

The Depository Trust Company

Consolidated Financial Statements as of and for the
nine months ended September 30, 2014 and for the
year ended December 31, 2013

THE DEPOSITORY TRUST COMPANY

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THE DEPOSITORY TRUST COMPANY

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

	September 30, 2014 (unaudited)	December 31, 2013 (audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 318,897	\$ 230,467
Accounts receivable - less allowance for doubtful accounts of \$575 at September 30, 2014 and December 31, 2013	57,033	35,770
Other participant assets	588,456	545,898
Participant fund cash deposits	1,750,237	1,976,727
Other current assets	5,411	4,998
Total current assets	<u>2,720,034</u>	<u>2,793,860</u>
NON-CURRENT ASSETS:		
Premises and equipment - less accumulated depreciation of \$299,154 and \$304,417 at September 30, 2014 and December 31, 2013, respectively	31,889	48,924
Intangible assets - less accumulated amortization of \$194,930 and \$180,945 at September 30, 2014 and December 31, 2013, respectively	27,127	29,702
Other non-current assets	86,070	83,866
Total non-current assets	<u>145,086</u>	<u>162,492</u>
TOTAL ASSETS	<u>\$ 2,865,120</u>	<u>\$ 2,956,352</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 16,529	\$ 29,648
Payable to participants	588,456	545,898
Participant fund cash deposits	1,750,237	1,826,727
Other current liabilities	898	9,156
Current portion of long term debt	-	4,873
Total current liabilities	<u>2,356,120</u>	<u>2,416,302</u>
NON-CURRENT LIABILITIES:		
Long-term debt and other borrowings	51,126	110,031
Other non-current liabilities	17,812	18,734
Total non-current liabilities	<u>68,938</u>	<u>128,765</u>
Total liabilities	<u>2,425,058</u>	<u>2,545,067</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Note 8)		
SHAREHOLDERS' EQUITY:		
Preferred stock, Series A, \$100 par value - 3,250,000 shares authorized; 1,500,000, issued and outstanding	150,000	150,000
Common stock, \$100 par value - 18,500 shares authorized, issued and outstanding	1,850	1,850
Paid-in capital	61,546	61,546
Retained earnings	226,666	197,889
Total Shareholders' equity	<u>440,062</u>	<u>411,285</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 2,865,120</u>	<u>\$ 2,956,352</u>

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(In thousands)

	For the nine months ended September 30,	
	2014	2013
REVENUES:		
Settlement and asset services	\$ 289,474	\$ 289,401
Other revenue	6,542	4,183
Total revenues	<u>296,016</u>	<u>293,584</u>
EXPENSES:		
Employee compensation and related benefits	127,430	124,507
Information technology	17,511	12,934
Professional and other services	72,235	76,305
Occupancy	10,953	11,539
Depreciation and amortization	19,297	25,354
Other general and administrative, net	(8,148)	(5,420)
Total expenses	<u>239,278</u>	<u>245,219</u>
Total operating income	<u>56,738</u>	<u>48,365</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	857	952
Refunds to participants	(58)	(67)
Interest expense	(9,881)	(5,900)
Total non-operating expense	<u>(9,082)</u>	<u>(5,015)</u>
Income before taxes	47,656	43,350
Provision for income taxes	18,879	18,753
Net income	<u>\$ 28,777</u>	<u>\$ 24,597</u>

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(In thousands)

	For the three months ended September 30,	
	2014	2013
REVENUES:		
Settlement and asset services	\$ 99,144	\$ 97,249
Other revenue	2,170	1,087
Total revenues	<u>101,314</u>	<u>98,336</u>
EXPENSES:		
Employee compensation and related benefits	43,920	40,185
Information technology	7,333	6,576
Professional and other services	26,028	21,353
Occupancy	3,698	3,678
Depreciation and amortization	6,394	7,807
Other general and administrative, net	937	(6,835)
Total expenses	<u>88,310</u>	<u>72,764</u>
Total operating income	<u>13,004</u>	<u>25,572</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	195	357
Refunds to participants	(21)	(24)
Interest expense	(6,332)	(2,004)
Total non-operating expense	<u>(6,158)</u>	<u>(1,671)</u>
Income before taxes	6,846	23,901
Provision for income taxes	2,275	10,874
Net income	<u>\$ 4,571</u>	<u>\$ 13,027</u>

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (In thousands)

For the years ended:	<u>Preferred Stock</u> Series A	<u>Common</u> Stock	<u>Paid-In</u> Capital	<u>Retained Earnings</u>	<u>Total</u> Shareholders' Equity
BALANCE - December 31, 2012 (audited)	\$ 150,000	\$ 1,850	\$ 61,546	\$ 151,322	\$ 364,718
Net income	-	-	-	46,807	46,807
Dividends on preferred stock	-	-	-	(240)	(240)
BALANCE - December 31, 2013 (audited)	<u>\$ 150,000</u>	<u>\$ 1,850</u>	<u>\$ 61,546</u>	<u>\$ 197,889</u>	<u>\$ 411,285</u>
Net income	-	-	-	28,777	28,777
Dividends on preferred stock	-	-	-	-	-
BALANCE - September 30, 2014 (unaudited)	<u><u>\$ 150,000</u></u>	<u><u>\$ 1,850</u></u>	<u><u>\$ 61,546</u></u>	<u><u>\$ 226,666</u></u>	<u><u>\$ 440,062</u></u>

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	September 30, 2014	September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$28,777	\$24,597
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	19,297	25,354
Gain on termination of capital lease	(11,318)	-
Loss on disposal of premises and equipment	7,935	-
Deferred income taxes - net	(2,100)	(368)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(21,263)	866
(Increase) decrease in other assets	(516)	40,408
(Decrease) increase in accounts payable	(13,119)	11,008
Decrease in participant fund	150,000	-
(Decrease) in other liabilities	(9,180)	(56,664)
Net cash provided by operating activities	<u>148,513</u>	<u>45,201</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of premises and equipment	3,788	(7,438)
Purchases of software	(11,411)	(9,028)
Net cash used in investing activities	<u>(7,623)</u>	<u>(16,466)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt and capital lease payments	(52,460)	(10,602)
Net cash used in financing activities	<u>(52,460)</u>	<u>(10,602)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	88,430	18,133
CASH AND CASH EQUIVALENTS - Beginning of period	<u>230,467</u>	<u>190,228</u>
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 318,897</u>	<u>\$ 208,361</u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid - net of refunds	<u>\$ 29,164</u>	<u>\$ 28,897</u>
Interest paid	<u>\$ 9,881</u>	<u>\$ 2,586</u>

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

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

1. BUSINESS AND OWNERSHIP

The Depository Trust Company and subsidiaries (DTC or the Company) is a limited purpose trust company providing central securities depository, settlement and related services to members of the securities, banking and other financial industries (Participants). The principal subsidiary of DTC is DTC Limited Funding Corporation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

Accounts Receivable. Accounts receivable are stated at cost, net of 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.

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

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

Securities Held in Custody. Securities held in custody by DTC for Participants are predominantly in electronic book form, with a small component in physical certificates, 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 reflected in other Participant assets. DTC's obligation to return such cash collateral to a Participant is also reflected in payable to Participants.

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

Leasehold improvements are amortized using the straight line method over their useful lives or the remaining term of the related lease, whichever is shorter. Furniture and equipment are depreciated over estimated useful lives ranging from five to seven years, using accelerated double declining methods. Building and improvements are primarily amortized over 39 years

using the straight line method. Depreciation expense for leasehold improvements, furniture and equipment, and buildings and improvements is included in depreciation and amortization in the Consolidated Statements of Income.

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

Capitalized Software. The Company capitalizes costs related to acquired software and internal-use software development projects that provide new or significantly improved functionality. The Company capitalizes projects that are expected to result in longer-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is recorded in intangible assets.

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

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

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

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

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

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.

Expense Allocations. Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries including DTC, based upon their use of such goods or services as determined by applicable allocation factors, including headcount, square footage, and utilization of technology resources. Accordingly, the expense classifications on the Consolidated Statements of

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

3. OTHER PARTICIPANT ASSETS AND PAYABLE TO PARTICIPANTS

The Company receives cash and stock dividends, interest, reorganization and redemption proceeds on securities registered in the name of its nominee, Cede and Co., and interest and redemption proceeds on bearer securities, which it distributes to Participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of Cede and Co., cannot be distributed unless claimed by the owners of the securities through a Participant or other financial institution.

Cash dividends, interest, reorganization and redemption proceeds of \$588,456,000 and \$545,898,000 as of September 30, 2014 and December 31, 2013, respectively, are included in other participant assets with a corresponding liability as payable to participants on the Consolidated Statements of Financial Position. Stock dividends payable are not reported in the Consolidated Financial Statements. At September 30, 2014 and December 31, 2013, payable to Participants also includes \$1,493,000 and \$9,776,000, respectively, of cash collateral received from Participants representing 130% of short positions. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

4. PARTICIPANT FUND CASH DEPOSITS

The rules of DTC require Participants to maintain deposits in the Participant Fund related to their DTC activities based on calculated requirements, as determined by the Company. The deposits which may be applied to satisfy obligations of the depositing Participant, other Participants or DTC, as provided in the DTC rules. A summary of the total Participant Fund cash deposits held at September 30, 2014 and December 31, 2013 follows (in thousands):

	<u>2014</u>	<u>2013</u>
Required cash deposits	\$ 1,150,000	\$ 1,300,000
Excess cash deposits	600,237	676,727
Total cash deposits	<u>\$ 1,750,237</u>	<u>\$ 1,976,727</u>

Participant cash deposits. Participant cash deposits to the Participant Fund, which may be applied to satisfy obligations of the depositing Participant as provided in respective clearing agency rules, are invested in bank deposits as of September 30, 2014 and December 31, 2013.

Refunds to Participants. The total amount of interest income the company earned from the investment of cash deposits in the Participant Fund was \$3,445,000 and \$3,454,000 as of September 30, 2014 and 2013, respectively, in the Consolidated Statements of Income.

5. OTHER ASSETS

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

	<u>2014</u>	<u>2013</u>
Deferred tax asset, net	\$ 4,910	\$ 4,910
Prepaid taxes	501	88
Total current assets	<u>\$ 5,411</u>	<u>\$ 4,998</u>
Long term incentive plan assets	\$ 1,991	\$ 1,887
Deferred tax asset, net	77,677	75,577
Federal reserve stock	6,402	6,402
Total non-current assets	<u>\$ 86,070</u>	<u>\$ 83,866</u>
Total	<u>\$ 91,481</u>	<u>\$ 88,864</u>

The federal reserve stock represents the Federal Reserve Bank's shares issued to member banks, a certain amount of which is a requirement to membership in the system and recorded at cost.

6. OTHER LIABILITIES

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

	<u>2014</u>	<u>2013</u>
Taxes payable	-	8,751
Deferred rent	898	405
Total current liabilities	<u>\$ 898</u>	<u>\$ 9,156</u>
Unrecognized tax benefits	14,007	14,007
Other liabilities	3,805	3,930
Deferred rent	-	797
Total non-current liabilities	<u>\$ 17,812</u>	<u>\$ 18,734</u>
Total	<u>\$ 18,710</u>	<u>\$ 27,890</u>

Unrecognized tax benefits. DTCC applies the provisions of FASB issued Financial Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes (codified primarily in FASB ASC Topic 740, Income Taxes) to record unrecognized tax benefits (UTBs).

7. DEBT

The Company's borrowings at September 30, 2014 and December 31, 2013, consist of the following (in thousands):

	<u>2014</u>	<u>2013</u>
Notes payable	\$ 51,126	\$ 102,968
Capital lease obligations	-	11,936
Total debt	<u>\$ 51,126</u>	<u>\$ 114,904</u>
Current portion of long term debt	-	(4,873)
Total long term debt and other borrowings	<u>\$ 51,126</u>	<u>\$ 110,031</u>

Notes payable. In August 2014, the Company executed an optional repayment of two unsecured borrowing notes. Notes payable includes unsecured borrowings totaling \$51,126,000 (\$102,968,000 in 2013) at a fixed rate of 5.59%. Principal payment is due at maturity, April 15, 2016. Interest payments are due semi-annually on April 15 and October 15 of each year through maturity. Interest expense for the nine months ended September 30, 2014 and 2013 totaled \$9,881,000 and \$5,900,000, respectively. This includes a one-time charge of \$4,630,000 related to the early extinguishment of debts.

The following table summarizes the term and maturities of the notes payable as of September 30, 2014 and December 31, 2013 (in thousands):

	Rate	Issue Date	Maturity	Outstanding Balance	
				2014	2013
DTC term loan	5.03%	11/22/2004	12/15/2023	\$ -	\$ 11,842
DTC term loan	5.59%	4/6/2009	4/15/2016	51,126	51,126
DTC term loan	5.63%	4/6/2009	4/15/2016	-	40,000
Total				<u>\$ 51,126</u>	<u>\$ 102,968</u>

Debt covenants. The Company maintains a private placement financing due April 15, 2016, as well as a line of credit. The negative covenants relating to the private placement financing require a minimum net worth of \$15 million, coupled with a Participant Fund greater than or equal to \$575 million, in addition to "priority debt" of less than \$125 million.

The negative covenants relating to the line of credit require a minimum net worth of \$125 million, coupled with a Participant Fund greater than or equal to \$750 million.

Customary affirmative covenants include access to consolidated financial statements, notice of default, and certain other material events, maintenance of business and insurance, and events of default.

As of September 30, 2014 and December 31, 2013, the Company was in compliance with the applicable debt covenants.

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

	Amount	Denomination	No. of Participants / Lenders	Borrowing rate
Committed	\$1.9 billion	USD	29/37	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.
Uncommitted	\$150 million (1)	CAD	1	N/A

Terms and outstanding lines of credit for December 31, 2013 were as follows:

	Amount	Denomination	No. of Participants / Lenders	Borrowing rate
Committed	\$1.9 billion	USD	27/38	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.
Uncommitted	\$150 million (1)	CAD	1	N/A

(1) Used to support Canadian settlement.

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

8. COMMITMENTS AND CONTINGENT LIABILITIES

Lease commitment. The Company leases office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2011. Rent expense under these leases, which includes allocation of rent from DTCC, was \$8,784,000 in the nine months ending September 30, 2014 and \$9,578,000 in the nine months ending September 30, 2013 and these amounts are included in occupancy on the Consolidated Statements of Income.

At September 30, 2014, future minimum rental payments under all non-cancelable leases are as follows (in thousands):

2014	\$ 413
2015	1,652
2016	1,652
2017	1,652
Total minimum rental payments	<u>\$ 5,369</u>

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

9. 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 arises primarily from settlement service operations. Credit risk also arises from financial assets, which consist principally of cash and cash equivalents, accounts receivable, and the Participant Fund.

Concentrations of credit risk may arise due to 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.

Cash and Cash Equivalents. The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located in various 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 with whom it places funds. The Company generally makes deposits

with banks and financial institutions with a credit rating of at least A-/A3 or better from recognized rating agencies and that are approved via its internal credit review process. The Company also monitors the financial condition of the financial institutions with whom it places funds on an ongoing basis to identify any significant change in a financial institution's financial condition. If such a change takes place, the amounts deposited in such financial institutions may be adjusted.

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

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

The Company is exposed to credit risk on a daily basis. This risk arises at DTC should a Participant fail to fulfill its settlement obligation.

The Company provides risk management/mitigation by identifying, measuring and responding to these risks in order to protect the safety and soundness of the DTC 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, 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, an applicant must meet minimum eligibility criteria (which are specified in the Company's rules). All applicants to be a DTC Participant must provide the Company with certain financial and operational information. This information is reviewed to ensure that the applicant has sufficient financial ability to make anticipated contributions to the Participant Fund and to meet obligations to the Company. The credit quality of the Participant is evaluated at the time of application and monitored on an ongoing basis to determine if the Participant continues to be financially stable and continue to meet the financial requirements of membership. As part of its review, the Company utilizes an internal credit risk-rating matrix to risk rate its Participants. The resulting rating determines the level of financial review that will be performed on each Participant and may impact their Participant 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 loans. 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.

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

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

If a DTC Participant defaults, such Participant's deposits to the Participant 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, DTC would then have an option to use other Participant deposits to the Participant Fund or apply its retained earnings to cover the loss.

10. 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.

For the nine months ended September 30, 2014 and the year ended December 31, 2013, the expenses and insurance recoveries were recorded in other general and administrative, and are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Clean up and restoration of security certificates	\$ 1,351	\$ 12,313
Corporate expenses	441	5,221
Legal fees	51	2,229
Replacement of technical equipment	141	249
Property damage and building restoration	44	(561)
Total expenses	<u>2,028</u>	<u>19,451</u>
Insurance recoveries and rent credit	<u>(14,531)</u>	<u>(24,720)</u>
Net impact	<u>\$ (12,503)</u>	<u>\$ (5,269)</u>

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 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.

During 2014 and 2013, DTCC issued 97,359 Letter of Indemnification (LOI) certificates and rescinded 93,412 of them as of September 30, 2014. The Company continues to assess this matter and believes, based on information available to it, the resolution of these matters will not have a material adverse effect on the financial condition and 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 may be necessary going forward. As of September 30, 2014, the total number of certificates outstanding were 3,947, valued at \$815 million.

In accordance with applicable guidance, DTCC establishes accruals for replacement of the certificates and issuance of surety bonds for the replaced certificates where they represent loss contingencies that are both probable and reasonably estimable. As of September 30, 2014, the company had previously established a \$2.5 million accrual for these probable cash outflows.

In such cases, there may be a possible exposure to loss in excess of any amounts accrued. DTCC will continue to monitor such matters for developments that could affect the amount of the accrual, and will adjust the accrual as appropriate. DTCC believes its accruals for these exposures are appropriate and, in the aggregate, are not material to the consolidated financial position of DTCC, although future accruals could have material effect on net income in a given period.

DTCC maintains a property insurance policy that has sublimit 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. During 2013, DTCC received \$25 million payment against its claims related to property, business interruption and losses arising from damage or destruction of securities and is included within other general and administrative line item in the accompanying Consolidated Statements of Income. Subsequently in 2014, an additional \$14.5 million in payments were received against these claims bringing the total insurance recovery amount to \$39.5 million.

11. OTHER MATTERS

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

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

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

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

With respect to LBI, DTCC and its subsidiaries held the following as of September 30, 2014 and December 31, 2013:

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

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

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

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

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

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

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

12. SUBSEQUENT EVENTS

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