The Depository Trust Company

Financial Statements as of and for the Years Ended December 31, 2017 and 2016, 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

Opinion on the Financial Statements

We have audited the accompanying statements of financial condition of The Depository Trust Company (the "Company") as of December 31, 2017 and 2016, the related statements of income, changes in shareholders' equity, and cash flows, and the related footnotes (the "notes") for each of the two years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with the accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP

February 27, 2018

We have served as the Company's auditor since 2009.

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	**As of December 31, 2017**	**2016**
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 444,265	$ 379,400
Accounts receivable	40,429	40,688
Participants' Fund cash deposits	1,771,078	1,752,431
Other Participants' assets	864,536	958,048
Other current assets	5,727	4,139
Total current assets	3,126,035	3,134,706
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $131,746 and $176,999 as of December 31, 2017 and 2016, respectively	18,173	19,036
Intangible assets - net of accumulated amortization of $120,679 and $220,379 as of December 31, 2017 and 2016, respectively	25,105	26,171
Other non-current assets	53,680	83,699
Total non-current assets	96,958	128,906
TOTAL ASSETS	$ 3,222,993	$ 3,263,612
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 11,049	$ 13,798
Participants' Fund cash deposits	1,771,078	1,752,431
Payable to Participants	864,536	958,048
Total current liabilities	2,646,663	2,724,277
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	17,673	20,058
Total liabilities	2,664,336	2,744,335
COMMITMENTS AND CONTINGENCIES (Note 14)		
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	345,261	305,881
Total shareholders' equity	558,657	519,277
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,222,993	$ 3,263,612

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

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF INCOME

(In thousands)	**For the years ended December 31, 2017**	**2016**
REVENUES:		
Settlement and asset services	$ 417,537	$ 406,850
Other revenue	6,659	7,113
Total revenues	424,196	413,963
EXPENSES:		
Employee compensation and related benefits	152,027	168,999
Information technology	32,021	33,865
Professional and other services	110,305	103,742
Occupancy	10,326	8,289
Depreciation and amortization	13,697	18,560
General and administrative	8,902	7,861
Total expenses	327,278	341,316
Total operating income	96,918	72,647
NON-OPERATING INCOME (EXPENSE):		
Interest income	7,883	2,925
Refunds to Participants	(1,906)	(413)
Interest expense	—	(4,218)
Total non-operating income (expense)	5,977	(1,706)
Income before taxes	102,895	70,941
Provision for income taxes	62,435	29,778
Net income	$ 40,460	$ 41,163

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

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)	Preferred Stock Series A	Common Stock	Paid-In Capital	Retained Earnings	Total Shareholders' Equity
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	—	—	—	40,460	40,460
Dividend on preferred stock	—	—	—	(1,080)	(1,080)
BALANCE - December 31, 2017	$ 150,000	$ 1,850	$ 61,546	$ 345,261	$ 558,657

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

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF CASH FLOWS

(In thousands)	**For the years ended December 31, 2017**	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 40,460	$ 41,163
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	13,697	18,560
Loss on disposal of Premises and equipment	—	366
Deferred income taxes	30,020	2,330
Net change in:		
Accounts receivable	259	48,908
Other assets	(1,589)	4,793
Accounts payable and accrued expenses	(3,349)	512
Other liabilities	(2,385)	(758)
Net cash provided by/(used in) operating activities	77,113	115,874
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Intangible assets	(11,768)	(13,672)
Net cash provided by/(used in) investing activities	(11,768)	(13,672)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on loan payable to DTCC	—	(50,000)
Repayments on long-term debt	—	(51,126)
Dividend on Preferred stock	(480)	(240)
Net cash provided by/(used in) financing activities	(480)	(101,366)
Net increase/(decrease) in Cash and cash equivalents	64,865	836
Cash and cash equivalents - Beginning of year	379,400	378,564
Cash and cash equivalents - End of year	$ 444,265	$ 379,400
SUPPLEMENTAL DISCLOSURES:		
Cash interest paid	$ —	$ 1,995
Cash income taxes paid to DTCC - net of refunds	$ 35,312	$ 19,479

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

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 is no longer a consolidated company under generally accepted accounting principles in the United States of America (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), DTCC ITP LLC (formerly known as 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 pursuant to Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which subjects the Company to the SEC's standards for covered clearing agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying Financial Statements are prepared in accordance with U.S. GAAP.

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 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; therefore, actual results could differ materially 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.

Fair value measurements. The Company may be required or permitted to measure and disclose certain assets and liabilities using fair value measurements. Fair value is defined 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. The Company uses a three-level classification hierarchy of fair value measurements that establishes the quality of inputs used to measure fair value. The fair value of financial instruments is determined using various techniques that involve some level of estimation and judgment, the degree of which is dependent on the price transparency and the complexity of the instruments.

Accounts receivable. Accounts receivable are stated at cost, net of an allowance for doubtful accounts. The Company establishes an allowance for estimated losses resulting from 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.

Participants' Fund. The rules of DTC require Participants to maintain deposits in the Participants' Fund related to their DTC activities based on calculated requirements, as determined by the Company. The deposits may be applied to satisfy obligations of the depositing Participants, other Participants or DTC as provided in DTC's rules. Participant cash deposits are maintained within the Participants' Fund on the accompanying Statements of Financial Condition due to the benefits and risks of ownership incurred by the Company.

Cash deposits. Deposits and contributions received in the form of cash may be invested in bank deposits, reverse repurchase agreements, money market funds and direct obligations of the U.S. Government. Reverse repurchase agreements provide for DTC's delivery of cash in exchange for securities having a fair value that is at least 102% of the amount of the agreements. Securities purchased under reverse repurchase agreements are typically U.S. Treasury and agency securities. All interest earned on these investments is accrued and refunded to Participants within Interest income in the accompanying Statements of Income.

Securities held in custody. Securities held in custody by DTC for Participants, which are predominantly in electronic book form, but also include physical certificates, are not reported in the accompanying 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 on the accompanying Statements of Financial Condition. 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 Participants' assets on the accompanying Statements of Financial Condition. DTC's obligation to return such cash collateral to Participant is also reflected in Payable to Participants.

Federal Reserve Stock. DTC is a member of the FRBNY and, as a member, is required to maintain a minimum level of investment in FRB stock based on the Company's capital. The FRB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Based on this evaluation, the Company determined there is not an other-than temporary impairment as of December 31, 2017 and 2016. The FRB stock is included in Other non-current assets on the accompanying Statements of Financial Condition.

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 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 the accompanying Statements of Income. Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. The following table summarizes how the Company depreciates Premises and equipment:

Premises and equipment	Amortization Period	Amortization Method
Leasehold improvements	Shorter of useful life or remaining term of the lease	Straight-line
Furniture and equipment	5 to 7 years	Straight-line
Building and improvements	39 years	Straight-line

Depreciation expense for leasehold improvements, furniture and equipment, and buildings and improvements is included in Depreciation and amortization in the accompanying Statements of Income.

Intangible assets. Intangible assets represent 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 software costs expected to result in long-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. All other costs incurred in connection with an internal-use software project are expensed as incurred.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Intangible assets are amortized over estimated useful lives ranging from three to five years using the straight-line method.

Revenue recognition. The Company's revenue primarily consists of fees generated from settlement and asset services. Revenue is generally recognized as services are rendered and is billed on a monthly basis.

Income taxes. The Provision for income taxes is computed using the asset and liability method. The Company records a deferred income tax (benefit) provision when there are differences between assets and liabilities measured for financial reporting and for income tax return purposes. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. 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. Deferred tax assets and liabilities are reported net in non-current assets or liabilities on the accompanying Statements of Financial Condition. 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.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (Tax Reform Act) was signed into law making significant changes to the Internal Revenue Code. Changes include a Federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017. Concurrently, the SEC staff issued guidance on accounting for the tax effects of the Tax Reform Act, which provides a measurement period that should not extend beyond one year from the Tax Reform Act enactment date for companies to complete the accounting under U.S. GAAP tax accounting guidance. The SEC guidance requires companies to reflect the income tax effects of those aspects of the Tax Reform Act for which the accounting under U.S. GAAP tax accounting guidance is complete. To the extent that a company's accounting for certain income tax effects of the Tax Reform Act is incomplete, but it is able to determine a reasonable estimate, it must record and provisionally estimate the impact in its financial statements. The Company re-measured certain deferred tax assets and liabilities based on management's best estimates using information available at the financial statements date. The impact of the Tax Reform Act may differ from these provisional estimates due to, among other items, the issuance of additional regulatory guidance, further interpretations of the provisions of the Tax Reform Act, the state tax effect of adjustments made to federal temporary differences, and the filing of tax returns.

Expense allocations. Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries, including DTC, based upon their estimated use of such goods or services as determined by various allocation factors including direct expenses, level of support provided and utilization of technology resources. Accordingly, the expenses in the accompanying Statements of Income represent allocated costs including Employee compensation and related benefits, Information technology, Professional and other services, Occupancy, Depreciation and amortization and General and administrative.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Impact on the financial statements or other significant matters
Recently Issued Accounting Standards		
Financial Instruments - Credit Losses *Issued June 2016*	• Replaces the current incurred loss approach for credit losses with an "expected loss" model for instruments measured at amortized cost. • Requires all lifetime credit losses for financial assets held at the reporting date to be estimated based on factors such as historical experience, current conditions and forecasts. • Requires entities to record allowances for available-for-sale debt securities.	• The required effective date is January 1, 2020. • The Company is evaluating the effect on its Financial Statements and related disclosures.
Revenue Recognition - Revenue from Contracts with Customers *Issued May 2014*	• Requires revenue from contracts with customers to be recognized upon transfer of control of a good or service in the amount of consideration expected to be received. • Changes the accounting for certain contract costs, including whether they may be offset against revenue in the accompanying Statements of Income, and requires additional disclosures about revenue and contract costs. • 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.	• The required effective date is January 1, 2018. • The Company plans to adopt the revenue recognition guidance under the full retrospective transition approach in 2018. The Company's implementation efforts include the identification of revenue within the scope of the guidance and the evaluation of revenue contracts and related accounting policies. The Company does not anticipate material changes to the recognition and timing of its revenues. The Company also assessed the indicators of control for principal versus agent relationship, which will result in a change in the accompanying Income Statement presentation of Interest Income and Refunds to Participants from a net basis to a gross basis.

4. PARTICIPANTS' FUND CASH DEPOSITS

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

	2017	2016
Required cash deposits	$ 1,150,000	$ 1,150,000
Excess cash deposits	621,078	602,431
Total	$ 1,771,078	$ 1,752,431

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 $21,759,000 and $9,547,000 for the years ended December 31, 2017 and 2016, respectively, in the accompanying Statements of Income.

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, redemptions, and cash collateral received of $864,536,000 and $958,048,000 as of December 31, 2017 and 2016, respectively, are included in Other Participants' assets, with a corresponding liability recorded in Payable to Participants, on the accompanying Statements of Financial Condition.

As of December 31, 2017 and 2016, Payable to Participants also includes $435,000 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. PREMISES AND EQUIPMENT

The cost, accumulated depreciation and net book value of Premises and equipment for the years ended December 31, 2017 and 2016 follow (in thousands):

	Furniture and equipment	Leasehold improvements	Capital leases	Buildings and improvements	Land	Total
Cost:						
As of January 1, 2016	$ 118,521	$ 79,828	$ 21,580	$ 12,986	$ 2,506	$ 235,421
Disposals	(5,354)	(12,452)	(21,580)	—	—	(39,386)
As of December 31, 2016	113,167	67,376	—	12,986	2,506	196,035
Disposals	(46,116)	—	—	—	—	(46,116)
As of December 31, 2017	$ 67,051	$ 67,376	$ —	$ 12,986	$ 2,506	$ 149,919
Accumulated depreciation:						
As of January 1, 2016	$ 117,901	$ 66,912	$ 21,580	$ 4,909	$ —	$ 211,302
Depreciation expense	253	4,161	—	303	—	4,717
Disposals	(4,987)	(12,453)	(21,580)	—	—	(39,020)
As of December 31, 2016	113,167	58,620	—	5,212	—	176,999
Depreciation expense	—	560	—	303	—	863
Disposals	(46,116)	—	—	—	—	(46,116)
As of December 31, 2017	$ 67,051	$ 59,180	$ —	$ 5,515	$ —	$ 131,746
Net book value:						
As of January 1, 2016	$ 620	$ 12,916	$ —	$ 8,077	$ 2,506	$ 24,119
As of December 31, 2016	$ —	$ 8,756	$ —	$ 7,774	$ 2,506	$ 19,036
As of December 31, 2017	$ —	$ 8,196	$ —	$ 7,471	$ 2,506	$ 18,173

During 2017 and 2016, disposals of premises and equipment resulted in losses of $0 and $366,000, respectively, and are included within General and administrative in the accompanying Statements of Income.

7. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization and net carrying value of capitalized software for the years ended December 31, 2017 and 2016 follow (in thousands):

	Capitalized Software
Gross carrying value:	
As of January 1, 2016	$ 232,878
Additions	13,672
As of December 31, 2016	246,550
Additions	11,768
Disposals	(112,534)
As of December 31, 2017	$ 145,784
Accumulated amortization:	
As of January 1, 2016	$ 206,536
Amortization expense	13,843
As of December 31, 2016	220,379
Amortization expense	12,834
Disposals	(112,534)
As of December 31, 2017	$ 120,679
Net carrying value:	
As of January 1, 2016	$ 26,342
As of December 31, 2016	$ 26,171
As of December 31, 2017	$ 25,105

Details for estimated amortization expense for each of the next four years follow (in thousands):

2018	$ 11,577
2019	7,934
2020	4,562
2021	1,032
Total future estimated amortization	$ 25,105

8. 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 years ended December 31, 2017 and 2016, respectively. Interest on the loan from its parent was $0 and $503,000 for the years ended December 31, 2017 and 2016, respectively. These amounts were included in Interest expense in the accompanying Statements of Income.

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

Committed	2017	2016
Amount	$1.9 billion	$1.9 billion
Denomination	USD	USD
No. of Participants/Lenders	32/41	31/37

Uncommitted	2017	2016
Amount	C$150 million (1)	C$150 million (1)
Denomination	CAD	CAD
No. of Participants/Lenders	1/1	1/1

(1) Used to support Canadian settlement.

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

Details for debt covenants related to the committed line of credit as of December 31, 2017 and 2016 follow:

	2017	2016
Minimum Net Worth	$150 million	$150 million
Minimum Participants' Fund deposits	$750 million	$750 million

As of December 31, 2017 and 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 December 31, 2017 follow:

Moody's (1)			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 Clearing Houses Rating Methodology.

9. FAIR VALUE MEASUREMENTS

Valuation hierarchy
U.S. GAAP provides for a three-level valuation hierarchy based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. Details for the descriptions of the three levels follow:

- 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 quoted market prices for similar assets and liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 — Inputs to the valuation methodology are unobservable and reflect the Company's own assumptions about the estimates market participants would use pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding timing and amount of expected cash flows).

A financial asset or liability's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Financial assets and liabilities measured at fair value on a recurring basis. For financial assets and liabilities measured at fair value on a recurring basis (categorized in the valuation hierarchy above), the Company measures fair value based upon quoted market prices of identical or similar assets in active markets, where available. Where quotes from recent exchange transactions and other observable data are not available, the Company determines fair value based on discounted cash flow analyses. Discounted cash flow analyses are dependent upon various factors including estimated future cash flows, interest rate yield curves and volatility of inputs.

There were no assets or liabilities measured at fair value on a recurring basis during the years ended December 31, 2017 and 2016.

Financial assets and liabilities measured at other than fair value.
Financial assets and liabilities whose carrying value approximates fair value. The carrying values of certain assets and liabilities approximate their fair values because they are short-term in duration, have no defined maturity, or have market-based interest rates. These instruments include Cash and cash equivalents, Accounts receivable, Participants' Fund - Cash deposits, Other Participants' assets, Accounts payable and Payable to Participants.

The tables below present the carrying values, fair values and fair value hierarchy levels of all financial instruments measured at other than fair value on the accompanying Statements of Financial Condition as of December 31, 2017 and 2016 (in thousands):

	2017				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 444,265	$ 444,265	$ 444,265	$ —	$ —
Accounts receivable	40,429	40,429	—	40,429	—
Participants' Fund cash deposits	1,771,078	1,771,078	1,771,078	—	—
Other Participants' assets	864,536	864,536	860,352	4,184	—
Total	$ 3,120,308	$ 3,120,308	$ 3,075,695	$ 44,613	$ —
Liabilities:					
Accounts payable and accrued expenses	$ 11,049	$ 11,049	$ —	$ 11,049	$ —
Participants' Fund cash deposits	1,771,078	1,771,078	1,771,078	—	—
Payable to Participants	864,536	864,536	864,536	—	—
Total	$ 2,646,663	$ 2,646,663	$ 2,635,614	$ 11,049	$ —

	2016				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 379,400	$ 379,400	$ 379,400	$ —	$ —
Accounts receivable	40,688	40,688	—	40,688	—
Participants' Fund cash deposits	1,752,431	1,752,431	1,752,431	—	—
Other Participants' assets	958,048	958,048	955,081	2,967	—
Total	$ 3,130,567	$ 3,130,567	$ 3,086,912	$ 43,655	$ —
Liabilities:					
Accounts payable and accrued expenses	$ 13,798	$ 13,798	$ —	$ 13,798	$ —
Participants' Fund cash deposits	1,752,431	1,752,431	1,752,431	—	—
Payable to Participants	958,048	958,048	958,048	—	—
Total	$ 2,724,277	$ 2,724,277	$ 2,710,479	$ 13,798	$ —

Financial assets measured at fair value on a non-recurring basis. Certain assets are subject to measurement at fair value on a non-recurring basis. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if determined to be impaired. Fair value is based on discounted cash flow analyses or comparing values of similar instruments. Discounted cash flow analyses are dependent upon various factors including estimated future cash flows, interest rate yield curves and volatility of inputs.

There were no assets or liabilities measured at fair value on a non-recurring basis during the years ended December 31, 2017 and 2016.

10. PENSION AND POSTRETIREMENT BENEFITS

Eligible DTCC 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 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 health care 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 $3,253,000 and $3,473,000 for the years ended December 31, 2017 and 2016, respectively. These costs are included in Employee compensation and related benefits in the accompanying Statements of Income.

11. INCOME TAXES

DTC is included in DTCC's consolidated Federal and various state tax returns. DTC also files other state tax returns on a separate company basis.

Details for the components of the Company's Provision for income taxes calculated on a separate company basis for the years ended December 31, 2017 and 2016 follow (in thousands):

	2017	2016
Current income tax/(benefit):		
Federal	$ 28,366	$ 20,451
State and local	6,267	5,634
Total current income tax/(benefit)	34,633	26,085
Deferred income tax/(benefit):		
Federal	27,939	1,706
State and local	(137)	1,987
Total deferred income tax/(benefit)	27,802	3,693
Provision for income taxes	$ 62,435	$ 29,778

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. For the years ended December 31, 2017 and 2016, the Company paid income taxes to DTCC, net of refunds, of $35,312,000 and $19,479,000, respectively.

The Company re-measured certain deferred tax assets and liabilities in accordance with the Tax Reform Act based on management's best estimates using information available at the financial statements date. The re-measurement resulted in a tax charge of $22,485,000, based on the reduced corporate tax rate per the Tax Reform Act and is subject to adjustment in 2018, based on further interpretations of the provisions of the Tax Reform Act.

The 2017 and 2016 effective tax rates differ from the 35% Federal statutory rate primarily due to state and local taxes, changes in unrecognized tax benefits, and the enactment of the Tax Reform Act. Details for the reconciliation of the U.S. Federal statutory tax rate to the Company's effective tax rate on Income before taxes for the years ended December 31, 2017 and 2016 follow:

	2017	2016
U.S. statutory tax rate	35.0%	35.0%
State and local income taxes, net of Federal tax benefit	5.5	5.9
Change in unrecognized tax benefits	(1.7)	1.3
Enactment of the Tax Reform Act	21.8	—
Other	0.1	(0.2)
Effective tax rate	60.7%	42.0%

Details for the components of deferred tax assets and liabilities as of December 31, 2017 and 2016 follow (in thousands):

	2017	2016
Deferred tax assets:		
Accrued compensation and benefits	$ 36,049	$ 59,876
Depreciation	5,801	8,212
Deferred rent	4,472	6,761
Other	5,019	8,877
Total deferred tax assets	51,341	83,726
Deferred tax liabilities:		
Capitalized software	(4,064)	(6,429)
Total deferred tax liabilities	(4,064)	(6,429)
Net deferred tax assets	$ 47,277	$ 77,297

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

Details for unrecognized tax benefits as of December 31, 2017 and 2016 follow (in thousands):

	2017	2016
Beginning balance at January 1,	$ 11,873	$ 11,873
Increases based on prior period tax positions	180	—
Decreases based on prior period tax positions	(1,850)	—
Decreases related to settlements with taxing authorities	(57)	—
Ending balance as of December 31,	$ 10,146	$ 11,873

The Company classifies interest and penalties related to unrecognized tax benefits, if incurred, in Provision for income taxes in its accompanying Statements of Income. As of December 31, 2017 and 2016, accrued interest related to unrecognized tax benefits recorded on the accompanying Statements of Financial Condition totaled $5,763,000 and $6,255,000, respectively.

The Company is subject to U.S. Federal income tax as well as income tax in various state and local jurisdictions.

Details for the periods currently under examination and remaining subject to examination by jurisdiction as of December 31, 2017 follow:

	Tax Years	
Jurisdiction	**Under Examination**	**Subject to Examination**
U.S. Federal - Internal Revenue Service	-	2014 - 2016
New York State	2008 - 2014	2015 - 2016
New York City	2012 - 2014	2015 - 2016
State of Illinois	2012 - 2013	2014 - 2016

For the current ongoing audits related to open tax years, the Company estimates it is possible the balance of unrecognized tax benefits could decrease in the next twelve months as a result of the effective settlement of these audits, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible new issues might be raised by tax authorities, which might necessitate increases to the balance of unrecognized tax benefits. As the Company is unable to predict the timing of conclusion of these audits, the Company is unable to estimate the amount of changes to the balance of unrecognized tax benefits at this time. However, the Company believes it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

12. 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 DTC Series A preferred stock. Details for the Preferred stock as of December 31, 2017 follow (in thousands, except dividends paid per share):

Series	Total shares issued and outstanding	Carrying value	Annual dividend	Dividends paid per share
Series A - Noncumulative Perpetual	1,500	$ 150,000	$ 1,080	$ 0.72

Capital Adequacy. Details for DTC's Capital Adequacy capital ratios as of December 31, 2017 follow:

	DTC	Minimum Capital Ratio(1)	Well Capitalized Ratio(1)
Tier 1 capital ratio	81.64%	6.00%	8.00%
Total capital ratio	81.64%	8.00%	10.00%
Tier 1 leverage ratio	17.42%	4.00%	4.00%

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

13. TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of the business, the Company enters into significant related party transactions with DTCC and its other subsidiaries.

Transactions with DTCC. DTC has an agreement with DTCC whereby DTCC pays for substantially all of the operational expenses of DTC. The related expenses are allocated to DTC based upon its estimated use of such goods or services. 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 2017 and 2016, the billing for these services was 108% of total allocated expenses, excluding charges passed through to Participants and capitalized software costs. The fee, representing the amount over actual cost, is included in Professional and other services in the accompanying Statements of Income. From time-to-time, the Company funds purchases of long-term assets acquired by DTCC on its behalf.

Transactions with DTCC Solutions LLC. DTCC Solutions LLC perform announcement creation and validation services on behalf of DTC in connection with DTC's corporate action data information and are billed at cost. Expenses under this agreement are included in Professional and other services in the accompanying Statements of Income.

Details for related party transactions for 2017 and 2016 follow (in thousands):

	Expenses		Payables (2)	
	For the years ended December 31,		As of December 31,	
Related parties	2017	2016	2017	2016
DTCC (1)	$ 22,678	$ 23,326	$ 1,080	$ 2,334
DTCC Solutions LLC	38,777	32,247	3,420	2,947
Total	$ 61,455	$ 55,573	$ 4,500	$ 5,281

(1) DTCC expenses relate to the 8% mark-up fee for services described above.
(2) Included in Accounts payable and accrued expenses on the accompanying Statements of Financial Condition.

14. 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 Statements of Financial Condition, Income or Cash Flows.

Lease commitment. The Company received a rent allocation from DTCC of $10,326,000 and $8,289,000 for the years ended December 31, 2017 and 2016, respectively. These amounts are included in Occupancy in the accompanying Statements of Income.

The Company reassigned a previously executed lease to rent office space to DTCC. As a result, there were no future minimum rental payments under non-cancelable leases as of December 31, 2017.

15. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS

DTC is exposed to significant credit risk to third-parties including its customer base, which extends to companies within the global financial services industry. 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 primarily derived from clearing and settlement service operations. Customers are based in the United States and overseas and include participating brokers, dealers, banks, mutual fund companies, insurance carriers, and other financial intermediaries. Credit risk also comes from financial assets, which consist principally of cash and cash equivalents, accounts receivable and the Participants' 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 financial 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 financial institutions having 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.

Participants' Fund cash deposits. In addition to risk management policies described above for cash and cash equivalents, when Participants provide cash deposits to the Participants' 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, coupled with the highly liquid nature of these securities. Reverse repos are collateralized and the collateral must have a market value greater than or equal to 102% of the cash invested. Additionally, reverse repos 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.

Participant cash deposits may also be invested in money market mutual funds under Rule 2a-7 of the Investment Company Act of 1940 having a credit rating of AAA/Aaa from recognized rating agencies. Since the Company invests in highly rated money market mutual funds and cash is returned daily, DTC 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 manages and mitigates this risk 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 Participants' Fund; netting trades continuously; marking unsettled trades to market; and utilizing a variety of advanced quantitative analytical methodologies, such as back and stress testing.

To become a participating member, an applicant must meet minimum eligibility criteria that 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 the applicant has sufficient financial resources to make anticipated contributions to the Participants' 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 to be performed on each Participant and may impact their Participants' 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. The controls are designed to provide DTC with sufficient collateral to obtain funding for settlement in the event a Participant fails to pay its settlement obligation. 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 requires DTC to maintain 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 has a netting contract and limited cross-guaranty agreement with NSCC, which includes certain arrangements. Securities delivered by DTC to NSCC to cover Continuous Net Settlement (CNS) system allocations are fully collateralized.

If a Participant defaults, such Participant's deposits to the Participants' Fund would be liquidated to satisfy an outstanding obligation and/or loss incurred by DTC. If those funds are insufficient to cover the defaulting Participant's outstanding obligations, DTC may use other Participant deposits to the Participants' Fund or apply a portion of its retained earnings to cover the loss.

16. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2017 through February 27, 2018, for potential recognition or disclosure in these accompanying Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these accompanying Financial Statements.