

The Depository Trust Company

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

THE DEPOSITORY TRUST COMPANY

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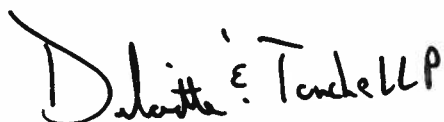
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
The Depository Trust Company
New York, NY

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

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

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



February 27, 2015

THE DEPOSITORY TRUST COMPANY

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

	As of December 31,	
	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 237,516	\$ 230,467
Reverse repurchase agreements	100,000	-
Accounts receivable - less allowance for doubtful accounts of \$575 at December 31, 2014 and 2013	53,425	35,770
Other participant assets	530,723	545,898
Participant fund cash deposits	1,751,147	1,976,727
Other current assets	2,865	4,998
Total current assets	<u>2,675,676</u>	<u>2,793,860</u>
NON-CURRENT ASSETS:		
Premises and equipment - less accumulated depreciation of \$300,839 and \$304,417 at December 31, 2014 and 2013, respectively	29,955	48,924
Intangible assets - less accumulated amortization of \$196,883 and \$180,945 at December 31, 2014 and 2013, respectively	27,339	29,702
Other non-current assets	87,600	83,866
Total non-current assets	<u>144,894</u>	<u>162,492</u>
TOTAL ASSETS	<u>\$ 2,820,570</u>	<u>\$ 2,956,352</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 18,239	\$ 29,648
Payable to participants	530,723	545,898
Participant fund cash deposits	1,751,147	1,826,727
Other current liabilities	3,335	9,156
Current portion of long term debt	-	4,873
Total current liabilities	<u>2,303,444</u>	<u>2,416,302</u>
NON-CURRENT LIABILITIES:		
Long-term debt and other borrowings	51,126	110,031
Other non-current liabilities	19,327	18,734
Total non-current liabilities	<u>70,453</u>	<u>128,765</u>
Total liabilities	<u>2,373,897</u>	<u>2,545,067</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Note 16)		
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	233,277	197,889
Total Shareholders' equity	<u>446,673</u>	<u>411,285</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 2,820,570</u>	<u>\$ 2,956,352</u>

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

CONSOLIDATED STATEMENTS OF INCOME (In thousands)

	For the years ended December 31,	
	2014	2013
REVENUES:		
Settlement and asset services	\$ 389,432	\$ 386,793
Other revenue	5,753	1,521
Total revenues	<u>395,185</u>	<u>388,314</u>
EXPENSES:		
Employee compensation and related benefits	165,741	155,790
Information technology	26,516	15,095
Professional and other services	98,903	100,099
Occupancy	13,884	15,865
Depreciation and amortization	24,530	33,956
Other general and administrative, net	(5,218)	(8,026)
Total expenses	<u>324,356</u>	<u>312,779</u>
Total operating income	<u>70,829</u>	<u>75,535</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	1,214	1,391
Refunds to participants	(84)	(97)
Interest expense	(11,179)	(8,149)
Total non-operating expense	<u>(10,049)</u>	<u>(6,855)</u>
Income before taxes	60,780	68,680
Provision for income taxes	<u>25,152</u>	<u>21,873</u>
Net income	<u>\$ 35,628</u>	<u>\$ 46,807</u>

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (In thousands)

	<u>Preferred Stock</u> <u>Series A</u>	<u>Common</u> <u>Stock</u>	<u>Paid-In</u> <u>Capital</u>	<u>Retained Earnings</u>	<u>Total</u> <u>Shareholders'</u> <u>Equity</u>
BALANCE - December 31, 2012	\$ 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	\$ 150,000	\$ 1,850	\$ 61,546	\$ 197,889	\$ 411,285
Net income	-	-	-	35,628	35,628
Dividends on preferred stock	-	-	-	(240)	(240)
BALANCE - December 31, 2014	<u>\$ 150,000</u>	<u>\$ 1,850</u>	<u>\$ 61,546</u>	<u>\$ 233,277</u>	<u>\$ 446,673</u>

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

	For the years ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 35,628	\$ 46,807
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,530	33,956
Gain on termination of capital lease	(3,297)	-
Loss on disposal of premises and equipment	-	1,882
Impairment on intangible assets	1,152	-
Deferred income taxes	(3,506)	(3,228)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(17,655)	989
Decrease in other assets	1,905	40,131
(Decrease) increase in accounts payable	(11,409)	3,418
Decrease in participant fund	150,000	-
Decrease in other liabilities	(5,228)	(58,120)
Net cash provided by operating activities	<u>172,120</u>	<u>65,835</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of software	(16,031)	(12,607)
Purchases of premises and equipment	(505)	(53)
Sale of premises and equipment	4,165	-
Purchase of reverse repurchase agreements	(100,000)	-
Net cash used in investing activities	<u>(112,371)</u>	<u>(12,660)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt and capital lease obligations	(52,460)	(12,696)
Dividends on preferred stock	(240)	(240)
Net cash used in financing activities	<u>(52,700)</u>	<u>(12,936)</u>
Net increase in cash and cash equivalents	7,049	40,239
Cash and cash equivalents - Beginning of year	<u>230,467</u>	<u>190,228</u>
Cash and cash equivalents - End of year	<u>\$ 237,516</u>	<u>\$ 230,467</u>
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid to DTCC - net of refunds	<u>\$ 33,283</u>	<u>\$ 33,963</u>
Interest paid	<u>\$ 9,091</u>	<u>\$ 8,149</u>

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. BUSINESS AND OWNERSHIP

The Depository Trust Company (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, Clariant Global LLC (Clariant), Global Markets Entity Identifier (GMEI) and Avox Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. 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 unrecognized tax benefits, 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.

Reverse Repurchase Agreements. Reverse repurchase agreements provide for DTC's delivery of cash in exchange for securities having a fair value of 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 as of December 31, 2014 and 2013 were \$100,000,000 and \$0, respectively, and are recorded at the contract amounts.

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 and comparable pricing of 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. As discussed in Note 8 Fair Value Measurements, these instruments are discussed on a uniform fair value basis. However, active markets do not exist for a significant portion of these instruments. For financial instruments where quoted prices for identical assets and liabilities in active markets do not exist, the Company determines fair value based on discounted cash flow analyses and comparable pricing of similar instruments.

The Company uses recently executed transactions, other observable market data such as exchange data, broker/dealer quotes, third-party pricing vendors and aggregation services for determining the fair values of financial instruments. The Company assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches to ensure 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 potential 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. 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 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, and 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 the straight line method. 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. Refer to Note 7 Intangible Assets.

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

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

Impairment of Long-Lived Assets. The Company evaluates long lived assets for impairment losses when indicators of impairment are present. The Company periodically evaluates the recoverability of long lived assets when events or changes in circumstances indicate 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 that a reporting unit or a significant portion of a reporting unit will be sold;
- Significant adverse changes in business climate or regulations;
- Significant changes in the manner of use of the acquired assets or the strategy for the Company's overall business or significant negative industry or economic trends.

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

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

Expense Allocations. Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries including 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.

Recently Issued Accounting Standards.

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

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

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

FASB ASC Topic 740, Income Taxes. In July 2013, the FASB issued ASU No. 2013-11, requiring public and private entities to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss or tax credit carry forward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendments should be applied prospectively to unrecognized tax benefits that exist at the effective date. Early adoption is permitted. DTC is evaluating the impact of this guidance on the Company's consolidated financial condition, results of operations, and cash flows upon adoption of this guidance.

3. OTHER PARTICIPANT ASSETS 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.

Balances representing cash dividends, interest, reorganization, and redemptions of \$530,723,000 and \$545,898,000, as of December 31, 2014 and 2013, respectively, are included in other participant assets with a corresponding liability as payable to participants on the Consolidated Statements of Financial Condition. Stock dividends payable are not reported in the Consolidated Financial Statements. At December 31, 2014 and 2013, payable to participants also includes \$908,000 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. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31, 2014 and 2013, are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Securities depository and settlement fees due from participants	\$ 41,309	\$ 34,930
Other receivables	12,116	840
Total	<u>\$ 53,425</u>	<u>\$ 35,770</u>

There were no changes in the allowance for doubtful accounts of \$575,000 as of December 31, 2014 and 2013.

5. 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 are provided in the DTC rules. A summary of the total Participant Fund cash deposits held at December 31, 2014 and 2013 follows (in thousands):

	<u>2014</u>	<u>2013</u>
Required cash deposits	\$ 1,150,000	\$ 1,300,000
Excess cash deposits	601,147	676,727
Total cash deposits	<u>\$ 1,751,147</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, were invested in interest bearing deposits as of December 31, 2014 and 2013.

Refunds to Participants. The total amount of interest income the company earned from the investment of Participant cash deposits in the Participant Fund was \$4,590,000 and \$4,636,000 as of December 31, 2014 and 2013, respectively, in the Consolidated Statements of Income.

6. PREMISES AND EQUIPMENT

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

	2014			2013		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	\$ 150,957	\$ 148,343	\$ 2,614	\$ 150,957	\$ 145,343	\$ 5,614
Leasehold improvements	142,765	126,319	16,446	146,802	123,242	23,560
Leased property under capital leases	21,580	21,571	9	40,090	31,529	8,561
Building and improvements	12,986	4,606	8,380	12,986	4,303	8,683
Land	2,506	-	2,506	2,506	-	2,506
Total	\$ 330,794	\$ 300,839	\$ 29,955	\$ 353,341	\$ 304,417	\$ 48,924

Depreciation expense for premises and equipment, including leased properties under capital leases, for the years ended December 31, 2014 and 2013 was approximately \$7,287,000 and \$15,299,000, respectively, and is included within depreciation and amortization in the Consolidated Statements of Income.

During 2014, disposals of premises and equipment resulted in a charge of \$18,887,000 from the cost account and the removal of \$10,866,000 of accumulated depreciation. Additionally, there was a sale of premises and equipment to a related party of \$4,165,000. During 2013, disposals of fixed assets resulted in a loss of \$1,882,000 and the removal of \$1,882,000 from the cost account and accumulated depreciation account and are included in depreciation and amortization in the Consolidated Statement of Income.

7. INTANGIBLE ASSETS

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

	2014			2013		
	Cost	Accumulated Amortization	Net Carrying Value	Cost	Accumulated Amortization	Net Carrying Value
Capitalized software	224,222	196,883	27,339	210,647	180,945	29,702
Total	\$ 224,222	\$ 196,883	\$ 27,339	\$ 210,647	\$ 180,945	\$ 29,702

Capitalized software. Capitalized costs for software either for internal use or purchased during 2014 and 2013 totaled \$16,031,000 and \$12,660,000, respectively. Amortization expense for capitalized software for the years ended December 31, 2014 and 2013 was approximately \$17,243,000 and \$18,657,000, respectively, and is included within depreciation and amortization in the accompanying Consolidated Statements of Income.

The Company recognized a \$1,152,000 impairment charge related to capitalized software as of December 31, 2014 that were determined to have no realizable value. During 2013, there was no impairment of capitalized software costs.

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

2015	\$ 13,736
2016	9,028
2017	4,575
Total future estimated amortization	<u>\$ 27,339</u>

8. FAIR VALUE MEASUREMENTS

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

Cash and Cash Equivalents and Participant Fund Cash Deposits – Consist primarily of highly liquid investments in time deposits held in banks and are classified as Level 1 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 the relatively short period of time between their origination and term maturity.

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

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

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

	2014				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 137,516	\$ 137,516	\$ 137,516	\$ -	\$ -
Participants fund cash deposits	1,751,147	1,751,147	1,751,147	-	-
Reverse repurchase agreements	100,000	100,002	-	100,002	-
Total	<u>\$ 1,988,663</u>	<u>\$ 1,988,665</u>	<u>\$ 1,888,663</u>	<u>\$ 100,002</u>	<u>\$ -</u>
Liabilities:					
Participants fund cash deposits	\$ 1,751,147	\$ 1,751,147	\$ 1,751,147	\$ -	\$ -
Long-term debt and other borrowings	51,126	47,974	-	47,974	-
Total	<u>\$ 1,802,273</u>	<u>\$ 1,799,121</u>	<u>\$ 1,751,147</u>	<u>\$ 47,974</u>	<u>\$ -</u>

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 Statement of Financial Condition at December 31, 2013 (in thousands):

	2013				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 230,467	\$ 230,467	\$ 230,467	\$ -	\$ -
Participants fund cash deposits	1,976,727	1,976,727	1,976,727	-	-
Total	<u>\$ 2,207,194</u>	<u>\$ 2,207,194</u>	<u>\$ 2,207,194</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:					
Participants fund cash deposits	1,826,727	1,826,727	1,826,727	-	-
Long-term debt and other borrowings	114,904	105,920	-	105,920	-
Total	<u>\$ 1,941,631</u>	<u>\$ 1,932,647</u>	<u>\$ 1,826,727</u>	<u>\$ 105,920</u>	<u>\$ -</u>

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis. There were no assets or liabilities measured at fair value on a recurring basis during the years ended December 31, 2014 and 2013.

Financial Assets and Liabilities Measured at Fair Value on a Non-recurring Basis. The Company recognized a \$1,152,000 impairment charge related to capitalized software as of December 31, 2014 that were determined to have no realizable value. During 2013, there was no impairment of capitalized software costs.

9. OTHER ASSETS

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

	2014	2013
Deferred tax asset, net	\$ 2,795	\$ 4,910
Sales tax receivable	70	88
Total current assets	<u>\$ 2,865</u>	<u>\$ 4,998</u>
Long term incentive plan assets	\$ -	\$ 1,887
Deferred tax asset, net	81,198	75,577
Federal Reserve stock	6,402	6,402
Total non-current assets	<u>\$ 87,600</u>	<u>\$ 83,866</u>
Total	<u>\$ 90,465</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.

10. OTHER LIABILITIES

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

	<u>2014</u>	<u>2013</u>
Taxes payable	\$ 2,930	\$ 8,751
Deferred rent	405	405
Total current liabilities	<u>\$ 3,335</u>	<u>\$ 9,156</u>
Unrecognized tax benefits	\$ 15,173	\$ 14,007
Other liabilities	3,762	3,930
Deferred rent	392	797
Total non-current liabilities	<u>\$ 19,327</u>	<u>\$ 18,734</u>
Total	<u>\$ 22,662</u>	<u>\$ 27,890</u>

Unrecognized tax benefits. DTC 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). Refer to Note 13 Income Taxes for additional details.

11. DEBT

The Company's borrowings at December 31, 2014 and 2013, consisted 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. Notes payable includes unsecured borrowings totaling \$51,126,000 and \$102,968,000 at a fixed rate of 5.59%, as of December 31, 2014 and 2013, respectively. 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 year ended December 31, 2014 and 2013 totaled \$11,179,000 and \$8,149,000, respectively.

The Company executed the optional prepayment of two DTC notes having principal balances of \$40,000,000 and \$11,842,000, the aggregate of which was repaid on September 2, 2014. The payment also included one time charges of accrued interest and make-whole amounts for each note, totaling \$4,630,000, which is included in interest expense on the Consolidated Statement of Income.

The following table summarizes the interest rate, term and maturity of the notes payable as of December 31, 2014 and 2013 (in thousands):

	Rate	Issue Date	Maturity	Outstanding Balance	
				2014	2013
DTC note	5.03%	11/22/2004	12/15/2023	\$ -	\$ 11,842
DTC note	5.59%	4/6/2009	4/15/2016	51,126	51,126
DTC note	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 December 31, 2014 and December 31, 2013, the Company was in compliance with the applicable debt covenants.

Capital Lease Obligations. During 2014, the Company extinguished certain hardware capitalized as a capital lease, resulting in a decrease of lease liability of \$11,936,000. Refer to Note 6 Premises and Equipment, for further detail of the disposal.

Lines of credit. The Company maintains lines of credit to support settlement. Terms and outstanding lines of credit as of December 31, 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.

12. PENSION AND POST RETIREMENT BENEFITS

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

Cost allocation. DTCC allocates the cost of these plans to participating subsidiaries based primarily upon the proportion of each subsidiary's allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. For the years ended December 31, 2014 and 2013, the benefit plan cost allocated to DTC was \$4,273,000 and \$10,810,000, respectively. These costs are included in employee compensation and related benefits in the accompanying Consolidated Statements of Income.

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

13. INCOME TAXES

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

	<u>2014</u>	<u>2013</u>
Current income tax:		
Federal	\$ 20,002	\$ 21,371
State and local	7,490	5,065
Deferred income tax (benefit):		
Federal	(1,227)	(971)
State and local	(1,113)	(3,592)
Provision for income taxes	<u>\$ 25,152</u>	<u>\$ 21,873</u>

Pursuant to a tax sharing agreement between DTCC and DTC, the Company is liable for its allocable share of federal, state and local tax liabilities that are paid by DTCC. As of December 31, 2014 and 2013, the Company paid income taxes to DTCC, net of refunds, of \$33,283,000 and \$33,963,000, respectively.

The 2014 and 2013 effective tax rates differ from the 35% Federal statutory rate primarily due to state and local taxes, permanent differences between financial statement income and taxable income, and adjustments to deferred tax balances. A reconciliation of the U.S. Federal statutory tax rate to the Company's effective tax rate on income before provision for income taxes for the years ended December 31, 2014 and 2013 follows (in thousands):

	<u>2014</u>	<u>2013</u>
U.S. Federal statutory tax rate	35.0%	35.0%
State and local income taxes, net of federal tax benefit	5.2%	6.2%
Change in unrecognized tax benefits	1.2%	-9.1%
Other	<u>0.0%</u>	<u>-0.3%</u>
Effective tax rate	<u>41.4%</u>	<u>31.8%</u>

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

	<u>2014</u>	<u>2013</u>
<u>Deferred tax assets:</u>		
Accrued compensation	\$ 17,661	\$ 37,054
Accrued employee benefits	65,209	64,763
Software	24,604	17,558
Depreciation	13,750	12,943
Deferred rent	4,850	4,566
Other	8,489	8,225
Total deferred tax assets	<u>134,563</u>	<u>145,109</u>
<u>Deferred tax liabilities:</u>		
Accrued compensation	(812)	(22,970)
Accrued employee benefits	(14,109)	(12,936)
Software	<u>(35,649)</u>	<u>(28,716)</u>
Total deferred tax liabilities	<u>(50,570)</u>	<u>(64,622)</u>
Net deferred tax asset/(liabilities) before valuation allowance	<u>83,993</u>	<u>80,487</u>
Valuation allowance	-	-
Net deferred tax assets/(liabilities)	<u>\$ 83,993</u>	<u>\$ 80,487</u>
<u>Reported as:</u>		
Current deferred tax assets	\$ 2,795	\$ 38,255
Current deferred tax liabilities	-	(33,345)
Net current deferred tax assets/(liabilities)	<u>2,795</u>	<u>4,910</u>
Non-current deferred tax assets	131,768	106,854
Non-current deferred tax liabilities	<u>(50,570)</u>	<u>(31,277)</u>
Net non-current deferred tax assets/(liabilities)	<u>81,198</u>	<u>75,577</u>
Net deferred tax assets/(liabilities)	<u>\$ 83,993</u>	<u>\$ 80,487</u>

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

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

	<u>2014</u>	<u>2013</u>
Beginning balance at Jan. 1,	\$ 11,548	\$ 12,993
Prior period tax positions:		
Increases	-	7,080
Decreases	-	-
Current period tax positions	-	-
Settlements with taxing authorities	-	(8,525)
Lapse of statute of limitations	-	-
Ending balance at Dec. 31,	<u>\$ 11,548</u>	<u>\$ 11,548</u>

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its Consolidated Statements of Income. As of December 31, 2014 and 2013, the amount of accrued interest recorded in the Company's Consolidated Statements of Financial Condition related to UTBs was \$3,625,000 and \$2,459,000, respectively.

The Company is subject to U.S. Federal income tax as well as income tax in various state and local jurisdictions. DTCC's federal income tax returns for 2010 through 2011 are currently under examination and the Federal income tax returns for 2012 through 2013 remain subject to examination by the IRS. New York State income tax returns for 2008 through 2010 are currently under examination and 2011 through 2013 remain open to examination. New York City income tax return for 2012 is currently under examination and 2013 remains open to examination. Florida income tax returns for 2008 through 2013 are currently under examination.

For the current ongoing audit related to open tax years, the Company estimates it is possible the balance of UTBs could decrease in the next twelve months as a result of the effective settlement of this audit, which might involve the payment of

additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible 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 this audit, the Company is unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

14. SHAREHOLDERS' EQUITY

Common Stock. DTC has 18,500 authorized shares of common stock with a par value of \$100 per share. At December 31, 2014 and 2013, 18,500 shares of common stock were outstanding.

Preferred Stock. In October 2000, DTC issued 750,000 shares of series A preferred stock at par value of \$100 per share, increasing capital by \$75 million under a plan adopted by its Board of Directors. DTC issued additional 500,000 and 250,000 additional shares of series A preferred stock at par value of \$100 per share in December 2006 and March 2009, respectively, thereby increasing the amount of preferred stock to \$150 million. Each DTC Participant was required to purchase shares.

On February 6, 2014, the U.S. Securities and Exchange Commission (SEC) approved DTC rule filing SR-DTC-2014-01. As of March 3, 2014, DTC no longer counted the amount paid by Participants for the purchase of DTC Series A Preferred Stock (\$150 million in the aggregate) as a liquidity resource for the Participant Fund; it will account for this amount as capital, available for general business purposes.

Series	Description	Total shares issued and outstanding <i>(in thousands)</i>	Carrying value at Dec. 31, 2014 <i>(in thousands)</i>	Per annum dividend <i>(in thousands)</i>	Dividends paid per share in 2014 <i>(in dollars)</i>
Series A	Noncumulative Perpetual	1,500	\$ 150,000	\$ 240	\$ 0.16

Dividends are accrued monthly based on the income earned on the Participants Fund per DTC's rules.

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 these newly authorized shares have been issued.

Capital Adequacy. DTC is a limited purpose trust company regulated by the New York State Banking Department, New Jersey Department of Banking and Insurance, the U.S. Securities and Exchange Commission, and the Federal Reserve Bank of New York. The Company is required to maintain a Tier 1 Capital ratio of 4%. As of December 31, 2014 and 2013, DTC's Tier 1 leverage ratio was approximately 66.6% and 57.8%, respectively.

15. TRANSACTIONS WITH RELATED PARTIES

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

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

Total fees and outstanding payables and receivables of related parties were as follows for 2014 and 2013 (in thousands):

	Expenses		Payables/(Receivables)	
	For the years ended December 31, 2014	2013	As of December 31, 2014	2013
DTCC	\$ 11,976	\$ 11,177	\$ (10,956)	\$ 15,517
DTCC Solutions LLC	31,791	29,781	2,979	548
Total	\$ 43,767	\$ 40,958	\$ (7,977)	\$ 16,065

16. COMMITMENTS AND CONTINGENT LIABILITIES

Lease commitment. The Company leases office space and data processing and other equipment. The leases for office space provide periodic rent escalations. Rent expense under these leases, which includes allocation of rent from DTCC, was \$11,647,000 in 2014 and \$13,048,000 in 2013 and these amounts are included in occupancy on the Consolidated Statements of Income.

At December 31, 2014, future minimum rental payments under all non-cancelable leases are as follows (in thousands):

2015	\$ 1,872
2016	1,872
2017	1,872
2018	1,872
2019	1,872
Total minimum rental payments	<u>\$ 9,360</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.

17. 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 credit 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 condition of the financial institutions with whom it places funds on an ongoing basis to identify any significant change in a financial institution's condition. If such a change takes place, the amounts deposited in such financial institutions may be adjusted.

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 resources to make anticipated contributions to the Participant Fund and to meet its 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 able to meet the financial requirements of membership. As part of its review, the Company utilizes an

internal credit risk-rating matrix to risk rate its 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 funding for settlement. 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 liquidity resources. 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 Options Clearing Corporation (OCC). These arrangements are designed to provide a mechanism for the sharing of excess net resources of a common defaulting participant held at one clearing agency to cover losses incurred at another clearing agency. 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 Continuous Net Settlement (CNS) System 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 may use other Participant deposits to the Participant Fund or apply a portion of its retained earnings to cover the loss.

18. 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 the building, displacing some 2,300 employees along with the Company's operations at the site.

For the years ended December 31, 2014 and 2013, the expenses and insurance recoveries related to Sandy 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	\$ 1,444	\$ 12,313
Corporate expenses	610	5,221
Legal fees	116	2,229
Replacement of technical equipment	188	249
Property damage and building restoration	42	(561)
Total expenses	<u>2,400</u>	<u>19,451</u>
Insurance recoveries and rent credit	<u>(14,531)</u>	<u>(24,720)</u>
Net benefit	<u>\$ (12,131)</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.

Since the last quarter of 2012, DTCC issued 99,997 Letter of Indemnification (LOI) certificates and rescinded 98,409 of them as of December 31, 2014. As of December 31, 2014, the total number of certificates outstanding were 1,588, valued at \$584 million. 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 whether recognition may be necessary going forward.

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 December 31, 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 sublimits that apply to various types of damage, such as business interruption (lost profits), extra expenses (expenses incurred to maintain normal business operations), 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 2014, DTCC received \$14.5 million against its claims related to property, business interruption and losses arising from damage or destruction of securities, which is included within other general and administrative expenses in the accompanying Consolidated Statements of Income.

19. OTHER MATTERS

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

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

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

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

With respect to LBI, DTCC and its subsidiaries held the following deposits/balances at December 31:

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

As of December 31, 2014, DTCC had delivered to the Trustee of the LBI estate \$5,153,238,000 in cash and Clearing fund securities valued at \$159,479,000 attributable to the LBI estate.

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

With respect to MFG, DTCC and its subsidiaries held the following deposits/balances at December 31:

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

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

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

Severance. For the year ended December 31, 2014, DTC incurred severance expense totaling \$9,216,000 that is included in employee compensation and related benefits on the accompanying Consolidated Statement of Income. At December 31, 2013, severance expenses totaled \$3,265,000.

20. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2014 through February 27, 2015, for potential recognition or disclosure in these consolidated financial statements. No events or transactions occurred during such period that would require recognition or disclosure in these Consolidated Financial Statements.