,221	-
Total	$ 3,124,200	$ 3,124,059	$ 3,101,838	$ 22,221	$ -

Financial Assets and Liabilities Measured at Fair Value on a Non-recurring Basis. The Company recognized a $722,000 impairment charge related to capitalized software as of December 31, 2014 that were determined to have no realizable value. During 2013, there was no impairment of capitalized software costs.

9. OTHER ASSETS

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

	2014	2013
Participants' assets	$ 194	$ 235
Deferred tax asset, net	1,914	-
Total current assets	$ 2,108	$ 235
Deferred tax asset, net	$ -	$ 7,669
Long term incentive plan assets	-	1,411
Total non-current assets	$ -	$ 9,080
Total	$ 2,108	$ 9,315

10. OTHER LIABILITIES

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

	2014	2013
Deferred tax liabilities, net	$ -	$ 6,012
Taxes payable	3,872	1,822
Other payables	2	214
Total current liabilities	$ 3,874	$ 8,048
Deferred tax liabilities, net	$ 1,664	$ -
Unrecognized tax benefits	5,222	4,845
Other payables	18	3
Total non-current liabilities	$ 6,904	$ 4,848
Total	$ 10,778	$ 12,896

Unrecognized tax benefits. NSCC applies the provision of FASB issues Financial Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes," (codification primarily in FASB ASC Topic 740, Income Taxes) to record unrecognized tax benefits ("UTBs"). Refer to Note 13, Income Taxes for additional details.

11. DEBT

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

	2014	2013
Notes payable	$ -	$ 3,947
Hudson County Improvement Authority Bond	-	18,415
Total debt	$ -	$ 22,362
Current portion of long-term debt	-	(2,705)
Total long term debt and other borrowings	$ -	$ 19,657

Notes 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 were due annually on December 15 of each year through 2023. Interest payments were due semi-annually on September 15 and December 15 of each year through the maturity. Interest expense for the years ended December 31, 2014 and 2013 totaled $99,000 and $218,000, respectively.

On September 2, 2014, the Company executed an optional prepayment of the note payable. The payment included one time charges of accrued interest and make-whole amounts, totaling $523,000, which is included in interest expense on the Consolidated Statement of Income and Comprehensive Income.

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 had a variable interest rate that is equal to the sum of the LIBOR index rate plus 1.65%, multiplied by a factor of 68%. The weighted average interest rate of the debt was 1.23% and 1.24% for years ended December 31, 2014 and 2013, respectively. Repayment of the debt commenced on February 1, 2011. Interest expense related to the bond totaled $215,000 and $198,000 in December 31, 2014 and 2013, 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. On December 2, 2014, the Company executed an optional prepayment of the bond. Additionally, in connection with the repayment, the loan from NSCC to DTCC was repaid.

Cash Flow Hedge for HCIA Bond. On December 17, 2010, the Company also entered into an interest rate swap arrangement to convert the Hudson County Improvement Authority floating rate debt payments to fixed rate payments in the principal amount of $24,905,000. NSCC terminated the swap on August 14, 2014. As of December 31, 2014, a realized loss of $381,000, net of tax related to the termination of the swap was recognized in the Consolidated Statements of Income and Comprehensive Income, versus an unrealized net of tax gain of $346,000 as of December 31, 2013.

There were no undesignated derivatives at December 31, 2014 and 2013.

Debt covenants. NSCC currently has a revolving line of credit. The negative covenants relating to the revolving line of credit require a minimum net worth of $100 million, as well as total clearing fund 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 December 31, 2014 and 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 December 31, 2014 and 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.

12. PENSION AND POST RETIREMENT BENEFITS

Eligible employees participate in DTCC's trusteed non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. Eligible employees also participate in DTCC's life insurance program, which provides for the payment of death benefits to beneficiaries of eligible retired employees, and DTCC's healthcare program, which provides benefits to eligible retired employees.

Cost allocation. DTCC allocates the cost of these plans to participating subsidiaries based primarily on the proportion of each subsidiary's allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. The benefit plan cost allocated to NSCC was $3,185,000 in 2014 and $6,815,000 in 2013. These costs are included in employee compensation and related benefits in the Consolidated Statements of Income and Comprehensive Income.

Changes to benefit plan. On February 15, 2012, the DTCC Board of Directors approved changes to amend the DTCC benefit plans, in which the Company participates, to freeze the benefit for certain participants effective December 31, 2013. After the plan freeze, certain plan participants will no longer accrue any benefits under the plans.

13. INCOME TAXES

NSCC is included in DTCC's consolidated Federal and combined and unitary state tax returns. NSCC files other state tax returns on a separate company basis. The components of the Company's income tax provision (benefit) calculated on a separate company basis for the years ended December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Current income tax:		
Federal	$ 20,664	$ 13,244
State and local	6,219	4,739
Deferred income tax:		
Federal	774	4,157
State and local	747	255
Provision for income taxes	$ 28,404	$ 22,395

Pursuant to a tax sharing agreement between DTCC and NSCC, the Company is liable for its allocable share of Federal, state and local tax liabilities that are paid by DTCC. During 2014 and 2013, the Company paid income taxes, net of refunds paid to DTCC, of $24,834,000 and $24,428,000, respectively.

The 2014 and 2013 effective tax rates differ from the 35% Federal statutory rate primarily due to state and local taxes, permanent differences between financial statement income and taxable income, and adjustments to deferred tax balances. The following table presents a reconciliation of the U.S. Federal statutory tax rate to the Company's effective tax rate on income before provision for income taxes follows:

	Year ended December 31,	
	2014	2013
U.S. Federal statutory tax rate	35.0%	35.0%
State and local taxes, net of federal tax benefit	5.4%	5.8%
Change in unrecognized tax benefits	0.4%	-0.9%
Other	0.5%	-0.6%
Effective tax rate	41.3%	39.3%

Deferred tax assets and liabilities. The components of deferred tax assets and (liabilities) at December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Deferred tax assets:		
Accrued compensation	$ 4,168	$ 11,600
Accrued employee benefits	21,221	21,792
Software	18,415	11,912
Depreciation	-	178
Deferred rent	1,134	999
Other	1,828	1,958
Total deferred tax assets	46,766	48,439
Deferred tax liabilities:		
Accrued compensation	(2,091)	(11,251)
Accrued employee benefits	(9,135)	(8,462)
Depreciation	(1,882)	-
Software	(33,408)	(27,069)
Total deferred tax liabilities	(46,516)	(46,782)
Net deferred tax asset/(liabilities) before valuation allowance	250	1,657
Valuation allowance	-	-
Net deferred tax asset/(liabilities)	$ 250	$ 1,657
Reported as		
Current deferred tax assets	$ 1,914	$ 11,805
Current deferred tax liabilities	-	(17,817)
Net current deferred tax assets/(liabilities)	1,914	(6,012)
Non-current deferred tax assets	44,852	36,634
Non-current deferred tax liabilities	(46,516)	(28,965)
Net non-current deferred tax (liabilities)/assets	(1,664)	7,669
Net deferred tax assets	$ 250	$ 1,657

The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established.

Details for UTBs as of December 31, 2014 and 2013 were as follows (in thousands):

	2014	2013
Beginning balance at January 1,	$ 3,878	$ 2,799
Prior period tax positions:		
Increases	-	1,643
Decreases	-	-
Current tax positions	-	-
Settlements with taxing authorities	-	(564)
Lapse of statute of limitations	-	-
Ending balance at December 31,	$ 3,878	$ 3,878

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its Consolidated Statements of Income and Comprehensive Income. As of December 31, 2014 and 2013, the amount of accrued interest recorded in the Company's Consolidated Statements of Financial Condition related to UTBs was $1,344,000 and $967,000, respectively.

The Company is subject to U.S. Federal income tax as well as income tax in various state and local jurisdictions. DTCC's Federal income tax returns for 2010 and 2011 are currently under examination and the Federal income tax return for 2012 through 2013 remains subject to examination by the IRS. New York State income tax returns for 2007 through 2011 are currently under examination and for 2012 through 2013 remains subject to examination. New York City income tax returns for 2010 through 2011 are currently under examination and 2012 through 2013 remains subject to examination. Florida income tax returns for 2010 through 2013 are currently under examination.

For the current ongoing audit related to open tax years, the Company estimates it is possible the balance of UTBs could decrease in the next twelve months as a result of the effective settlement of this audit, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible new issues might be raised by tax authorities which might necessitate increases to the balance of UTBs. As the Company is unable to predict the timing of conclusion of this audit, the Company is unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

14. SHAREHOLDER'S EQUITY

Common Stock. NSCC has 30,000 authorized shares of common stock with a par value of $0.50 per share. As of December 31, 2014 and 2013, 20,000 shares of common stock were outstanding.

15. TRANSACTIONS WITH RELATED PARTIES

Transactions with DTCC. NSCC has an agreement with DTCC whereby DTCC pays for substantially all of the expenses for the operations of NSCC. The related expenses are allocated to NSCC based upon NSCC's use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for NSCC including administrative, internal audit, finance and legal services. In 2014 and 2013, the billing for these services was determined as 104% of total allocated expenses, excluding pass through charges and the impact of capitalized software. The fee, representing the amount over actual cost, is included in professional and other services expense on the Consolidated Statements of Income and Comprehensive Income.

Transactions with DTCC Solutions LLC. NSCC has an agreement with DTCC Solutions LLC whereby validation services performed by DTCC Solutions LLC on behalf of NSCC in connection with NSCC's corporate action data information are billed at cost. Expenses under this agreement are included in professional and other services on the Consolidated Statements of Income and Comprehensive Income.

Details for related party transactions with DTCC and DTCC Solutions LLC for 2014 and 2013 were as follows (in thousands):

	Expenses For the years ended December 31,		Payables/(Receivable) As of December 31,	
	2014	**2013**	**2014**	**2013**
DTCC	$ 9,023	$ 8,042	$ 1,524	$ 13,349
DTCC Solutions LLC	1,673	1,567	157	122
Total	$ 10,696	$ 9,609	$ 1,681	$ 13,471

Loan to DTCC. 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 the years ended December 31, 2014 and 2013, 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. On December 2, 2014, the Company executed an optional prepayment of the bond. Additionally, in connection with the repayment, the loan from NSCC to DTCC was repaid.

16. COMMITMENTS AND CONTINGENT LIABILITIES

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.

17. 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 one or more of its participants defaults. A participant default is defined in NSCC's rules. In its guarantor role, NSCC has equal claims to and from participants on opposite sides of netted transactions. To cover its guarantee risk, NSCC uses risk-based margining to collect cash and securities collateral ("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 December 31, 2014 and 2013, open positions due to and from NSCC totaled $172.2 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 DTC, FICC, and Options Clearing Corporation (OCC) 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 at least 25% of its retained earnings to cover the loss. Any remaining deficiency would be satisfied through a loss allocation to non-defaulting participants affected through the Clearing Fund based upon a loss allocation formula set out in NSCC's rules.

18. 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 comes mostly from clearing and settlement service operations. Credit risk also comes 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 through having 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 credit 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 condition of the financial institutions with whom it places funds on an ongoing basis to identify any significant change in a financial institution's 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 overnight 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 overnight reverse repurchase agreements (reverse repos). The Company bears credit risk related to reverse repurchase agreements only to the extent 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 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 day, 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 the applicant has sufficient financial resources to make anticipated contributions to NSCC's Clearing Fund and to meet its 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 able 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 to be performed on each participant and may impact their 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 exist 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 that the tests may reveal.

NSCC maintains a committed, secured line of credit to support potential liquidity needs in the event of a participant default.

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 The Options Clearing Corporation (OCC). These arrangement are 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 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.

19. IMPACT FROM SUPERSTORM SANDY

During the last quarter of 2012, the Company's operations were significantly impacted by Superstorm Sandy (Sandy). The flood waters that engulfed the lobby and underground floors of its corporate headquarters at 55 Water Street in lower Manhattan forced lengthy closure of that building, displacing some 2,300 employees along with the Company's operations from the site.

As of December 31, 2014 and 2013, the Company recognized approximately $0 and $1,726,000, respectively in Sandy related expenses. DTCC maintains a property insurance policy that has separate sub-limits that apply to the various types of damage, such as business interruption (lost profits), extra expenses (expenses incurred to keep normal business operations running), debris removal, etc., and also specific types of damage incurred from catastrophic natural disasters such as hurricanes, earthquakes, and floods.

20. 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). These which assets did not 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. The guaranty is limited to $250,000,000 and a cash deposit (the "Cash Deposit") was 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 deposits/ balances at December 31:

	2014	2013
Cash deposits	$ 4,101,862	$ 32,556,821
Participant and clearing funds	1,160,135	1,160,135
Matured money market investment accounts	30,644,008	29,616,175
Total	$ 35,906,005	$ 63,333,131

As of December 31, 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 deposits/ balances at December 31:

	2014	2013
Cash deposits	$ -	$ 22,877,984
Participant and clearing funds	1,987,406	6,120,422
Total	$ 1,987,406	$ 28,998,406

As of December 31, 2014, DTCC had delivered cash to the Trustee of the MFG estate $254,298,000 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.

Severance. At December 31, 2014, NSCC incurred severance expenses totaling $2,942,000 that are included in employee compensation and related benefits on the accompanying Consolidated Statements of Income and Comprehensive Income. At December 31, 2013, severance expenses totaled $1,042,000.

21. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2014 through February 27, 2015 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.