The Depository Trust & Clearing Corporation

Consolidated Financial Statements as of and for the Years Ended December 31, 2012 and 2011, and Independent Auditors' Report

THE DEPOSITORY TRUST & CLEARING CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
The Depository Trust & Clearing Corporation

We have audited the accompanying consolidated financial statements of The Depository Trust & Clearing Corporation and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

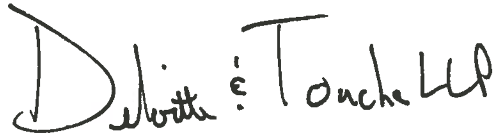
We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the consolidated financial statements, the Company was significantly affected by Superstorm Sandy. Our opinion is not modified with respect to this matter.



April 5, 2013

THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2012 AND 2011
(Dollars in thousands, except share data)

	2012	2011
ASSETS:		
Cash and cash equivalents	$14,905,524	$15,528,419
Segregated cash and securities	142,264	62,331
Investments in marketable securities	235,984	305,731
Accounts receivable — less allowance for doubtful accounts of $575 at December 31, 2012 and 2011	158,288	152,907
Participant funds	8,686,035	9,366,960
Fixed assets — less accumulated depreciation of $788,766 and $712,838 at December 31, 2012 and 2011, respectively	409,673	249,754
Intangible assets- less accumulated depreciation of $2,616 and $1,869 at December 31, 2012 and 2011, respectively	16,542	17,889
Deferred income taxes — net	135,832	139,783
Equity method investments	214,088	287,547
Other assets	304,263	486,976
TOTAL ASSETS	$25,208,493	$26,598,297
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	$ 1,166,835	$ 1,347,308
Payable to participants	1,179,743	991,711
Long-term debt and other borrowings	221,810	365,834
Clearing fund:		
Cash deposits	13,202,933	13,795,882
Other deposits	8,686,035	9,366,960
TOTAL LIABILITIES	24,457,356	25,867,695
COMMITMENTS AND CONTINGENT LIABILITIES (Note 13)		
SHAREHOLDERS' EQUITY:		
Preferred stock:		
Series A, $0.50 par value — 10,000 shares authorized, issued (above par), and outstanding	300	300
Series B, $0.50 par value — 10,000 shares authorized, issued (above par), and outstanding	300	300
Common stock, $100 par value — 28,500 shares authorized; 23,655 shares issued and outstanding	2,366	2,366
Paid-in capital	13,571	12,671
Retained earnings:		
Appropriated	423,700	372,876
Unappropriated	365,477	441,379
Treasury stock	(42)	(42)
	805,672	829,850
Accumulated other comprehensive loss — net of tax:	(204,535)	(249,248)
Noncontrolling interests	150,000	150,000
Total shareholders' equity	751,137	730,602
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$25,208,493	$26,598,297

See notes to consolidated financial statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
REVENUES:		
Trading services	$ 690,446	$ 679,108
Custody services	226,343	226,652
Network services	15,450	17,400
Other services	65,146	87,161
Interest income	28,792	24,812
Equity in net income of equity method investments	33,536	60,210
Total revenues	1,059,713	1,095,343
Refunds to participants	(11,192)	(6,946)
Net revenues	1,048,521	1,088,397
EXPENSES:		
Employee compensation and related benefits	540,987	514,428
Information technology	157,052	114,496
Professional, clearance, and other services	257,292	192,680
Occupancy	61,968	54,573
Interest expense	26,544	24,985
Other general and administrative	22,622	24,262
Impairment of equity method investments	55,170	-
Expense reimbursements	(55,065)	(56,910)
Total expenses	1,066,570	868,514
(Loss) income before taxes	(18,049)	219,883
Provision for income taxes	6,789	88,472
Net (loss) income	(24,838)	131,411
Net income attributable to non-controlling interests	240	240
Net (loss) income attributable to DTCC	$ (25,078)	$ 131,171

See notes to consolidated financial statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
Net (loss) income	$ (24,838)	$ 131,411
OTHER COMPREHENSIVE INCOME (LOSS) — Net of tax:		
Defined benefit pension and other plans:		
DTCC (1)	43,602	(88,346)
DTCC's share of Omgeo	469	(481)
Currency translation:		
DTCC (2)	(277)	(1,255)
DTCC's share of Omgeo	573	84
DTCC's share of MarkitSERV	387	74
Derivative instruments:		
DTCC (3)	(41)	(448)
Other comprehensive income (loss)	44,713	(90,372)
Comprehensive income	19,875	41,039
Comprehensive income attributable to non-controlling interests	240	240
Comprehensive income attributable to DTCC	$ 19,635	$ 40,799

(1) Amounts are net of provision for (benefit from) income taxes of $31,955 and $(64,879) for 2012 and 2011, respectively.
(2) Amounts are net of provision for income taxes of $862 and $471 for 2012 and 2011, respectively.
(3) Amounts are net of provision for income taxes of $27 and $175 for 2012 and 2011, respectively.

See notes to the consolidated financial statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	Preferred Stock		Common	Paid-in	Retained Earnings		Treasury	Accumulated Other Comprehensive Income (Loss) Net of Tax			Non-	Total
	Series A	Series B	Stock	Capital	Appropriated	Unappropriated	Stock	Defined Benefit Pension and Other Plans	Currency Translation	Derivative Instruments	controlling Interests	Shareholders' Equity
BALANCE — December 31, 2010	$ 300	$ 300	$ 2,366	$ 12,671	$ 257,240	$ 425,844	$ (42)	$ (151,658)	$ (6,966)	$ (252)	$ 150,000	$ 689,803
Net income	-	-	-	-	115,876	15,535	-	-	-	-	-	131,411
Other comprehensive loss	-	-	-	-	-	-	-	(88,827)	(1,097)	(448)	-	(90,372)
Noncontrolling interests	-	-	-	-	(240)	-	-	-	-	-	-	(240)
BALANCE — December 31, 2011	300	300	2,366	12,671	372,876	441,379	(42)	(240,485)	(8,063)	(700)	150,000	730,602
Net loss	-	-	-	-	50,824	(75,902)	-	-	-	-	240	(24,838)
Other comprehensive income (loss)	-	-	-	-	-	-	-	44,071	683	(41)	-	44,713
Capital contribution	-	-	-	900	-	-	-		-	-	-	900
Dividend to Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(240)	(240)
BALANCE — December 31, 2012	$ 300	$ 300	$ 2,366	$ 13,571	$ 423,700	$ 365,477	$ (42)	$ (196,414)	$ (7,380)	$ (741)	$ 150,000	$ 751,137

See notes to consolidated financial statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (24,838)	$ 131,411
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization of fixed assets and intangible assets	89,395	81,351
Loss on disposal of fixed assets	6,040	1,490
Impairment on equity method investments	55,170	-
Net premium amortized on investments in marketable securities	747	828
Deferred taxes	3,951	(60,962)
Distributions from equity method investments — net of earnings	25,307	18,046
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(5,381)	17,313
Increase in equity method investments	(7,018)	(24,500)
Decrease (increase) in other assets	182,713	(21,845)
(Decrease) increase in accounts payable and other liabilities	(136,442)	95,615
Increase (decrease) in payable to participants	188,032	(222,942)
(Decrease) increase in participants' fund cash deposits	(592,949)	1,505,577
Net cash (used in) provided by operating activities	(215,273)	1,521,382
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in marketable securities	504,000	477,000
Purchases of investments in marketable securities	(435,000)	(505,335)
Change in segregated cash and securities	(79,933)	(26,979)
Purchases of fixed assets	(232,318)	(96,507)
Net cash used in investing activities	(243,251)	(151,821)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contribution	900	-
Payments to non-controlling interests	(240)	(240)
Proceeds from notes payable issuance	64,000	-
Principal payments on debt and capital lease obligations	(229,714)	(23,894)
Net cash used in financing activities	(165,054)	(24,134)
Effect of foreign exchange rate changes on cash and cash equivalents	683	(1,097)
Net (decrease) increase in cash and cash equivalents	(622,895)	1,344,330
Cash and cash equivalents — beginning of year	15,528,419	14,184,089
Cash and cash equivalents — end of year	$ 14,905,524	$ 15,528,419
SUPPLEMENTAL DISCLOSURES:		
Noncash financing activity — capitalized lease	$ 21,690	$ 2,700
Income taxes paid — net of refunds	$ 35,656	$ 57,672
Interest paid	$ 23,028	$ 22,216

See notes to consolidated financial statements.

1. BUSINESS AND OWNERSHIP

Subsidiaries — The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports various operating subsidiaries including The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited, Business Entity Data B.V (BED) and Avox Limited (Avox), collectively, the "Company" or "Companies."

DTC is a limited-purpose trust company under New York State banking law, a member of the Federal Reserve System, and a clearing agency registered with the U.S. Securities and Exchange Commission (SEC). It provides central securities depository, settlement and related services to members of the securities, banking, and other financial industries.

NSCC is a clearing agency registered with the SEC that provides various services to members of the financial community, consisting principally of securities trade capture (validation and comparison), clearance, netting, settlement and risk management services.

FICC is a clearing agency registered with the SEC that provides various services to members of the government and mortgage-backed securities markets, consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management, and electronic pool notification. FICC has two divisions, the Government Securities Division (GSD) and the Mortgage-Backed Securities Division (MBSD).

DTCC Deriv/SERV LLC provides matching, confirmation and payment processing services, and a global contracts repository to perform netting and money settlement services for the over-the-counter derivatives market.

DTCC Solutions LLC provides technology services that help financial institutions manage the rapid growth, high risk, and costs of corporate action transactions.

EuroCCP is a Registered Clearing House in the United Kingdom regulated by the Financial Services Authority (FSA). The Company provides a pan-European clearing solution offering the economies of scale and risk management expertise of the U.S. market to European market participants.

DTCC Solutions Worldwide Limited is an authorized payment institution in the United Kingdom regulated by the FSA. The Company provides processing of non-U.S. dollar settlements for offshore mutual funds.

Avox validates and maintains business entity reference data, including corporate hierarchies, registered address information, industry sector codes, and company identifiers.

BED is responsible for developing and maintaining the Commodity Futures Trading Commission (CFTC) Interim Compliant Identifier (CICI) Utility.

The members of DTCC's clearing agencies and Registered Clearing House (RCH) are collectively referred to as "Participants".

Equity Method Investments — Omgeo LLC (Omgeo) is a joint venture with Thomson Reuters Corporation (Thomson). Omgeo uses the institutional trade processing infrastructures of DTCC and Thomson to provide seamless global trade management and straight-through processing. The carrying value of DTCC's investment in Omgeo included in equity method investments totaled $39,089,000 and $41,930,000 at December 31, 2012 and 2011, respectively, and represents 50% of Omgeo's net book value.

MarkitSERV, LLC (MarkitSERV) is a joint venture with Markit Group Holdings Limited (MGHL). It engages in derivative transaction processing, confirmation, novation, and other related services for firms that conduct business in the over-the-counter derivatives market. In 2012, we recognized an impairment charge in the consolidated statements of income of $39,185,000 on our investment in MarkitSERV to write down our investment to its fair value. The impairment charge was due to a decline in the market segment which was determined to be other than temporary in nature. The carrying value of DTCC's investment in MarkitSERV included in equity method investments totaled $175,000,000 and $226,637,000 at December 31, 2012 and 2011, respectively, and reflects DTCC's 50% ownership of MarkitSERV.

New York Portfolio Clearing LLC (NYPC) is a joint venture with NYSE Euronext, established as a derivatives clearing organization. The Company is registered with the Commodity Futures Trading Commission (CFTC). In 2012, we recognized an impairment charge in the consolidated statements of income of $15,984,000 on our investment in NYPC to write down our investment to its fair value. The impairment loss was due to a decline in the market segment which was determined to be other than temporary in nature. The carrying value of DTCC's investment in NYPC included in equity method investments totaled $0 and $18,980,000 at December 31, 2012 and 2011, respectively, and reflects DTCC's 50% ownership of NYPC.

Noncontrolling Interests — Under a plan adopted by the board of directors, each participant of DTC is required to own shares of its Series A preferred stock. The preferred stock does not reduce the funds available in the event of a DTC participant's failure to settle. The ownership of DTC preferred stock is reported as noncontrolling interests in the consolidated financial statements. There was $150,000,000 of DTC Series A preferred stock outstanding as of December 31, 2012 and 2011 (1,500,000 shares at a par value of $100 per share). In December 2010, DTC's authorized Series A preferred stock was increased by 1,750,000 shares bringing the total to 3,250,000 authorized shares, or $325,000,000. None of the additional authorized shares have been issued.

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 DTCC and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents — The Company classifies investments as cash equivalents if the original maturity of an investment is three months or less. Cash equivalents consist primarily of highly liquid investments in time deposits held in banks, commercial paper, reverse repurchase agreements, and money market funds.

Reverse repurchase agreements provide for the Companies' 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 the overnight reverse repurchase agreements are typically U.S. Treasury and agency securities. Overnight reverse repurchase agreements are recorded at the contract amounts, and totaled

$6,496,701,000 and $7,399,678,000 at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the counterparties to these agreements were nine financial institutions that are participants.

Overnight investments made in commercial paper are stated at the contract amounts totaling $692,516,000 and $2,133,866,000 at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the issuers of the commercial paper were two U.S. bank holding companies that are participants.

Money market accounts with participants are used to sweep any remaining funds available. Overnight investments made in money market accounts totaled $4,325,959,000 and $2,967,245,000 at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the money market balance was with seven and three financial institutions that are participants, respectively.

Interest-bearing deposits held at various financial institutions including the Federal Reserve totaled $3,129,375,000 and $2,797,055,000 at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the money market balance was with six and three participants, respectively.

Participant cash deposits to the Clearing Fund and Participant Fund, which may be applied to satisfy obligations of the depositing participant, as provided in respective clearing agency rules, are included in cash and cash equivalents. See Note 5 "Participant Fund and Clearing Fund."

Segregated Cash and Securities — NSCC receives cash from Participants for the exclusive benefit of the Participants' customers for the Participants' compliance with SEC rule 15c3-3 (customer protection). As of December 31, 2012, the Company held $37,446,000 of cash in a segregated cash account. As of December 31, 2011, the Company held $32,331,000 of cash in a segregated cash account and two treasury notes with a carrying value of $30,000,000.

EuroCCP receives cash from Participants for the exclusive benefit of the interoperability with other central counterparties (CCPs). As of December 31, 2012 and 2011, the Company held $104,818,000 and $0 of cash in a segregated collateral account with Clearstream.

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

The Company performs a periodic review of its investment portfolio for impairment. A debt security is considered impaired if its fair value is less than its carrying value. The decline in fair value is determined to be other-than-temporary impairment if (a) the Company has the intent to sell the impaired debt security or (b) it is more likely than not the Company will be required to sell the security before the recovery of the amortized cost. Additionally, regardless of whether there is intention to sell or requirement to sell, if the Company does not expect to recover the entire amortized cost basis, the impaired debt security is considered an other-than-temporary impairment. The Company does not intend to sell those securities and it is not more likely than not that the Company will have to sell. The Company did not recognize any other-than-temporary impairment in 2012 and 2011. The maturity distribution by carrying amount and fair value of the Company's investment securities portfolio as of December 31, 2012 and 2011, is as follows (dollars in thousands):

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Maturity of one year or less	$ 235,984	$ 235,939	$ 304,727	$ 304,764
Maturity between one and five years	-	-	1,004	1,052
Total	$ 235,984	$ 235,939	$ 305,731	$ 305,816

Accounts Receivable — Accounts receivable are stated at cost, net of an 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. The Company may record a specific reserve for individual accounts receivable when the Company becomes aware of specific customer circumstances, such as in the case of bankruptcy filings or deterioration in the customer's operating results of financial position. There was an allowance of $575,000 for doubtful accounts as of December 31, 2012 and 2011.

The accounts receivable as of December 31, 2012 and 2011, are as follows (dollars in thousands):

	2012	2011
Due from participants for services	$ 94,972	$ 78,690
Cash dividends, interest, and related receivables	5,572	5,469
Taxes receivable and other	57,744	68,748
Total	$ 158,288	$ 152,907

Fixed Assets — Fixed assets as of December 31, 2012 and 2011, consist of the following (dollars in thousands):

	2012			2011		
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Cost	Accumulated Depreciation and Amortization	Net Book Value
Software	$ 599,947	$ 404,791	$ 195,156	$ 501,496	$ 350,374	$ 151,122
Furniture and equipment	281,464	213,199	68,265	228,068	197,637	30,431
Leasehold improvements	229,509	130,770	98,739	156,970	121,536	35,434
Leased property under capital leases	51,526	32,554	18,972	40,187	36,531	3,656
Building and improvements	31,772	7,452	24,320	31,650	6,760	24,890
Land	4,221	-	4,221	4,221	-	4,221
Total	$ 1,198,439	$ 788,766	$ 409,673	$ 962,592	$ 712,838	$ 249,754

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

Internal and external costs incurred in developing or obtaining computer software for internal use are capitalized in accordance with generally accepted accounting principles and are amortized on a straight-line basis over the estimated useful life of the software, which is generally three years. General and administrative costs related to developing or obtaining such software are expensed as incurred.

Capitalized costs for software either developed for internal use or purchased during the year totaled $98,451,000 and $72,035,000 in 2012 and 2011, respectively. The amortization of capitalized software costs was $54,417,000 in 2012 and $53,724,000 in 2011. The depreciation of other fixed assets was $34,112,000 in 2012 and $27,627,000 in 2011.

During 2012, disposals of fixed assets resulted in a charge of $6,161,000 and the removal of $18,762,000 and 12,601,000 from the related cost and accumulated amortization accounts, respectively. During 2011, disposals of software resulted in a charge of $841,000 and the removal of $6,529,000 and $5,688,000 from the related cost and accumulated amortization accounts, respectively. Disposals of other fixed assets resulted in a charge of $649,000 and the removal of $2,607,000 and $,958,000 from the related cost and accumulated amortization accounts.

Goodwill and Intangible Assets — Goodwill represents the excess of the purchase consideration over the fair value of net assets acquired and is recorded in other assets. Customer relationship assets are amortized on an accelerated basis based upon management's estimate of future economic benefits to be realized. The estimated useful lives of customer relationship intangible assets are 12 years. Goodwill and intangible assets are reviewed annually for impairment. There was no impairment in 2012 or 2011.

Income Taxes — Deferred tax assets and liabilities are reported in deferred income taxes, 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.

Refunds to Participants — DTCC invests available Clearing Fund and Participant Fund cash deposits principally in overnight reverse repurchase agreements. For FICC, the earnings on these investments are included in interest income and the amounts that were passed through to participants are included in refunds to participants. The total amount of earnings the Company passed through to participants was $11,085,000 and $6,669,000 in 2012 and 2011, respectively. DTC also has a policy to provide participants a monthly refund of interest earned from the overnight investment of unallocated cash dividends, interest, and reorganization funds payable to participants. Such refunds totaled $107,000 in 2012 and $277,000 in 2011.

Securities on Deposit — Securities held in custody by DTC for participants and related stock dividends receivable are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to participants. Short positions occasionally exist in securities balances and are credited to the account of the Participants. Such short positions are valued and collateralized daily by 130% of the short position. DTC's obligation to return such cash collateral to a Participant is also reflected in Payable to participants. At December 31, 2012 and 2011, short positions amounted to $33,026,000 and $32,531,000, respectively.

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. DTC and

NSCC invests available cash deposits to the Participant Fund and Clearing Fund in overnight reverse repurchase agreements, money market funds and interest-bearing deposits with various financial institutions. Prior to 2012, the earnings on these investments were included in interest income in the consolidated statements of income and the amounts that were passed through to participants were included in refunds to participants in the consolidated statements of income. Such amount totaled $8,409,000 in 2011. We have restated 2011 to confirm with 2012 presentation. There was no impact to net income on the consolidated statements of income.

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

Foreign Currency — Assets and liabilities denominated in foreign currencies are translated at rates of exchange prevailing on the dates of the consolidated statements of financial condition. Revenues and expenses are translated at average rates of exchange during the year. Gains or losses on foreign currency transactions are included in the consolidated statements of income. Gains or losses on translation of the financial statements of foreign subsidiaries, when the functional currency is other than the U.S. dollar, are reflected as a separate component of equity and included in the consolidated statements of comprehensive income.

Derivatives and Hedging — The Company uses cash flow hedges for risk management purposes to hedge the exposure to variability in cash flows from floating-rate debt. All free-standing derivatives, including swaps, are recorded at fair value in the consolidated statements of financial condition in accounts payable and other liabilities. 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. Derivatives that are not designated as hedges are marked to market through the consolidated statements of income.

To assess effectiveness, the Company uses the hypothetical derivative method as noted within Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income or loss (OCI) and recognized in the consolidated statements of comprehensive income when the hedged cash flows affect earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item. The ineffective portions of cash flow hedges, if any, are immediately recognized in the consolidated statements of income. If a hedge relationship is terminated, the value of the derivative recorded in accumulated other comprehensive income or loss (AOCI) is recognized in the consolidated statements of income when the cash flows that were hedged affect earnings. For hedge relationships that are discontinued because a forecasted transaction is not expected to occur according to the original hedge forecast, any related derivative values recorded in AOCI are immediately recognized in the consolidated statements of income.

Recent Accounting Pronouncements

Financial Accounting Standards Board (FASB) Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures — In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in Generally Accepted Accounting Principles and International Financial Reporting Standards. The amendments to ASC Topic 820 include guidance on the application of the highest and best use and valuation premise concepts (including an exception to the valuation premise for certain risks managed on a portfolio basis), the valuation of equity instruments, and the use of premiums and discounts representing adjustments for the size of an entity's holding of an asset or liability (specifically, blockage factors are not permitted). The amendments also include expanded disclosures, including disclosures around fair value measurements categorized within Level 3 of the fair value hierarchy, and disclosures when the entity's use of a nonfinancial asset differs from the highest and best use of that asset. The amendments in ASU No. 2011-04 are to be applied prospectively. The adoption of this guidance did not have an impact on DTCC's financial condition, results of operations or cash flows. See Note 3 "Fair Value of Financial Assets and Liabilities" for the disclosures.

FASB ASC Topic 350, Intangibles — Goodwill and Other. In September 2011, the FASB issued amended guidance under FASB ASC Topic 350 in ASU No. 2011-08, *Testing Goodwill for Impairment.* ASU No. 2011-08 amends FASB ASC Topic 350 to provide an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Under the amendments in this update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The guidance was effective for the Company's year ended 2011. The adoption did not have an effect on the Company's consolidated financial statements.

FASB ASC Topic 220, Comprehensive Income —The amendments in this Update ASU No. 2011-05 supersede and replace the presentation requirements for reclassifications out of AOCI in ASU Nos 2011-05 (issued in June 2011) and 2011-12 (issued in December 2011) for all public and private organizations. The amendments would require an entity to provide additional information about reclassifications out of AOCI. The adoption of this guidance did not have an impact on DTCC's financial condition, results of operations or cash flows.

FASB ASC Topic 860, Transfers and Servicing — In April 2011, the FASB issued amended guidance under ASC Topic 860 in ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The amendments in ASU No. 2011-03 remove from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and the collateral maintenance implementation guidance related to that criterion. The rules were effective prospectively for new transfers and exiting transactions for the period beginning on or after December 15, 2011. The adoption of this guidance did not have an impact on DTCC's financial condition, results of operations or cash flows.

ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses — In July 2010, the FASB amended the accounting guidance for receivables as it relates to disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater

level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires disclosure of credit quality indicators, past due information, and modifications of financing receivables. For nonpublic entities, these disclosures were effective for annual reporting periods ending on or after December 15, 2011. The adoption of this guidance did not have an impact on DTCC's financial condition, results of operations or cash flows.

3. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The guidance related to "Fair Value Measurement" included in FASB 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. It establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

We have 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, we determine fair value based on discounted cash flow analyses, comparison to similar instruments, and the use of financial models. Discounted cash flow analyses are dependent upon estimated future cash flows and level of interest rates used to discount those cash flows. Model-based pricing uses inputs of observable prices, where available, interest rates, foreign exchange rates, option volatilities and other factors.

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 quoted prices for identical assets or liabilities in active markets as of the valuation date.

Level 2 — Inputs to the valuation methodology are other than quoted 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis — The following tables represent the financial instruments carried at fair value as of December 31, 2012 and 2011 by caption on the consolidated statements of financial condition and by FASB ASC Topic 820 valuation hierarchy (as described above). There were no transfers between Level 1 and Level 2 during 2012.

(in thousands)	As of December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets — Clearing Fund — U.S. government and Federal Agency Securities	$ 6,920,117	$ 1,765,918	$ -	$ 8,686,035
Liabilities:				
Clearing Fund — U.S. government securities and Federal Agency Securities	$ 6,920,117	$ 1,765,918	$ -	$ 8,686,035
Derivative — over-the-counter interest rate swap	-	1,236	-	1,236
Total	$ 6,920,117	$ 1,767,154	$ -	$ 8,687,271

	As of December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets — Clearing Fund — U.S. government and Federal Agency Securities	$ 7,169,215	$ 2,197,745	$ -	$ 9,366,960
Liabilities:				
Clearing Fund — U.S. government securities and Federal Agency Securities	$ 7,169,215	$ 2,197,745	$ -	$ 9,366,960
Derivative — over-the-counter interest rate swap	-	1,166	-	1,166
Total	$ 7,169,215	$ 2,198,911	$ -	$ 9,368,126

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

U.S. Agency-Issued Debt Securities — U.S. agency issued debt securities are measured primarily based on quoted market prices obtained from external pricing services. Callable U.S. agency securities are classified within Level 2 of the fair value hierarchy while noncallable U.S. agency securities are classified within Level 1.

U.S. Agency Residential Mortgage-Backed Securities —U.S agency residential mortgage-backed securities include mortgage pass-through securities (fixed and adjustable rate), interest-only and principal-only securities and are generally measured using market price quotations from external pricing services and categorized within Level 2 of the fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis — We recognized an impairment charge of $55,170,000 in 2012 on the consolidated statements of income related to our investment in MarkitSERV and NYPC to write down our investments to their fair value. The carrying value of DTCC's investment in MarkitSERV and NYPC included in equity method investments on the consolidated statements of financial condition, totaled $175,000,000 and $0, respectively, at December 31, 2012.

There are no liabilities measured at fair value on a non-recurring basis during 2012.

Financial Instruments not Measured at Fair Value — 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.

The carrying amounts of our financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods. The following disclosure discusses these instruments 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, we determine fair value based on discounted cash flow analyses and comparable pricing of similar instruments.

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 is as follows:

Non-Interest-Bearing and 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, the carrying 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.

Reverse Repurchase Agreements — The estimated fair value of reverse repurchase agreements is based on inputs such as interest rates and tenors. These agreements are classified as Level 2 within the valuation hierarchy due to their overnight nature.

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

Marketable Securities Held-to-Maturity — Marketable securities held to maturity are comprised of U.S Treasury securities, U.S. Treasury Bills and Corporate Notes. Where quoted prices are available in an active market for identical assets and liabilities, we classify the securities as Level 1 within the valuation hierarchy. Level 1 includes U.S. Treasury securities and U.S. Treasury Bills and Corporate Notes.

Other Financial Assets and Liabilities — Carrying value of other financial assets and accounts payable and other liabilities are considered to approximate fair value due to its short term feature and are included as Level 2 within the valuation hierarchy.

Payables to Participants — The carrying value of payables to participants is approximate to fair value due to its short term feature and is classified as Level 2 within the valuation hierarchy.

Long-Term Debt and Other Borrowings — Borrowings primarily consist of Industrial Development Agency Bonds, 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.

Clearing Fund and Participant Fund — Cash Deposits — Clearing Fund and Participant Fund cash deposits by participants to the Clearing Fund and Participant Fund represent cash received from participants based on calculated requirement determined by the Company and is classified as Level 1 within the valuation hierarchy (dollars in thousands).

	As of December 31, 2012					As of December 31, 2011	
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:							
Non-interest-bearing and interest bearing deposits	$ 8,408,823	$ 8,408,823	$ -	$ 8,408,823	$ -	$ 8,128,741	$ 8,128,741
Reverse repurchase agreements	6,496,701	6,496,701	-	6,496,701	-	7,399,678	7,399,678
Segregated cash and securities	142,264	142,264	142,264	-	-	62,331	62,331
Marketable securities held to maturity	235,984	235,939	235,939	-	-	305,816	305,732
Other financial assets	242,162	242,162	-	242,162	-	455,740	455,740
Total	$ 15,525,934	$ 15,525,889	$ 378,203	$ 15,147,686	$ -	$ 16,352,306	$ 16,352,222
Liabilities:							
Accounts payable and other liabilities	$ 1,148,198	$ 1,148,198	$ -	$ 1,148,198	$ -	$ 1,335,784	$ 1,335,784
Payable to participants	1,179,743	1,179,743	-	1,179,743	-	991,711	991,711
Long-term debt and other borrowings	221,810	206,969	-	206,969	-	341,680	365,834
Clearing fund-cash deposits	13,202,933	13,202,933	13,202,933	-	-	13,795,882	13,795,882
Total	$ 15,752,684	$ 15,737,843	$ 13,202,933	$ 2,534,910	$ -	$ 16,465,057	$ 16,489,211

4. INTANGIBLE ASSETS

A summary of intangible assets and accumulated amortization as of December 31, 2012 and 2011, included in other assets in the consolidated statements of financial condition, is as follows:

	Amount	Amortization	Value	Amount	Amortization	Value
Amortized intangible assets:						
Customer relationships and other	$ 8,074	$ 2,616	$ 5,458	$ 8,074	$ 1,749	$ 6,325
Perpetual license	-	-	-	600	120	480
Total	$ 8,074	$ 2,616	$ 5,458	$ 8,674	$ 1,869	$ 6,805
Unamortized intangible assets:						
Goodwill	$ 7,836	n/a	$ 7,836	$ 7,836	n/a	$ 7,836
Trademarks	3,248	n/a	3,248	3,248	n/a	3,248
Total	$ 11,084	$ -	$ 11,084	$ 11,084	$ -	$ 11,084

Amortization of intangible assets related to customer relationships and other and perpetual licenses during 2012 was $867,000 and $0, respectively. Amortization of intangible assets related to customer relationships and other and perpetual licenses during 2011 was $1,158,000 and $120,000, respectively.

As of December 31, 2011, the future estimated amortization expense is as follows (dollars in thousands):

2013	771
2014	687
2015	615
2016	445
2017	445
Thereafter	2,495
Total future estimated amortization	$ 5,458

5. PARTICIPANT FUND AND CLEARING FUND

The rules of DTC, FICC, NSCC, and EuroCCP require their respective Participants to maintain deposits related to their respective activities based on calculated requirements, which were $17,085,018,000 and $16,774,412,000 at December 31, 2012 and 2011, respectively. The deposits are available to secure Participants' obligations and certain liabilities of the Companies, should they occur. All deposits of cash and securities are recorded in the consolidated statements of financial condition with the cash portion included in cash and cash equivalents.

A summary of the total Participant Fund and Clearing Fund deposits held as of December 31, 2012 and 2011, including $4,803,950,000 and $6,388,431,000, respectively, in excess of the calculated requirements is as follows (dollars in thousands):

	2012	2011
Cash	$ 13,202,933	$ 13,795,882
Other deposits - U.S. Government and Federal Agency Securities - at fair value	8,686,035	9,366,960
Total	$ 21,888,968	$ 23,162,842

6. TRANSACTIONS WITH RELATED PARTIES

DTCC has agreements with Omgeo, MarkitSERV, and NYPC to provide various support services and office facilities. Expense reimbursements under these agreements, which are included in expense reimbursements and accounts receivable, are as follows (dollars in thousands):

	Expense Reimbursements		Receivables	
	2012	**2011**	**2012**	**2011**
Omgeo	$ 28,720	$ 28,464	$ 2,508	$ 2,855
MarkitSERV	18,723	20,244	9,637	1,894
NYPC	7,012	7,417	400	2,270
Total	$ 54,455	$ 56,125	$ 12,545	$ 7,019

DTCC has an agreement with Omgeo whereby, if Omgeo reduces or terminates certain services it receives from DTCC or its affiliates, Omgeo will pay extraction costs as specified in the agreement. There were no extraction costs in 2012 or 2011.

DTCC contributed software with a carrying value of $4,018,000 to NYPC during 2012 resulting in an increase in equity method investments in the consolidated statements of financial condition for the same amount. DTCC entered into a loan agreement with Markit Global Holding Limited in the amount of $15,000,000 to help facilitate the sale of the LoanServ Messaging Business (LoanServ) to MGHL during 2011. DTCC recognized a gain of $11,770,000 on the sale of LoanServ as of December 31, 2011. The gain is recorded in other services in the consolidated statements of income.

7. PAYABLE TO PARTICIPANTS

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities, which it distributes to its Participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed, unless claimed by the owners of the securities.

Cash dividends, interest, reorganization, and redemption payables of $1,142,391,000 at December 2012, and $920,558,000 at December 31, 2011, are included in payable to participants. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

Payable to participants also includes settlement accounts payable, cash received from NSCC participants to facilitate their compliance with customer protection rules of the SEC. These payables totaled $37,352,000 at December 31, 2012, and $71,153,000 at December 31, 2011.

8. PENSION AND OTHER POSTRETIREMENT BENEFITS

DTCC has a noncontributory defined benefit pension plan covering substantially all full-time employees of the Companies. The pension plan is qualified under Section 401(a) of the Internal Revenue Code. Pension benefits under the plan are determined on the basis of an employee's length of service and earnings. The funding policy is to make contributions to the plan that meet or exceed the minimum funding standards under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended. DTCC also maintains a 401(h) account to fund the retiree medical plans.

Retirement benefits are also provided under supplemental nonqualified pension plans for eligible officers of the Companies. The cost of nonqualified defined benefits is determined based on substantially the same actuarial methods and economic assumptions as those used for the qualified pension plan. The Companies

maintain certain assets in trust for nonqualified retirement benefit obligations. DTCC also provides health care and life insurance benefits to eligible retired employees.

In connection with a redesign of the Company's retirement plans, on February 29, 2012, the Compensation and Benefits Committee of the Board approved amendments to freeze benefits earned in the Qualified Pension Plan and the Restoration Plan effective December 31, 2013. As a result of freezing the Qualified Pension Plan and the Restoration Plan, a curtailment was triggered and a remeasurement of the qualified pension obligations and plan assets occurred as of February 29, 2012. The curtailment impact reduced the projected benefit obligation by approximately $104 million with a corresponding decrease in unrecognized losses in accumulated OCI of $104 million ($62.4 million after tax). The impact of the immediate recognition of the prior service cost of $3 million was recorded in employee compensation and related benefits expense as a curtailment loss. The freeze of the plans coincides with an enhanced savings plan for eligible employees. The Company will continue recording pension expense related to this plan, primarily representing interest costs on the accumulated benefit obligation and amortization of actuarial losses accumulated in the plan prior to the curtailment.

For the year ended December 31, 2012, DTCC recorded a benefit of $ 75,557,000 on a pretax basis offset by a deferred tax liability of $31,955,000, resulting in a net gain of $43,602,000 to the accumulated other comprehensive loss account to report the funded status of the defined benefit pension and other postretirement benefit plans, thereby increasing shareholders' equity. The decrease in the obligation was mainly due to the effect of the curtailment and increase in the value of the plan assets partially offset by an increase due to a reduction in the interest rate used to discount the projected benefit obligation to its present settlement amount.

For the year ended December, 31, 2011, DTCC recorded a charge of $153,225,000 on a pretax basis offset by a deferred tax benefit of $64,879,000 resulting in a net charge of $88,346,000 to the accumulated other comprehensive loss account to report the funded status of the defined benefit pension and other postretirement benefit plans, thereby decreasing shareholders' equity. The increase in the obligation was mainly due to a decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount, partially offset by an increase in the value of the plan assets. The net decrease in shareholders' equity represents an amount not yet recognized as pension expense.

Fair Value of Pension and Other Benefit Plan Assets — Following are the descriptions and valuation methodologies used for assets measured at fair value.

Mutual Funds — This category includes actively managed investments in U.S. large cap growth, value and small cap equity securities, and international equity securities. It also includes an equity index fund that tracks the performance of the S&P 500 Index. The fair value represents the net asset value (NAV) of the shares held by the plan at year-end.

Pooled Investment Fund — This category represents an actively managed bond portfolio benchmarked to a broad U.S. bond market index. The fair value of the fund is based on the purchase price and redemption price of the units as of the close of each day the fund is open for business.

Short-Term Investments — This category is designed to provide safety of principal, daily liquidity, and a competitive yield by investing in high-quality money market instruments (MMIs). It is valued at the NAV of the shares held by the plan at year-end, which approximates fair value.

Hedge Fund — This category represents a pooled hedge fund of funds. The fund valuation is based on the NAV of the underlying funds provided by the fund managers as of year-end.

A summary of changes in the fair value of the plan's Level 3 assets for the years ended December 31, 2012 and 2011, is as follows (dollars in thousands):

Level 3 Assets	**Hedge Fund**
Balance — December 31, 2010	$ 338
Purchases, sales, and settlements	(335)
Realized/unrealized gains (losses)	(3)
Balance — December 31, 2011	-
Purchases, sales, and settlements	
Realized/unrealized gains (losses)	-
Balance — December 31, 2012	$ -

The estimated transition obligation, actuarial loss, and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are as follows (dollars in thousands):

	Pension Benefits		**Other Benefits**	
	2012	**2011**	**2012**	**2011**
Transition obligation	$ -	$ -	$ -	$ 40
Actuarial loss	7,815	25,232	2,590	2,310
Prior service cost	1,143	1,510	(7,789)	(7,789)

The components of the funded status as of December 31, 2012 and 2011, including the classification of plan assets in accordance with the three level fair valuation hierarchy are as follows (dollars in thousands):

	Pension Benefits		**Other Benefits**	
	2012	**2011**	**2012**	**2011**
Benefit obligation at end of year:				
Qualified plan	$ 899,622	$ 896,969	$ -	$ -
Other plans	121,691	134,096	95,772	86,221
Total benefit obligation at end of year	1,021,313	1,031,065	95,772	86,221
Fair value of plan assets at end of year	705,450	597,090	8,466	7,593
Funded status	$ (315,863)	$ (433,975)	$ (87,306)	$ (78,628)

	Level 1	Level 2	Level 3	Total
Pension asset fair value levels at December 31, 2012:				
Mutual funds	$ 274,282	$ 173,490	$ -	$ 447,772
Short term investments	-	7,024	-	7,024
Pooled investment funds	-	242,204	-	242,204
Pension assets at fair value	$ 274,282	$ 422,718	$ -	$ 697,000
Pension asset fair value levels at December 31, 2011:				
Mutual funds	$ 225,312	$ 149,514	$ -	$ 374,826
Short term investments	-	1,460	-	1,460
Pooled investment funds	-	220,063	-	220,063
Pension assets at fair value	$ 225,312	$ 371,037	$ -	$ 596,339

Other benefit plan assets of $8,466,000 as of December 31, 2012, and $7,593,000 as of December 31, 2011, are all mutual funds in the Level 1 category.

The guaranteed insurance contracts of $8,467,000 and $741,000 as of December 31, 2012 and 2011, respectively are recorded at contract value. Therefore, these contracts are not measured at fair value on a recurring basis and not included in the preceding tables.

Details of the net amount recognized in the consolidated statements of financial condition (excluding taxes) are as follows (dollars in thousands):

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Amount not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss:				
Prior service cost	$ (9,497)	($ 3,887)	$ 28,872	$ 36,661
Accumulated loss	(298,958)	(390,693)	(34,924)	(32,105)
Transition obligation	-	-	-	(40)
Accumulated other comprehensive loss	(308,455)	(394,580)	(6,052)	4,516
Cumulative net periodic benefit cost in excess of employer contributions	(7,408)	(39,394)	(81,254)	(83,144)
Net amount recognized at year-end	$ (315,863)	$ (433,974)	$ (87,306)	$ (78,628)

The accumulated benefit obligation for all defined benefit plans as of December 31, 2012 and 2011, was $1,001,543,000 and $908,197,000, respectively.

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	4.25 %	4.65%	4.12 %	4.57%
Rate of compensation increase	3.56 %	3.56%	n/a	n/a
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:				
Discount rate	4.65 %	5.55%	4.57 %	5.41%
Expected long-term rate of return on plan assets	8.00 %	8.00%	8.00 %	8.00%
Rate of compensation increase	3.56 %	3.56%	n/a	n/a
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year			7.66 %	7.89%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.50%	4.50%
Year that the rate reaches the ultimate trend rate			2029	2029

DTCC's actual pension plan weighted-average asset allocations as of December 31, 2012 and 2011, by asset category are as follows:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Equity securities	63 %	62 %	60 %	60 %
Debt securities	37	38	40	40
Total	100 %	100 %	100 %	100 %

To develop the expected long-term rate of return on assets assumptions, DTCC considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8% long-term rate of return on assets assumption. The actual historical rate of return achieved by these assets exceeded the 8% assumption. Based on DTCC's target asset allocation guidelines, 60% to 70% of the plan assets are to be invested in equity securities, 32% to 38% in fixed-income securities (including guaranteed investment contracts), and up to 10% in alternative investments.

Details of the components of net periodic benefit cost and other changes recognized in OCI (excluding taxes) are as follows (dollars in thousands):

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Components of net periodic benefit cost:				
Service cost	$ 29,960	$ 32,668	$ 2,610	$ 2,288
Interest cost	41,881	45,832	3,904	3,941
Expected return on plan assets	(50,375)	(45,894)	(520)	(527)
Amortizations:				
Prior service cost	1,194	1,637	(7,789)	(7,790)
Transition obligation	-	-	40	40
Actuarial loss	9,519	13,761	2,471	1,636
Curtailment loss	3,003	-	-	-
Settlement loss	3,131	1,572	-	-
Net periodic cost (benefit)	38,313	49,576	716	(412)
Other changes recognized in OCI:				
Prior service cost arising during the period	9,807	n/a	n/a	n/a
Net gain arising during the period	25,104	153,013	5,290	11,068
Curtailments:				
Prior service cost	(3,002)	-	-	-
Net gain due to curtailment	(104,189)	-	-	-
Amortizations:				
Transition obligation	-	-	(40)	(40)
Prior service cost	(1,194)	(1,637)	7,789	7,790
Actuarial and settlement loss	(12,651)	(15,334)	(2,471)	(1,635)
Net other changes in OCI	(86,125)	136,042	10,568	17,183
Net amount recognized in net periodic benefit cost and OCI	$ (47,812)	$185,618	$ 11,284	$16,771

The Companies contributed $50,000,000 to the benefit plan in 2012 and expect to contribute approximately $40,000,000 during 2013. There were no participant contributions to the plans in 2012 or 2011. During 2012, benefit payments totaled $46,677,000 for the pension plan and $2,606,000 for the other plans. During 2011, benefit payments totaled $29,848,000 for the pension plan and $3,758,000 for the other plans. Settlement losses relate to the early retirement of executives who elected lump-sum and periodic payments.

The amounts expected to be paid or (received) in the next 10 years are as follows (dollars in thousands):

	Pension	Employer Benefit Payments	Medicare Subsidy Receipts
2013	$ 76,045	$ 3,841	$ (35)
2014	51,952	3,981	(34)
2015	55,570	4,204	(33)
2016	50,435	4,406	(32)
2017	57,275	4,711	(30)
Next five years	326,383	29,039	(125)
Total	$ 617,660	$ 50,182	$ (289)

9. INCOME TAXES

DTCC and its subsidiaries file a consolidated federal income tax return and combined New York State and New York City income tax returns with the exception of DTC, which files separate New York State and New York City income tax returns. DTCC and its subsidiaries file unitary, combined, and separate income tax returns in various other states and non-U.S. jurisdictions. The components of the Company's income tax provision for the years ended December 31, 2012 and 2011, are as follows (dollars in thousands):

	2012	2011
Current income taxes:		
Federal	$ 21,578	$ 58,520
State and local	11,618	24,396
Foreign	1,327	732
Deferred income tax:		
Federal	(29,101)	6,496
Foreign	(2,030)	-
State and local	3,397	(1,672)
Provision for income taxes	$ 6,789	$ 88,472

The 2012 and 2011 effective tax rates differ from the 35% federal statutory rate mainly due to state and local taxes, permanent differences between financial statement income and taxable income, and adjustments to deferred tax balances. Deferred tax balances include adjustments made to reflect estimated recoverable amounts in future years.

The components of deferred tax assets and (liabilities) as of December 31, 2012 and 2011, are as follows (dollars in thousands):

	2012	2011
Employee benefit related	$ 262,735	$ 292,413
Rent	6,022	3,899
Depreciation and amortization	(2,695)	6,950
Capitalization of software developed for internal use	(74,237)	(62,886)
Investment tax basis difference — MarkitSERV	(56,958)	(88,772)
Sale and leaseback costs and other	965	(11,821)
Net deferred income tax assets	$ 135,832	$ 139,783

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

DTCC applies the provisions of FASB-issued Financial Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes, (codified primarily in FASB ASC Topic 740, Income Taxes) to record unrecognized tax benefits (UTBs). As of December 31, 2012 and 2011, UTBs including interest totaled $50,820,000 and $44,302,000, respectively.

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its consolidated statements of income. As of December 31, 2012 and 2011, the amount of accrued interest recorded in the Company's consolidated statements of financial condition related to UTBs was $9,871,000 and $7,449,000, respectively.

The Company is subject to U.S. federal income tax as well as income tax in various state and local and non-U.S. jurisdictions. Federal income tax returns filed for the tax years 2007 through 2009 are currently under examination and the federal income tax returns for 2010 through 2011 remain subject to examination by the IRS. New York State income tax returns for 2000 through 2008 are currently under examination, and 2009 through 2011 remain open to examination. New York City income tax returns for 2009 through 2011 remain open to examination.

For the current ongoing audits related to open tax years, the Company estimates that it is possible that the balance of UTBs could decrease in the next 12 months as a result of the effective settlement of these audits, 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 that 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 these audits, the Company is unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

10. LONG-TERM DEBT

Long-term debt as of December 31, 2012 and 2011, consists of the following (dollars in thousands):

	2012	2011
Notes payable	$ 179,665	$ 134,881
Industrial Development Agency Bonds	-	205,302
Hudson County Improvement Authority Bond	20,713	22,950
Capital lease obligations	21,432	2,701
Total	$ 221,810	$ 365,834

The following table summarizes the term and maturities of the notes payable as of December 31, 2012 and 2011 (dollars in thousands):

	Rate	Issue Date	Maturity	Outstanding Balance 2012	Outstanding Balance 2011
DTC private placement	5.03%	11/22/2004	12/15/2023	$ 13,026	$ 14,211
DTC private placement	5.59%	4/6/2009	4/15/2016	51,126	51,126
DTC private placement	5.63%	4/6/2009	4/15/2016	40,000	40,000
DTC asset financing *	4.94%	6/30/2009	6/28/2013	7,896	23,108
NSCC private placement	4.62%	9/15/2002	9/15/2012	-	1,700
NSCC private placement	5.03%	11/22/2004	12/15/2023	4,342	4,737
DTCC private placement series A	2.64%	4/26/2012	4/26/2017	11,000	-
DTCC private placement series B	3.83%	4/26/2012	4/26/2032	26,650	-
DTCC private placement series B	3.93%	9/28/2012	9/28/2032	25,625	-
				$ 179,665	$ 134,882

*The note was secured by certain property, plant and equipment that were pledged at the inception of the borrowing, totaling $17,000,000.

DTC had a payable to the New York City Industrial Development Agency (IDA) and a matching investment in IDA bonds included in other assets in the consolidated statements of financial condition that matured on December 31, 2012. Interest expense related to the IDA payable was $15,398,000 in 2012 and 2011, respectively. These bonds matured in 2012.

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 1.28% and 1.28% for the years ended December 31, 2012 and 2011, respectively. Repayment of the debt commenced on February 1, 2011. The Hudson County Improvement Authority has the ability to call the debt immediately due and payable if the Company fails to pay in accordance with the terms of the debt agreement or fails to comply with the other provisions stipulated in the agreement. Interest expense related to the bond totaled $289,000 in 2012 and 333,000 in 2011.

On December 17, 2010, the Company entered into an interest rate swap arrangement to hedge the Hudson County Improvement Authority floating rate debt payments in the principal amount of $24,905,000. The rate on the swap is fixed at 3.12% until December 1, 2020 when the swap terminates. The Company designated the swap as a cash flow hedge against variability in the future cash flows on the floating rate payments under the bond arrangement with the Hudson County Improvement Authority,

and management has concluded that the hedge is effective. At December 31, 2012 and 2011, the fair value of the swap resulted in a loss of $68,000 and $739,000, respectively. At December 31, 2012 and 2011, the loss is offset by a deferred tax benefit of $27,000 and $291,000, respectively, and the net impact of a loss of $41,000 and $448,000 is reported as other comprehensive loss, net of tax in the consolidated statements of comprehensive income. There were no undesignated derivatives at December 31, 2012 or 2011.

As of December 31, 2012, the Company was in compliance with applicable debt covenants.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2012, capital lease agreements with remaining future minimum payments including interest, which are due through February 2017, totaled $25,983,000. At December 31, 2011, remaining future minimum payments including interest totaled $2,971,000.

Interest expense as of December 31, 2012 and December 31, 2011 was $26,544,000 and $24,985,000, respectively.

At December 31, 2012, principal payments due on long-term debt over the next five years from 2013 to 2017 and thereafter are as follows (dollars in thousands):

2013	$ 16,317
2014	8,493
2015	8,650
2016	99,931
2017	3,068
Thereafter	85,351
	$ 221,810

11. SHAREHOLDERS' EQUITY

Appropriated retained earnings represent an amount that is available for the satisfaction of losses arising out of the clearance and settlement of transactions, should they arise (see Note 13). Such amount of retained earnings is excluded from the calculation of book value per share for purposes of capital stock transactions of DTCC.

At December 31, 2012 and 2011, there were 11 shares of treasury stock.

12. COMMITMENTS AND CONTINGENT LIABILITIES

The Companies lease office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2012. Rent expense under these leases was $24,068,000 in 2012 and $19,640,000 in 2011.

At December 31, 2012, future minimum rental payments under all noncancelable leases are as follows (dollars in thousands):

2013	$	12,522
2014		17,566
2015		17,611
2016		17,669
2017		16,160
Thereafter		284,763
Total minimum rental payments	$	366,291

The Company also has put/call arrangements related to its Omgeo equity method investment that would require it to make payments in connection with the acquisition of the venture partner's interest. The value of the put/call would be based on the appraised value of Omgeo pursuant to the agreement terms. The put/call may be exercised at any time. As of December 31, 2012, the put/call option has not been exercised.

The Company is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on the Company's consolidated financial position, operations, or cash flows.

Lines of Credit

At December 31, 2012 and 2011, to support settlement, DTC maintained a committed line of credit of $1,900,000,000 with 33 lenders during 2012 and 31 lenders during 2011 that include participant and nonparticipant lenders. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBOR, or the lender's cost of funds, on the day of a borrowing, plus 1.40%. DTC also maintained uncommitted credit lines totaling Canadian dollar 150,000,000 with a Canadian bank to support Canadian settlement during 2012 and 2011. Further, a $50,000,000 shared uncommitted credit line with NSCC and DTCC is maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under any of these credit facilities in 2012 or 2011.

At December 31, 2012, NSCC maintained a committed line of credit of $7,430,000,000 with 33 banks, that include participants to provide for potential liquidity needs. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBOR, or the lender's cost of funds, for that day, plus 1.375%. At December 31, 2011, NSCC maintained a committed line of credit of $6,175,000,000 with 31 banks, that include participants to provide for potential liquidity needs. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBOR, or the lender's cost of funds, for that day, plus 1.375%. In addition, a $50,000,000 shared uncommitted credit line with DTC and DTCC was maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under these credit facilities in 2012 or 2011.

At December 31, 2012 and 2011, EuroCCP maintained a committed line of credit (guaranteed by DTCC) of €140,000,000 and €135,000,000, respectively, with seven banks during 2012, and seven banks during 2011, that include participants to provide for potential liquidity needs. During 2012, the borrowing rate under this facility was the adjusted LIBOR, or the lender's cost of funds, for that day, plus 1.25%. During 2011, the borrowing rate under this facility was the adjusted LIBOR, or the lender's

cost of funds, for that day, plus 1.25%. There were no borrowings under these credit facilities in 2012 or 2011.

13. GUARANTEES

Certain DTCC subsidiaries (NSCC, FICC, and EuroCCP) provide central counterparty (CCP) services, including clearing, settlement, and risk management services. Acting as a CCP, they guarantee the settlement of trades in the event that one party to a trade defaults. A participant default is defined in each clearing subsidiary's rules. In its guarantor role, each clearing subsidiary has equal claims to and from participants on opposite sides of netted transactions. To cover their guarantee risk, the clearing subsidiaries use 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, 2012, open positions due to NSCC aggregated $1,594,288,000 ($1,627,693,000 at December 31, 2011). There were no defaults by participants to these obligations.

FICC, through its Government Securities Division (GSD), is the leading provider of real-time trade matching, clearing, netting, risk management and settlement for trades in U.S. government debt, including repurchase agreements. Securities processed by GSD include Treasury bills, bonds, notes, zero-coupon securities, government agency securities, and inflation-indexed securities. The U.S. government securities market is predominantly an over-the-counter market and most transactions are settled on a T+1 basis. Trades are guaranteed upon comparison. GSD's netting system interposes FICC as settlement counterparty between GSD participants for eligible trades that have been netted. The guarantee of net settlement positions by FICC results in a potential liability to FICC. Guaranteed positions that have not yet settled are marked to market daily and are debited from or credited to the responsible participants through the funds-only settlement process. At December 31, 2012, the amount of guaranteed positions due from netting GSD participants to FICC approximated $721,787,376,000 There is an equal amount due to certain other GSD participants from FICC after consideration of deliveries pending to FICC. The comparable amount at December 31, 2011, was $790,507,358,000. There were no defaults by participants to these obligations.

MBSD was approved as central counterparty and implemented its pool netting system on April 2, 2012. This implementation positioned MBSD to begin to guarantee settlement. The pool netting system interposes FICC between MBSD participants for eligible trades that have been pool netted. The guarantee of settlement for pool netting eligible trades as well as TBA trades by FICC results in potential liability to FICC. Guaranteed positions that have not yet settled are margined, marked-to-market daily and collateralized via the member's Clearing Fund. At December 31, 2011, MBSD had yet to act as central counterparty, implement pool netting or provide a guarantee of settlement, therefore eliminating any potential liability to FICC. At December 31, 2012, the gross amount of guaranteed positions by MBSD which were scheduled to settle on or before January 2, 2013, approximated $35,042,049,084 and the amount scheduled to settle after January 2, 2013 approximated $3,535,227,392,354. There were no defaults by participants to these obligations.

EuroCCP is a CCP that clears trades in 19 markets, including equities issues, and listed depository receipts in Europe. Through the process of novation, EuroCCP substitutes itself for all counterparties, becoming the buyer to each seller, and seller to each buyer, thus assuming counterparty risk for its participants and allowing the settlement of trades in the event of participant failure. At December 31, 2012 and 2011, the total value of all pending net obligations scheduled to settle over the next three settlement days was $7,663,818,000 and $2,735,402,000, respectively. There were no defaults by participants to these obligations.

If a NSCC, FICC, or EuroCCP 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 to NSCC and FICC, NSCC and FICC would then use any funds available from any applicable multilateral netting contract and limited cross-guaranty agreements, 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.

In addition, FICC has entered into separate and distinct cross-margining agreements; one is with New York Portfolio Clearing, LLC (NYPC), and the other is with the Chicago Mercantile Exchange Inc. (CME). Under each of these respective agreements, FICC and NYPC, and separately, FICC and CME would apply available amounts to each other under specified circumstances.

If there is still a deficit, in the case of NSCC and FICC, they would apply up to 25% of their retained earnings respectively, or, in the case of EuroCCP, a discretionary amount out of its retained earnings approved by EuroCCP's board of directors, to cover the loss. Any remaining deficiency would be satisfied through a loss allocation to nondefaulting participants by using the relevant clearing subsidiary's Clearing Fund based upon a loss allocation formula set out in that subsidiary's rules.

14. 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 participant. The Company's exposure to credit risk comes primarily from clearing and settlement service operations. Credit risk also comes from financial assets, which consist principally of cash and cash equivalents, investments, accounts receivable, and Participant Fund and Clearing Fund.

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

Given that NSCC, FICC and EuroCCP are CCPs, they are exposed to significant credit risk of third parties, including their customer base, which extends to companies within the global financial services industry. Customers are based in the United States and overseas and include participating brokers, dealers, institutional investors, banks, trust issuers, mutual fund companies, insurance carriers, hedge funds, and other financial intermediaries — either directly or through correspondent relationships.

Cash and Cash Equivalents

The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located in different geographical regions, and the Company's policy is designed to limit

exposure with any one institution. As part of its cash and risk management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions. The Company only makes deposits with banks and financial institutions with a credit rating of at least A- or better from Standard & Poor's and Fitch, or A3 or better from Moody's. The Company also monitors the financial condition of the financial institutions on an ongoing basis to identify any significant change in a financial institution's financial condition. If such a change takes place, the amounts deposited in such financial institutions are adjusted.

When participants provide Participants Fund and Clearing Fund deposits in the form of cash, the Company may invest cash deposits in overnight reverse repurchase agreements (reverse repos). The Company bears credit risk related to overnight reverse repurchase agreements only to the extent that cash advanced to the counterparty exceeds the value of collateral received. Securities purchased under overnight reverse repos are generally composed of U.S. Treasury and agency securities and, therefore, have 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, overnight reverse repo investments are only placed with financial institutions with a credit rating of A- or better from Standard & Poors and Fitch, or A3 or better from Moody's. To avoid concentration of credit risk exposures, the Company sets credit limits for each counterparty.

The Participant Fund and Clearing Fund cash 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 from Standard & Poors and Fitch, and A3 from Moody's. Since the Company only invests in highly rated money market mutual funds and the cash is returned each morning, the Company has minimal credit risk related to overnight money market mutual funds.

Marketable Securities

In addition to making investments in overnight reverse repos and money market funds, 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 nonpayment 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.

Participant Fund and Clearing Fund

DTC, NSCC, FICC and EuroCCP are exposed to credit risk on a daily basis. This risk arises at NSCC, FICC, and EuroCCP as they guarantee certain obligations of their participants under specified circumstances, and at DTC should a participant fail to fulfill its payment obligation including settlement.

The Company provides risk management/mitigation by identifying, measuring and responding to these risks in order to protect the safety and soundness of the 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 collateral requirements, maintaining the Participant Fund and Clearing Funds, 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 any of DTCC's clearing agency or RCH subsidiaries, an applicant must meet minimum eligibility criteria (which are specified in the subsidiaries' respective rules). All applicants to be a participant of DTCC's clearing agency or RCH subsidiaries must provide the Company with certain financial and operational information. This information is reviewed to ensure that the applicant has sufficient financial ability to make anticipated contributions to the relevant subsidiary's Participants Fund or Clearing Fund and to meet obligations to the subsidiary. The credit quality of the clearing 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 continues to meet the financial requirements of membership. As part of its review, the Company utilizes an internal credit risk rating matrix to risk rate its bank and broker participants. The resulting rating determines the level of financial review that will be performed on each participant and may impact their Participants Fund and Clearing Fund requirements.

Collateralization controls and net debit caps are employed by DTC to protect participants against the risk that one or more participants may fail to pay for their settlement obligations. DTC's collateralization controls prevent the completion of transactions that would cause a participant's net debit balance to exceed the value of collateral in its account. This is designed so that if a participant fails to pay for its settlement obligation, DTC will have sufficient collateral to secure liquidity funding for settlement and liquidation of the collateral to repay any borrowings. DTC's net debit cap controls limit the net settlement debit that each participant can incur to an amount, based upon activity level, which would be covered by DTC's sources of liquidity. The net debit cap is structured so that DTC will have sufficient liquidity to complete settlement should any single participant or participant family fail to settle.

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

DTC, NSCC and EuroCCP also maintain lines of credit to support potential liquidity needs in the event of a participant default. See Note 13.

The Company also limits its exposure to potential losses from default by participants through multilateral netting contracts and limited cross-guaranty agreements with other clearing agencies. These arrangements are designed to provide a mechanism for the sharing of excess net collateral resources of a common defaulting participant held at one clearing agency to cover losses incurred at another clearing agency. NSCC, FICC, and DTC have a multilateral netting contract and limited cross-guaranty agreement with OCC under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that they have

excess resources of the defaulting participant. 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 which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized.

FICC, through its Government Securities Division (GSD), has a cross-margin agreement with the Chicago Mercantile Exchange designed to provide margin reduction benefits to certain "cross-margining" participants and their affiliates. FICC, through its GSD, has also entered into a "one-pot" cross-margining arrangement with NYPC. The arrangement allows certain GSD participants to combine their positions at the GSD with their positions (or those of certain permitted affiliates) cleared at NYPC within a single margin portfolio.

If a DTC Participant fails to pay any obligation to DTC, such Participant's deposits to the Participants Fund may be applied to payment of that obligation. DTC may also apply the Participants Fund deposits of non-defaulting Participants to satisfy any loss or liability incurred by DTC and/or DTC may charge its existing retained earnings and undivided profits to satisfy the loss or liability.

15. IMPACT FROM SUPERSTORM SANDY

During the last quarter of 2012, the Company's operations were significantly impacted by Superstorm Sandy ("Sandy"). The floodwaters that engulfed the lobby and underground floors of its corporate headquarters at 55 Water Street in Lower Manhattan forced a lengthy closure of that building, displacing some 2,300 employees along with the Company's operations from the site. Accordingly, the Company's consolidated financial position, results of operations and cash flows were affected, as summarized below.

As of December 31, 2012, the Company recognized approximately $17,700,000 of Sandy-related expenses, offset by a $4,100,000 rent credit received from landlord due to loss of access to the building. The $17,700,000 expenses consisted of approximately $5,700,000 for cleanup and restoration process of the security certificates maintained in the vault, $1,600,000 for property damage and necessary clean-up and restoration activities at the 55 Water Street location, $2,600,000 for legal fees, $3,600,000 for the replacement of technical equipment, and $4,200,000 for other corporate expenses.

In addition, as a result of Sandy, DTC is at risk for a range of additional potential exposures. The most significant of these stem from the flooding of the vault and resultant damage to certificates. As a result, the Company has potential contingent liabilities from (i) the issuance of indemnifications to Issuers and their representatives, including Transfer Agents for damaged certificates to enable the processing of transactions until such time that the certificates become physically available, (ii) replacement of the certificates and (iii) issuance of surety bonds for the replaced certificates.

In view of the inherent difficulty of predicting the outcome of such matters the Company cannot predict what the eventual loss, if any, or range of loss related to the cost of recovery or re-issuance of the damaged certificates or other such matters will be. The Company continues to assess these matters and believes, based on information available to it, the resolution of these matters will not have a material adverse effect on the financial condition of the Company as set forth in the consolidated financial statements, but may be material to the Company's operating results or cash flows for any particular period. Accordingly, no such amounts have been recognized by the Company in the accompanying consolidated financial statements. The Company continues to assess the probability and the estimation of the exposure to determine the extent of further disclosure and/or recognition that may be necessary going forward.

DTCC maintains a property insurance policy that has sublimits that apply to 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 to specific types of damage incurred from catastrophic natural disasters such as hurricanes, earthquakes and floods. DTCC also maintains insurance coverage for losses relating to its business as a custodian of property, including losses arising from damage or destruction of securities.

The Company received an advance payment of $5,000,000 from the property insurer in March 2013. The Company is unable to currently estimate the amount of any recovery or the period in which a claim related to property, business interruption and losses arising from damage or destruction of securities will be resolved. Accordingly, no such amounts have been recognized by the Company in the accompanying consolidated financial statements.

16. OTHER MATTERS

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

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

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

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

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

With respect to LBI., at December 31, 2012, DTCC and its subsidiaries held funds in the aggregate amount of $63,333,000, including the balances of the Barclays' Cash Deposit, Clearing and Participant Funds, and matured money market instrument (MMI) accounts. As of December 31, 2011, DTCC and its subsidiaries held aggregate funds of $93,360,000, including the balances of the Barclays' Cash Deposit, Clearing and Participant Fund balances and matured money market instrument (MMI) accounts. As of December 31, 2012, DTCC had delivered to the Trustee of the LBI estate $5,125,811,000 in cash and Clearing Fund securities valued at $159,479,000, attributable to the LBI

estate. As of December 31, 2011, DTCC had delivered to the Trustee of the LBI estate $5,095,811,000 in cash and Clearing Fund securities valued at $159,479,000, attributable to the LBI estate.

On October 31, 2011, a Trustee was appointed, under the SIPA, to administer and liquidate the business of MF Global Inc. (MFG). As part of the liquidation of MFG, any losses will first be satisfied in accordance with the rules and procedures of NSCC, FICC 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, at December 31, 2012, DTCC and its subsidiaries held funds in the aggregate amount of $27,869,000 in cash. At December 31, 2011, DTCC and its subsidiaries held funds in the aggregate amount of $255,454,000, including Clearing and Participant Funds and matured MMI accounts. As of December 31, 2012 and 2011, DTCC had delivered cash to the trustee of the MFG estate $227,287,000 and $10,700,000, respectively, attributable to the MFG estate.

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

Severance — At December 31, 2012, DTCC incurred severance expenses totaling $18,100,026 that are included in employee compensation and related benefits. In 2011, there was a similar expense of $4,983,000.

17. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2012 through April 5, 2013 for potential recognition or disclosure in these consolidated financial statements.

On March 14, 2013, EuroCCP and European Multilateral Clearing Facility NV (EMCF), have entered into a memorandum of understanding to form a new entity serving the pan-European market place. The new CCP will use the risk management framework and customer service organisation of EuroCCP, and it will run on the technology and operations infrastructure of EMCF. The new entity, to be called EuroCCP, is planned to be headquartered in Amsterdam, with client-facing functions located in London and Nordic coverage provided from Stockholm.

On April 2, 2013, the Company completed the sale of its equity method investment in MarkitSERV to Markit North America, Inc., and MarkitSERV Holdings Limited. In connection with the sale, Deriv/SERV entered into a service level agreement (SLA) agreement with MarkitSERV, pursuant to which Deriv/SERV will continue to provide certain services during the transition period up to four years. The transaction is not expected to result in a material gain or loss in the consolidated statements of income in the period of sale.

Other than the matters noted above, no other events or transactions occurred during such period that would require recognition or disclosure in these consolidated financial statements.

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