# The Depository Trust Company

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

# THE DEPOSITORY TRUST COMPANY

## TABLE OF CONTENTS


| | Page |
|---|---|
| UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND THE YEAR ENDED DECEMBER 31, 2014: | |
| Consolidated Statements of Financial Condition | 1 |
| Consolidated Statements of Income | 2-3 |
| Consolidated Statements of Changes in Shareholders’ Equity | 4 |
| Consolidated Statements of Cash Flows | 5 |
| Notes to Consolidated Financial Statements | 6–18 |

# THE DEPOSITORY TRUST COMPANY

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

**(In thousands, except share data)**

| | September 30, 2015 (unaudited) | | December 31, 2014 (audited) | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | $ | 360,470 | $ | 237,516 |
| Reverse repurchase agreements | | - | | 100,000 |
| Accounts receivable - less allowance for doubtful accounts of $0 and $575 at September 30, 2015 and December 31, 2014 | | 106,339 | | 53,425 |
| Other participant assets | | 669,484 | | 530,723 |
| Participant fund cash deposits | | 1,731,091 | | 1,751,147 |
| Other current assets | | 2,795 | | 2,865 |
| Total current assets | | 2,870,179 | | 2,675,676 |
| NON-CURRENT ASSETS: | | | | |
| Premises and equipment - less accumulated depreciation of $305,406 and $300,839 at September 30, 2015 and December 31, 2014, respectively | | 25,393 | | 29,955 |
| Intangible assets - less accumulated amortization of $207,618 and $196,883 at September 30, 2015 and December 31, 2014, respectively | | 28,276 | | 27,339 |
| Other non-current assets | | 90,766 | | 87,600 |
| Total non-current assets | | 144,435 | | 144,894 |
| TOTAL ASSETS | $ | 3,014,614 | $ | 2,820,570 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | $ | 15,813 | $ | 18,239 |
| Payable to participants | | 669,484 | | 530,723 |
| Participant fund cash deposits | | 1,731,091 | | 1,751,147 |
| Current portion of long term debt | | 51,126 | | - |
| Other current liabilities | | 4,154 | | 3,335 |
| Total current liabilities | | 2,471,668 | | 2,303,444 |
| NON-CURRENT LIABILITIES: | | | | |
| Loan payable to DTCC | | 50,000 | | - |
| Long-term debt and other borrowings | | - | | 51,126 |
| Other non-current liabilities | | 19,275 | | 19,327 |
| Total non-current liabilities | | 69,275 | | 70,453 |
| Total liabilities | | 2,540,943 | | 2,373,897 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Note 11) | | | | |
| 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 | | 260,275 | | 233,277 |
| Total Shareholders' equity | | 473,671 | | 446,673 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ | 3,014,614 | $ | 2,820,570 |

See notes to consolidated financial statements.

# THE DEPOSITORY TRUST COMPANY

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
**(In thousands)**

| | For the nine months ended September 30, | |
|---|---|---|
| | **2015** | **2014** |
| REVENUES: | | |
| Settlement and asset services | $ 296,085 | $ 289,474 |
| Other revenue | 4,681 | 6,542 |
| Total revenues | 300,766 | 296,016 |
| EXPENSES: | | |
| Employee compensation and related benefits | 127,471 | 127,430 |
| Information technology | 19,273 | 17,511 |
| Professional and other services | 76,057 | 72,235 |
| Occupancy | 6,166 | 10,953 |
| Depreciation and amortization | 15,302 | 19,297 |
| Other general and administrative, net | 6,378 | (8,148) |
| Total expenses | 250,647 | 239,278 |
| Total operating income | 50,119 | 56,738 |
| NON-OPERATING INCOME (EXPENSE) | | |
| Interest income | 840 | 857 |
| Refunds to participants | (89) | (58) |
| Interest expense | (3,974) | (9,881) |
| Other non-operating expense | 211 | - |
| Total non-operating expense | (3,012) | (9,082) |
| Income before taxes | 47,107 | 47,656 |
| Provision for income taxes | 20,109 | 18,879 |
| Net income | $ 26,998 | $ 28,777 |

See notes to consolidated financial statements.

# THE DEPOSITORY TRUST COMPANY

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
**(In thousands)**

| | For the three months ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| REVENUES: | | |
| Settlement and asset services | $ 101,418 | $ 99,144 |
| Other revenue | 1,541 | 2,170 |
| Total revenues | 102,959 | 101,314 |
| EXPENSES: | | |
| Employee compensation and related benefits | 43,019 | 43,920 |
| Information technology | 7,525 | 7,333 |
| Professional and other services | 27,040 | 26,028 |
| Occupancy | 1,663 | 3,698 |
| Depreciation and amortization | 4,660 | 6,394 |
| Other general and administrative, net | 1,933 | 937 |
| Total expenses | 85,840 | 88,310 |
| Total operating income | 17,119 | 13,004 |
| NON-OPERATING INCOME (EXPENSE) | | |
| Interest income | 233 | 195 |
| Refunds to participants | (37) | (21) |
| Interest expense | (1,377) | (6,332) |
| Other non-operating expense | 241 | - |
| Total non-operating expense | (940) | (6,158) |
| Income before taxes | 16,179 | 6,846 |
| Provision for income taxes | 7,120 | 2,275 |
| Net income | $ 9,059 | $ 4,571 |

See notes to consolidated financial statements.

# THE DEPOSITORY TRUST COMPANY

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

| | Preferred Stock Series A | Common Stock | Paid-In Capital | Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|---|
| BALANCE - December 31, 2013 (audited) | $ 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 (audited) | $ 150,000 | $ 1,850 | $ 61,546 | $ 233,277 | $ 446,673 |
| Net income | - | - | - | 26,998 | 26,998 |
| Dividends on preferred stock | - | - | - | - | - |
| BALANCE - September 30, 2015 (unaudited) | $ 150,000 | $ 1,850 | $ 61,546 | $ 260,275 | $ 473,671 |

See notes to consolidated financial statements.

# THE DEPOSITORY TRUST COMPANY

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
**(In thousands)**

| | For the nine months ended September 30, 2015 | 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 26,998 | $ 28,777 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 15,302 | 19,297 |
| Gain on termination of capital lease | - | (11,318) |
| Loss on disposal of equipment | - | 7,935 |
| Deferred income taxes | (3,070) | (2,100) |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (52,914) | (21,263) |
| Increase in other assets | (26) | (516) |
| Decrease in accounts payable | (2,426) | (13,119) |
| Decrease in participant fund | - | 150,000 |
| Increase (decrease) in other liabilities | 767 | (9,180) |
| Net cash (used in) provided by operating activities | (15,369) | 148,513 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of software | (11,672) | (11,411) |
| Purchases of premises and equipment | (5) | 3,788 |
| Sale of securities purchased under reverse repurchase agreements | 100,000 | - |
| Net cash provided by (used in) investing activities | 88,323 | (7,623) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from loan extended by DTCC | 50,000 | - |
| Principal payments on debt and capital lease obligations | - | (52,460) |
| Net cash provided by (used in) financing activities | 50,000 | (52,460) |
| Net increase in cash and cash equivalents | 122,954 | 88,430 |
| Cash and cash equivalents - Beginning of period | 237,516 | 230,467 |
| Cash and cash equivalents - End of period | $ 360,470 | $ 318,897 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Income taxes paid to DTCC - net of refunds | $ 21,950 | $ 29,164 |
| Interest paid | $ 3,974 | $ 9,881 |

See notes to consolidated financial statements.

### 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, Clarient Global LLC (Clarient), Business Entity Data, B.V. and Avox Limited.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation.** The accompanying consolidated financial statements have been prepared in accordance with 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 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 September 30, 2015 and December 31, 2014 were $0 and $100,000,000, 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.

*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.

**Recently Adopted Accounting Standards.**

*FASB ASC Topic 740, Income Taxes.* In July 2013, the FASB issued Accounting Standards Update (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. The adoption of this guidance did not have an impact on DTC's consolidated financial condition, results of operations or cash flows.

*FASB ASC Topic 405, Liabilities.* In February 2013, the FASB issued ASU No. 2013-04, adding disclosure requirements for entities with joint and severally liable agreements with other co-obligors. This update requires entities to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. Required disclosures include a description of the nature of the arrangement, how the liability arose, the relationship with co-obligors and the terms and conditions of the arrangement (ASC 460-10, Guarantees). For nonpublic entities, the ASU is effective for fiscal years beginning after December 15, 2014, and interim and annual periods thereafter. Early adoption is permitted. The amendments in the ASU should be applied prospectively. The adoption of this guidance did not have an impact on DTC's consolidated financial condition, results of operations or cash flows.

*FASB ASC Topic 205, Presentation of Financial Statements and FASB ASC Topic 306 Property, Plant, and Equipment.* In April 10, 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. The adoption of this guidance did not have an impact on DTC's consolidated financial condition, results of operations or cash flows.

## 3. ACCOUNTS RECEIVABLE

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

| | 2015 | 2014 |
|---|---|---|
| Securities depository and settlement fees due from participants | $ 38,396 | $ 41,309 |
| Other receivables | 67,943 | 12,116 |
| **Total** | $ 106,339 | $ 53,425 |

There was a reduction of the $575,000 allowance for doubtful accounts as of September 30, 2015.

## 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 are provided in the DTC rules. A summary of the total Participant Fund cash deposits held at September 30, 2015 and December 31, 2014 (in thousands):

| | 2015 | 2014 |
|---|---|---|
| Required cash deposits | $ 1,150,000 | $ 1,150,000 |
| Excess cash deposits | 581,091 | 601,147 |
| **Total cash deposits** | $ 1,731,091 | $ 1,751,147 |

*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 September 30, 2015 and December 31, 2014.

*Refunds to Participants*. The total amount of interest income the company earned from the investment of Participant cash deposits in the Participant Fund was $3,410,000 and $3,445,000 for the nine months ending September 30, 2015 and 2014, respectively, in the Consolidated Statements of Income.

## 5. 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 $669,484,000 and $530,723,000, as of September 30, 2015 and December 31, 2014, 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 September 30, 2015 and December 31, 2014, payable to participants also includes $330,000 and $908,000, 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.

## 6. OTHER ASSETS

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

| | 2015 | 2014 |
|---|---|---|
| Deferred tax asset, net | $ 2,795 | $ 2,795 |
| Sales tax receivable | - | 70 |
| **Total current assets** | $ 2,795 | $ 2,865 |
| | | |
| Deferred tax asset, net | $ 84,268 | $ 81,198 |
| Federal Reserve stock | 6,498 | 6,402 |
| **Total non-current assets** | $ 90,766 | $ 87,600 |
| **Total** | $ 93,561 | $ 90,465 |

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.

## 7. OTHER LIABILITIES

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

| | 2015 | 2014 |
|---|---|---|
| Taxes payable | $ 4,062 | $ 2,930 |
| Deferred rent | 92 | 405 |
| **Total current liabilities** | $ 4,154 | $ 3,335 |
| | | |
| Unrecognized tax benefits | $ 15,173 | $ 15,173 |
| Other liabilities | 3,702 | 3,762 |
| Deferred rent | 400 | 392 |
| **Total non-current liabilities** | $ 19,275 | $ 19,327 |
| **Total** | $ 23,429 | $ 22,662 |

**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).

## 8. DEBT

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

| | 2015 | 2014 |
|---|---|---|
| Loan payable to DTCC | $ 50,000 | $ - |
| Notes payable | 51,126 | 51,126 |
| **Total debt** | $ 101,126 | $ 51,126 |
| Current portion of long term debt | $ 51,126 | $ - |

**Loan payable to DTCC.** On May 1, 2015, the Company received a loan from DTCC, its parent, in the amount of $50 million. The loan is interest bearing and has a rolling one month duration, but no defined maturity date. The proceeds of the loan supplement the Company's liquid financial resources pursuant to anticipated regulatory requirements. DTCC expects the amount of the loan may vary over time, depending upon the Company's regulatory capital requirements and its general funding needs.

**Notes payable.** Notes payable includes unsecured borrowings totaling $51,126,000 at a fixed rate of 5.59%, as of September 30, 2015 and December 31, 2014, respectively. Principal is due at maturity, April 15, 2016. Interest payments are due semi-annually on April 15 and October 15 of each year through maturity.

Total interest expense for the nine months ended September 30, 2015 and 2014 totaled $3,974,000 and $9,881,000, respectively and are included in interest expense in the accompanying Consolidated Statements of Income.

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

| | | | | Outstanding Balance | |
|---|---|---|---|---|---|
| | **Rate** | **Issue Date** | **Maturity** | **2015** | **2014** |
| Loan payable to DTCC | LIBOR+1.30% | 5/1/2015 | - | $ 50,000 | $ - |
| Notes payable | 5.59% | 4/6/2009 | 4/15/2016 | 51,126 | 51,126 |
| **Total** | | | | $ 101,126 | $ 51,126 |

**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, 2015 and December 31, 2014, 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, 2015 were as follows:

| | **Amount** | **Denomination** | **No. of Lenders / Participants** | **Borrowing rate** |
|---|---|---|---|---|
| Committed | $1.9 billion | USD | 31/38 | The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%. |
| Uncommitted | $150 million (1) | CAD | 1 | N/A |

Terms and outstanding lines of credit for December 31, 2014 were as follows:

| | Amount | Denomination | No. of Lenders / Participants | 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 |

(1) Used to support Canadian settlement.

There were no borrowings under any of these credit facilities during the nine months ended September 30, 2015 and in 2014.

## 9. PENSION AND POST RETIRMENT BENEFITS

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

**Cost allocation.** DTCC allocates the cost of these plans to participating subsidiaries based primarily upon the proportion of each subsidiary's allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. For the nine months ended September 30, 2015 and 2014, the benefit plan cost allocated to DTC was $7,192,000 and $2,668,000, respectively. These costs are included in employee compensation and related benefits in the accompanying Consolidated Statements of Income.

## 10. SHAREHOLDERS' EQUITY

**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 an additional 500,000 and an additional 250,000 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 included 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; instead it now accounts for this amount as capital, that is available for general business purposes.

| Series | Description | Total shares issued and outstanding *(in thousands)* | Carrying value at Sep. 30, 2015 *(in thousands)* | Per annum dividend *(in thousands)* | Dividends paid per share in 2014 *(in dollars)* |
|---|---|---|---|---|---|
| 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.

**Common Stock.** DTC has 18,500 authorized shares of common stock with a par value of $100 per share. At September 30, 2015 and December 31, 2014, 18,500 shares of common stock were issued and outstanding.

**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 September 30, 2015 and December 31, 2014, DTC's Tier 1 capital ratio was approximately 64.4% and 66.6%, respectively.

## 11. 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 $6,166,000 and $10,953,000 for the nine months ended September 30, 2015 and 2014, respectively, and these amounts are included in occupancy on the Consolidated Statements of Income.

At September 30, 2015, future minimum rental payments under all non-cancelable leases are as follows (in thousands):

| | | |
|---|---|---|
| 2015 | $ | 624 |
| 2016 | | 1,872 |
| 2017 | | 1,872 |
| 2018 | | 1,872 |
| 2019 | | 1,872 |
| Total minimum rental payments | $ | 8,113 |

**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.

## 12. 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 BBB+/Baa1 or better from recognized rating agencies and that are approved via its internal credit review process. The Company also monitors the condition of the financial institutions with whom it places funds on an ongoing basis to identify any significant change in a financial institution's condition. If such a change takes place, the amounts deposited in such financial institutions may be adjusted.

**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 BBB+/Baa1 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.

## 13. 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 year ended December 31, 2014, the expenses and insurance recoveries related to Sandy were recorded in other general and administrative, and are as follows (in thousands):

| | 2014 |
|---|---|
| Clean up and restoration of security certificates | $ 1,444 |
| Corporate expenses | 610 |
| Legal fees | 116 |
| Replacement of technical equipment | 188 |
| Property damage and building restoration | 42 |
| **Total expenses** | 2,400 |
| Insurance recoveries and rent credit | (14,531) |
| **Net benefit** | $ (12,131) |

There have been no expenses and recoveries related to Sandy during the nine months ended September 30, 2015.

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 99,580 of them as of September 30, 2015. As of September 30, 2015, the total number of certificates outstanding were 417, valued at $114 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 September 30, 2015, 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.

## 14. OTHER MATTERS

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

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

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

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

With respect to LBI, DTCC and its subsidiaries held the following deposits/balances at September 30, 2015 and December 31, 2014:

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

As of September 30, 2015, DTCC had delivered to the Trustee of the LBI estate $5,154,013,000 in cash and Clearing fund securities valued at $159,479,000 attributable to the LBI estate.

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

With respect to MFG, DTCC and its subsidiaries held the following deposits/balances at September 30, 2015 and December 31, 2014:

| | 2015 | 2014 |
|---|---|---|
| **Total participant and clearing funds** | $ 1,987,406 | $ 1,987,406 |

As of September 30, 2015, DTCC had delivered cash to the Trustee of the MFG estate $254,298,000, attributable to the MFG estate.

Management does not expect 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.

## 15. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2015 through October 30, 2015, for potential recognition or disclosure in these consolidated financial statements. No events or transactions occurred during such period that would require recognition or disclosure in these Consolidated Financial Statements.