

# The Depository Trust Company

Condensed Financial Statements  
as of September 30, 2017 and December 31, 2016 and for the  
three and nine months ended September 30, 2017 and 2016

# THE DEPOSITORY TRUST COMPANY

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# THE DEPOSITORY TRUST COMPANY

## CONDENSED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

<u>(In thousands, except share data)</u>	<u>As of September 30, 2017</u>	<u>As of December 31, 2016</u>
<b>ASSETS:</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 437,756	\$ 379,400
Accounts receivable	38,012	40,688
Participants' Fund cash deposits	1,793,460	1,752,431
Other Participants' assets	2,470,670	958,048
Other current assets	3,334	4,139
Total current assets	<u>4,743,232</u>	<u>3,134,706</u>
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$177,665 and \$176,999 as of September 30, 2017 and December 31, 2016, respectively	18,369	19,036
Intangible assets - net of accumulated amortization of \$144,066 and \$220,379 as of September 30, 2017 and December 31, 2016, respectively	25,854	26,171
Other non-current assets	80,425	83,699
Total non-current assets	<u>124,648</u>	<u>128,906</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 4,867,880</u></u>	<u><u>\$ 3,263,612</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 15,756	\$ 13,798
Payable to Participants	2,470,670	958,048
Participants' Fund cash deposits	1,793,460	1,752,431
Other current liabilities	4,949	—
Total current liabilities	<u>4,284,835</u>	<u>2,724,277</u>
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	21,119	20,058
Total liabilities	<u>4,305,954</u>	<u>2,744,335</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
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	348,530	305,881
Total shareholders' equity	<u>561,926</u>	<u>519,277</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>\$ 4,867,880</u></u>	<u><u>\$ 3,263,612</u></u>

The Notes to Condensed Financial Statements are an integral part of these statements.

**THE DEPOSITORY TRUST COMPANY**  
**CONDENSED STATEMENTS OF INCOME (UNAUDITED)**

<b>(In thousands)</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>REVENUES:</b>				
Settlement and asset services	\$ 103,504	\$ 103,251	\$ 308,064	\$ 304,262
Other revenue	1,643	1,444	4,789	5,634
Total revenues	<u>105,147</u>	<u>104,695</u>	<u>312,853</u>	<u>309,896</u>
<b>EXPENSES:</b>				
Employee compensation and related benefits	36,787	42,730	115,339	124,220
Information technology	7,735	10,991	23,578	25,240
Professional and other services	25,200	27,471	80,874	79,120
Occupancy	2,482	(2,907)	7,378	5,774
Depreciation and amortization	3,242	4,818	10,453	14,419
General and administrative	1,252	(1,028)	5,801	7,005
Total expenses	<u>76,698</u>	<u>82,075</u>	<u>243,423</u>	<u>255,778</u>
Total operating income	<u>28,449</u>	<u>22,620</u>	<u>69,430</u>	<u>54,118</u>
<b>NON-OPERATING INCOME (EXPENSE):</b>				
Interest income	2,451	701	5,018	1,993
Refunds to Participants	(730)	(135)	(1,145)	(255)
Interest expense	1,697	(1,030)	—	(3,511)
Total non-operating income (expense)	<u>3,418</u>	<u>(464)</u>	<u>3,873</u>	<u>(1,773)</u>
Income before taxes	31,867	22,156	73,303	52,345
Provision for income taxes	13,122	9,471	30,654	22,399
Net income	<u>\$ 18,745</u>	<u>\$ 12,685</u>	<u>\$ 42,649</u>	<u>\$ 29,946</u>

The Notes to Condensed Financial Statements are an integral part of these statements.

## THE DEPOSITORY TRUST COMPANY

### CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

<b>(In thousands)</b>	<b>Preferred Stock Series A</b>	<b>Common Stock</b>	<b>Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Total Shareholders' Equity</b>
BALANCE - January 1, 2016	\$ 150,000	\$ 1,850	\$ 61,546	\$ 265,198	\$ 478,594
Net income	—	—	—	41,163	41,163
Dividend on preferred stock	—	—	—	(480)	(480)
BALANCE - December 31, 2016	150,000	1,850	61,546	305,881	519,277
Net income	—	—	—	42,649	42,649
BALANCE - September 30, 2017	<u>\$ 150,000</u>	<u>\$ 1,850</u>	<u>\$ 61,546</u>	<u>\$ 348,530</u>	<u>\$ 561,926</u>

The Notes to Condensed Financial Statements are an integral part of these statements.

**THE DEPOSITORY TRUST COMPANY**  
**CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**

<b>(In thousands)</b>	<b>For the nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 42,649	\$ 29,946
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	10,453	14,419
Loss on disposal of Premises and equipment	—	366
Deferred income taxes	3,371	923
Net change in:		
Accounts receivable	2,676	48,520
Other assets	708	6,513
Accounts payable and accrued expenses	2,438	6,192
Other liabilities	6,010	1,141
Net cash provided by/(used in) operating activities	<u>68,305</u>	<u>108,020</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Intangible assets	(9,469)	(10,088)
Net cash provided by/(used in) investing activities	<u>(9,469)</u>	<u>(10,088)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment on loan payable to DTCC	—	(40,000)
Repayments on long-term debt	—	(51,126)
Dividends on Preferred stock	(480)	(240)
Net cash provided by/(used in) financing activities	<u>(480)</u>	<u>(91,366)</u>
Net increase/(decrease) in Cash and cash equivalents	58,356	6,566
Cash and cash equivalents - Beginning of period	<u>379,400</u>	<u>378,564</u>
Cash and cash equivalents - End of period	<u>\$ 437,756</u>	<u>\$ 385,130</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash interest paid	<u>\$ —</u>	<u>\$ 1,952</u>
Cash income taxes paid to DTCC - net of refunds	<u>\$ 19,312</u>	<u>\$ 9,439</u>

The Notes to Condensed Financial Statements are an integral part of these statements.

# THE DEPOSITORY TRUST COMPANY

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

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### 1. BUSINESS AND OWNERSHIP

The Depository Trust Company (DTC or the Company) is a limited purpose trust company formed under the Banking Law of New York State and supervised by the New York State Department of Financial Services (NYSDFS); a State member bank of the Federal Reserve System (FRS), subject to examination by the Federal Reserve Bank of New York (FRBNY) under delegated authority from the Board of Governors (the FRB) of the FRS; and a clearing agency registered with, and under the supervision of, the U.S. Securities and Exchange Commission (SEC). DTC provides central securities depository, settlement and related services to members of the securities, banking and other financial industries (collectively referred to as Participants).

On January 11, 2017, DTC's wholly-owned subsidiary, Brooklyn Facilities Company LLC was dissolved. As a result of the dissolution, DTC will no longer be a consolidated company under U.S. GAAP.

DTC is a wholly-owned 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, Business Entity Data, B.V. and DTCC Solutions LLC.

DTC is designated as a Systemically Important Financial Market Utility (SIFMU) by the U.S. Financial Stability Oversight Council under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

### 2. BASIS OF PRESENTATION AND USE OF ESTIMATES

**Basis of presentation.** The accompanying Condensed Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The accompanying interim financial statements have not been audited. These interim financial statements do not include all of the information and notes required by U.S. GAAP for complete financial statements and should be read in conjunction with DTC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015, which are located on the Company's website at <http://www.dtcc.com/legal/financial-statements>. See Note 2 in DTC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015, for additional information on the Company's Summary of Significant Accounting Policies.

The Condensed Financial Statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year.

**Use of estimates.** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Financial Statements. Management makes estimates regarding, among other things, the collectability of receivables, the outcome of litigation, the realization of deferred taxes, unrecognized tax benefits, fair value measurements and other matters that affect the reported amounts. Estimates are based on judgment and available information as of September 30, 2017; therefore, actual results could differ materially from those estimates.

# THE DEPOSITORY TRUST COMPANY

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

### 3. ACCOUNTING AND REPORTING DEVELOPMENTS

See Note 3 in DTC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015, for additional information on the Company's Accounting and Reporting Developments.

Standard	Summary of guidance	Effects on financial statements
<i>Financial Accounting Standards Board Standards Issued, but not yet Adopted</i>		
Revenue Recognition - Revenue from contracts with customers  <i>Issued May 2014</i>	<ul style="list-style-type: none"><li>Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service in the amount of consideration expected to be received.</li><li>Changes the accounting for certain contract costs, including whether they may be offset against revenue in the accompanying Condensed Statements of Income, and requires additional disclosures about revenue and contract costs.</li><li>May be adopted using a full retrospective approach or a modified, cumulative effect approach wherein the guidance is applied only to existing contracts as of the day of initial application, and to new contracts transacted after that date.</li></ul>	<ul style="list-style-type: none"><li>The required effective date is January 1, 2018.</li><li>The Company plans to adopt the revenue recognition guidance in the first quarter of 2018. The Company's implementation efforts include the identification of revenue within the scope of this guidance, as well as the evaluation of revenue contracts and related accounting policies. The Company does not anticipate changes to the recognition and timing of its revenues. The Company's review is ongoing, therefore additional impacts may be determined prior to adoption.</li></ul>

### 4. PARTICIPANTS' FUND CASH DEPOSITS

Details for the Participants' Fund deposits as of September 30, 2017 and December 31, 2016 follow (in thousands):

	2017	2016
Required cash deposits	\$ 1,165,000	\$ 1,150,000
Excess cash deposits	628,460	602,431
Total	<u>\$ 1,793,460</u>	<u>\$ 1,752,431</u>

**Participants' Fund cash deposits.** Participants' cash deposits to the Participants' Fund may be applied to satisfy obligations of the depositing Participants, as provided in DTC's rules.

**Refunds to Participants.** Interest income earned from the investment of Participants' cash deposits and refunded to Participants totaled \$6,450,000 and \$2,368,000 for the three months ended September 30, 2017 and 2016, respectively, and \$15,038,000 and \$6,929,000 for the nine months ended September 30, 2017 and 2016, respectively, in the accompanying Condensed Statements of Income.



# THE DEPOSITORY TRUST COMPANY

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

### 5. OTHER PARTICIPANTS' 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. Balances representing cash dividends, interest, reorganization and redemptions of \$2,470,670,000 and \$958,048,000 as of September 30, 2017 and December 31, 2016, respectively, are included in Other Participants' assets, with a corresponding liability recorded in Payable to Participants, on the accompanying Condensed Statements of Financial Condition.

As of September 30, 2017 and December 31, 2016, Payable to Participants also includes \$4,930,000 and \$153,000, respectively, of cash collateral received from Participants representing 130% of short positions. Unclaimed balances are remitted to the appropriate authority when required, pursuant to abandoned property laws.

### 6. DEBT

During 2016, the Company repaid all outstanding debt, which included both external long-term debt, as well as a loan from its parent, DTCC.

Interest on the external debt was \$0 and \$834,000 for the nine months ended September 30, 2017 and 2016, respectively. Interest expense was zero for the three months in both periods presented. Interest on the loan from its parent was \$0 and \$45,000 for the three months ended September 30, 2017 and 2016, respectively, and \$0 and \$475,000 for the nine months ended September 30, 2017 and 2016, respectively. These amounts were included in Interest expense in the accompanying Condensed Statements of Income.

See Note 9 in DTC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015 for additional information.

**Lines of credit.** The Company maintains lines of credit to support settlement. Details for the terms of the outstanding lines of credit as of September 30, 2017 and December 31, 2016 follow:

<b>Committed</b>	<b>2017</b>	<b>2016</b>
<b>Amount</b>	\$1.9 billion	\$1.9 billion
<b>Denomination</b>	USD	USD
<b>No. of Participants/Lenders</b>	32/41	31/37
<b>Uncommitted</b>	<b>2017</b>	<b>2016</b>
<b>Amount</b>	C\$150 million <sup>(1)</sup>	C\$150 million <sup>(1)</sup>
<b>Denomination</b>	CAD	CAD
<b>No. of Participants/Lenders</b>	1/1	1/1

(1) Used to support Canadian settlement.

There were no borrowings under any of these lines of credit as of September 30, 2017 and December 31, 2016.

# THE DEPOSITORY TRUST COMPANY

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

Details for debt covenants related to the lines of credit as of September 30, 2017 and December 31, 2016 follow:

	2017	2016
<b>Minimum Net Worth</b>	\$150 million	\$150 million
<b>Minimum Participants' Fund deposits</b>	\$750 million	\$750 million

As of September 30, 2017 and December 31, 2016, the Company was in compliance with its debt covenants.

**Credit Ratings.** The Company is rated by Moody's Investors Service, Inc. (Moody's) and S&P Global Inc. (S&P). Details for senior debt ratings and ratings outlooks for the Company as of September 30, 2017 follow:

Moody's <sup>(1)</sup>			S&P		
Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
Aaa	P-1	Stable	AA+	A-1+	Stable

(1) Moody's categorizes the long-term issuer ratings of the Company as a clearing counterparty rating (CCR) under the agency's new Clearing Houses Rating Methodology introduced in January 2016.

## 7. PENSION AND POSTRETIREMENT BENEFITS

Eligible DTCC 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 DTCC 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 its subsidiaries based primarily upon the proportion of each subsidiary's salary cost relative to DTCC's total salary cost. The benefit plan costs allocated to DTC were \$888,000 and \$998,000 for the three months ended September 30, 2017 and 2016, respectively, and \$2,524,000 and \$2,937,000 for the nine months ended September 30, 2017 and 2016, respectively. These costs are included in Employee compensation and related benefits in the accompanying Condensed Statements of Income.

## 8. SHAREHOLDERS' EQUITY

**DTC Series A Non-Cumulative Perpetual Preferred Stock.** Under a plan adopted by the Board of Directors, each Participant of DTC is required to own shares of its Series A preferred stock. Details for the Preferred stock as of September 30, 2017 follow (in thousands, except dividends paid per share):

Series	Description	Total shares issued and outstanding	Carrying value	Annual dividend	Dividends paid per share
Series A	Noncumulative Perpetual	1,500	\$ 150,000	\$ 480	\$ 0.32

**Capital Adequacy.** Details for DTC's Capital Adequacy capital ratios as of September 30, 2017 follow:

	DTC	Minimum Capital Ratio <sup>(1)</sup>	Well Capitalized Ratio <sup>(1)</sup>
Tier 1 capital ratio	54.27%	6.00%	8.00%
Total capital ratio	54.27%	8.00%	10.00%

(1) As defined by the regulations issued by the Federal Reserve, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

# THE DEPOSITORY TRUST COMPANY

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

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### 9. COMMITMENTS AND CONTINGENCIES

**Litigation.** The Company is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on the accompanying Condensed Statements of Financial Condition, Income or Cash Flows.

**Lease commitment.** The Company received a rent allocation from DTCC of \$2,482,000 and \$(2,907,000) for the three months ended September 30, 2017 and 2016, respectively, and \$7,378,000 and \$5,774,000 for the nine months ended September 30, 2017 and 2016, respectively. These amounts are included in Occupancy in the accompanying Condensed Statements of Income.

During 2016, a lease that the Company previously executed to rent office space was assigned to DTCC. As a result, there were no future minimum rental payments under non-cancelable leases as of September 30, 2017.

### 10. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2017 through October 27, 2017, for potential recognition or disclosure in these accompanying Condensed Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these accompanying Condensed Financial Statements.