

National Securities Clearing Corporation

Consolidated Financial Statements as of September 30,
2015 and December 31, 2014 and for the nine months
ended September 30, 2015 and 2014

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, 2015 (unaudited)	December 31, 2014 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 861,187	\$ 197,490
Participants' segregated cash	87,185	42,009
Accounts receivable	88,545	32,368
Clearing fund:		
Cash deposits	5,906,397	3,798,764
Other deposits, at fair value	457,078	340,285
Other current assets	2,226	2,108
Total current assets	<u>7,402,618</u>	<u>4,413,024</u>
NON-CURRENT ASSETS		
Premises and equipment - net of accumulated depreciation of \$69,001 and \$64,973 at September 30, 2015 and December 31, 2014, respectively	24,922	28,950
Intangible assets - net of accumulated amortization of \$116,566 and \$102,589 at September 30, 2015 and December 31, 2014, respectively	34,581	36,981
Total non-current assets	<u>59,503</u>	<u>65,931</u>
TOTAL ASSETS	<u>\$ 7,462,121</u>	<u>\$ 4,478,955</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 9	\$ 1,378
Payable to participants	87,497	42,203
Clearing fund:		
Cash deposits and marketable securities	5,906,397	3,798,764
Other deposits, at fair value	457,078	340,285
Commercial paper	551,300	-
Other current liabilities	6,215	3,874
Total current liabilities	<u>7,008,496</u>	<u>4,186,504</u>
NON-CURRENT LIABILITIES		
Loan payable to DTCC	100,000	-
Other non-current liabilities	6,821	6,904
Total non-current liabilities	<u>106,821</u>	<u>6,904</u>
Total liabilities	<u>7,115,317</u>	<u>4,193,408</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)		
SHAREHOLDER'S EQUITY		
Common stock, \$0.50 par value - 30,000 shares authorized, 20,000 shares issued and outstanding	10	10
Paid-in capital	69,442	34,442
Retained earnings	277,352	251,095
Total shareholder's equity	<u>346,804</u>	<u>285,547</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 7,462,121</u>	<u>\$ 4,478,955</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,	
	2015	2014
REVENUES:		
Clearing services	\$ 196,210	\$ 177,969
Investment product services	76,443	73,469
Settlement and asset services	997	442
Total revenues	<u>273,650</u>	<u>251,880</u>
EXPENSES:		
Employee compensation and related benefits	95,672	87,674
Information technology	21,236	23,629
Professional and other services	80,829	67,267
Occupancy	7,469	8,249
Depreciation and amortization	18,005	15,098
Other general and administrative, net	5,437	3,988
Total expenses	<u>228,648</u>	<u>205,905</u>
Total operating income	<u>45,002</u>	<u>45,975</u>
NON-OPERATING INCOME (EXPENSE):		
Interest income	467	548
Interest expense	(750)	(1,033)
Other non-operating income	13	-
Total non-operating income (expense)	<u>(270)</u>	<u>(485)</u>
Income before taxes	44,732	45,490
Provision for income taxes	18,475	19,280
Net income	<u>26,257</u>	<u>26,210</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Unrealized gain on derivatives, net of tax	-	395
COMPREHENSIVE INCOME	<u>\$ 26,257</u>	<u>\$ 26,605</u>

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,	
	2015	2014
REVENUES:		
Clearing services	\$ 68,419	\$ 57,823
Investment product services	25,756	24,473
Settlement and asset services	318	255
Total revenues	<u>94,493</u>	<u>82,551</u>
EXPENSES:		
Employee compensation and related benefits	27,495	30,404
Information technology	11,583	8,784
Professional and other services	30,841	24,101
Occupancy	2,711	2,827
Depreciation and amortization	5,327	5,282
Other general and administrative, net	2,285	1,553
Total expenses	<u>80,242</u>	<u>72,951</u>
Total operating income	<u>14,251</u>	<u>9,600</u>
NON-OPERATING INCOME (EXPENSE):		
Interest income	236	53
Interest expense	(704)	(652)
Other non-operating income	20	-
Total non-operating income (expense)	<u>(448)</u>	<u>(599)</u>
Income before taxes	13,803	9,001
Provision for income taxes	5,678	4,283
Net income	<u>8,125</u>	<u>4,718</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Unrealized gain on derivatives, net of tax	-	403
COMPREHENSIVE INCOME	<u>\$ 8,125</u>	<u>\$ 5,121</u>

See notes to consolidated financial statements.

NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(In thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax Derivative Instruments	Total Shareholder's Equity
BALANCE - December 31, 2013 (audited)	\$ 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 (audited)	\$ 10	\$ 34,442	\$ 251,095	\$ -	\$ 285,547
Capital contribution	-	35,000	-	-	35,000
Net income	-	-	26,257	-	26,257
BALANCE - September 30, 2015 (unaudited)	\$ 10	\$ 69,442	\$ 277,352	\$ -	\$ 346,804

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,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 26,257	\$ 26,210
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,005	15,098
Deferred income taxes	(190)	(137)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(56,177)	(12,780)
Decrease in other assets	-	1,795
(Increase) decrease in other participant assets	(118)	52
Decrease in accounts payable	(1,369)	(15,061)
Increase in other liabilities	2,448	3,039
Increase (decrease) in payable to participants	45,294	(17,496)
Net cash provided operating activities	<u>34,150</u>	<u>720</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in segregated cash	(45,176)	17,444
Purchases of software	(11,577)	(11,736)
Purchases of equipment	-	(8,040)
Net cash used in investing activities	<u>(56,753)</u>	<u>(2,332)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of commercial paper	551,300	-
Principal payments on debt	-	(5,727)
Proceeds from loan extended by DTCC	100,000	-
Capital contribution	35,000	-
Net cash provided by (used in) financing activities	<u>686,300</u>	<u>(5,727)</u>
Net increase (decrease) in cash and cash equivalents	<u>663,697</u>	<u>(7,339)</u>
Cash and cash equivalents - Beginning of period	<u>\$ 197,490</u>	<u>\$ 181,045</u>
Cash and cash equivalents - End of period	<u>\$ 861,187</u>	<u>\$ 173,706</u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid - net of refunds	<u>\$ 16,380</u>	<u>\$ 17,884</u>
Interest paid	<u>\$ -</u>	<u>\$ 264</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, 2015

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, Clariant Global LLC (Clariant), Business Entity Data, B.V. 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 deposits held at 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. 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.

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.

Capitalized Software. The Company capitalizes eligible costs associated with the acquisition or development of internal-use software projects that provide new or significantly improved functionality. The Company capitalizes projects 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 included in intangible assets on the Consolidated Statements of Financial Condition.

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.

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.

Recently Adopted Accounting Standards.

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. The adoption of this guidance did not have an impact on NSCC’s consolidated financial condition, results of operations or cash flows.

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. The adoption of this guidance did not have an impact on NSCC’s consolidated financial condition, results of operations or cash flows.

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. The adoption of this guidance did not have an impact on NSCC’s consolidated financial condition, results of operations or cash flows.

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, 2015 and December 31, 2014 were as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Assets:		
Participants' segregated cash	\$ 87,185	\$ 42,009
Other participant assets	312	194
Total	<u>\$ 87,497</u>	<u>\$ 42,203</u>
Liabilities:		
Payable to participants	87,497	42,203
Total	<u>\$ 87,497</u>	<u>\$ 42,203</u>

Payable to participants reflects segregated cash received from participants to facilitate their compliance with customer protection rules of the SEC, totaled \$87,185,000 at September 30, 2015, and \$42,009,000 at December 31, 2014, 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. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at September 30, 2015 and December 31, 2014, are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Clearing and transaction fees due from participants	\$ 31,158	\$ 31,441
Other receivables	57,387	927
Total	<u>\$ 88,545</u>	<u>\$ 32,368</u>

There was no allowance for doubtful accounts recorded by NSCC as of September 30, 2015 and December 31, 2014.

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 September 30, 2015 and December 31, 2014 follows (in thousands):

	<u>2015</u>	<u>2014</u>
Required deposits	\$ 5,664,841	\$ 3,144,669
Excess deposits	698,634	994,380
Total deposits	<u>\$ 6,363,475</u>	<u>\$ 4,139,049</u>

A summary of the total deposits held at September 30, 2015 and December 31, 2014, including the excess of the calculated requirements follows (in thousands):

	<u>2015</u>	<u>2014</u>
Cash deposits	\$ 5,906,397	\$ 3,798,764
U.S. Treasury and Agency securities, at fair value	457,078	340,285
Total	<u>\$ 6,363,475</u>	<u>\$ 4,139,049</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, were invested at September 30, 2015 and December 31, 2014 follows (in thousands):

	<u>2015</u>	<u>2014</u>
Overnight reverse repurchase agreements	\$ 860,000	\$ 1,390,000
Money market investments	4,321,000	1,883,000
Bank deposits	725,397	525,764
Total	<u>\$ 5,906,397</u>	<u>\$ 3,798,764</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 \$4,248,000 and \$4,479,000 in September 30, 2015 and 2014, respectively, and reflected as net interest income in the accompanying Consolidated Statements of Income and Comprehensive Income.

6. OTHER ASSETS

Details for other assets as of September 30, 2015 and December 31, 2014 were as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Participants' assets	\$ 312	\$ 194
Deferred tax asset, net	1,914	1,914
Total current assets	<u>\$ 2,226</u>	<u>\$ 2,108</u>

7. OTHER LIABILITIES

Details for other liabilities as of September 30, 2015 and December 31, 2014 were as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Taxes payable	\$ 6,215	\$ 3,872
Other payables	-	2
Total current liabilities	<u>\$ 6,215</u>	<u>\$ 3,874</u>
Deferred tax liabilities, net	\$ 1,474	\$ 1,664
Unrecognized tax benefits	5,222	5,222
Other payables	125	18
Total non-current liabilities	<u>\$ 6,821</u>	<u>\$ 6,904</u>
Total	<u>\$ 13,036</u>	<u>\$ 10,778</u>

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").

8. DEBT

The Company's borrowings at September 30, 2015 and December 31, 2014, consisted of the following (in thousands):

	<u>2015</u>	<u>2014</u>
Commercial paper	551,300	-
Loan payable to DTCC	100,000	-
Total debt	<u>\$ 651,300</u>	<u>\$ -</u>
Current portion of long term debt	-	-
Total long term debt and other borrowings	<u>\$ 651,300</u>	<u>\$ -</u>

Commercial paper. On September 21, 2015, NSCC commenced issuance under a newly established \$5 billion commercial paper funding program approved by the Company's Board of Directors. The proceeds from the issuance of the commercial paper constitutes liquid resources of NSCC that, together with other liquid resources of the Company, will enable NSCC to effect the settlement of its payment obligations in the event of the default of any of its members in accordance with its rules and procedures. Pending any use by NSCC of the proceeds of the commercial paper issuance for this sole purpose, the funds raised will be invested in highly liquid short-term instruments in accordance with NSCC's investment policy. At September 30, 2015, \$551.3 million was outstanding under the commercial paper program and the average interest rate on these borrowings was 0.16%.

Loan payable to DTCC. On May 1, 2015, the Company received a loan from DTCC, its parent, in the amount of \$100 million. The loan is interest bearing and has a rolling one month duration, but no defined maturity date. The proceeds of the loan supplement the Company's liquid financial resources pursuant to anticipated regulatory requirements. DTCC expects the amount of the loan may vary over time, depending upon the Company's regulatory capital requirements and its general funding needs.

The following table summarizes the interest rate, term and maturity of the loan payable as of September 30, 2015 and December 31, 2014 (in thousands):

	Rate	Issue Date	Maturity	Outstanding Balance	
				2015	2014
Loan payable to DTCC	LIBOR+ 1.30%	5/1/2015	-	100,000	-
Total				<u>\$ 100,000</u>	<u>\$ -</u>

The Company maintains a line of credit to support settlement. Terms and outstanding line of credit for September 30, 2015 and December 31, 2014 were as follows:

	Amount	Denomination	No. of Participants / Lenders	Borrowing rate
2015				
Committed	\$12.1 billion	USD	31/38	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.
2014				
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%.

There were no borrowings under the credit facility during the nine months ended September 30, 2015 and in 2014.

Debt covenants. The negative covenants relating to the line of credit require a minimum net worth of \$100 million, coupled with a Clearing Fund greater than or equal to \$1 billion. Customary affirmative covenants include access to consolidated financial statements, notice of default, and certain other material events, maintenance of business and insurance, and events of default.

As of September 30, 2015 and December 31, 2014, the Company was in compliance with the applicable debt covenants.

9. PENSION AND POST RETIREMENT BENEFITS

Eligible employees participate in DTCC's trustee non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. Eligible 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. At the close of business on September 30, 2015 and December 31, 2014, the benefit plan cost allocated to NSCC was \$6,061,000 and \$3,185,000, respectively. These costs are included in employee compensation and related benefits in the Consolidated Statements of Income and Comprehensive Income.

10. 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 September 30, 2015 and December 31, 2014, 20,000 shares of common stock were issued and outstanding.

On May 1, 2015, the Company received a capital contribution from DTCC, its parent, in the amount of \$35 million. The proceeds of the capital contribution supplement the Company's capital and liquid financial resources pursuant to anticipated regulatory requirements.

11. 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.

12. 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 September 30, 2015 and December 31, 2014, open positions due to and from NSCC totaled \$251.1 billion and \$172.2 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.

13. 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 BBB+/Baa1 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 BBB+/Baa1 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 arrangements 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.

14. 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. The guaranty is limited to a \$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 as of September 30, 2015 and December 31, 2014:

	<u>2015</u>	<u>2014</u>
Segregated cash	\$ 3,301,827	\$ 4,101,862
Participant and clearing funds	1,160,135	1,160,135
Matured money market investment accounts	30,644,008	30,644,008
Total	<u>\$ 35,105,970</u>	<u>\$ 35,906,005</u>

As of September 30, 2015, DTCC had delivered to the Trustee of the LBI estate \$5,154,013,000 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 as of September 30, 2015 and December 31, 2014:

	<u>2015</u>	<u>2014</u>
Total Participant and clearing funds	<u>\$ 1,987,406</u>	<u>\$ 1,987,406</u>

As of September 30, 2015, 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.

15. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2015 through October 30, 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.