The Depository Trust Company

Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Report of Independent Registered Public Accounting Firm

THE DEPOSITORY TRUST COMPANY

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Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112-0015
USA

Tel: (212) 492-4000
Fax: (212) 489-1687
www.deloitte.com

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, 2018 and 2017, the related statements of income, changes in shareholders' equity, and cash flows, and the related footnotes for each of the two years in the period ended December 31, 2018 (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, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, 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 28, 2019

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, 2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 529,478	$ 444,265
Accounts receivable	40,826	40,429
Participants' Fund cash deposits	1,834,363	1,771,078
Other Participants' assets	513,542	864,536
Other current assets	6,893	5,727
Total current assets	2,925,102	3,126,035
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $117,582 and $131,746 as of December 31, 2018 and 2017, respectively	17,447	18,173
Intangible assets - net of accumulated amortization of $131,598 and $120,679 as of December 31, 2018 and 2017, respectively	26,283	25,105
Other non-current assets	45,004	53,680
Total non-current assets	88,734	96,958
TOTAL ASSETS	$ 3,013,836	$ 3,222,993
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 20,332	$ 11,049
Participants' Fund cash deposits	1,834,363	1,771,078
Payable to Participants	513,542	864,536
Total current liabilities	2,368,237	2,646,663
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	6,165	17,673
Total liabilities	2,374,402	2,664,336
COMMITMENTS AND CONTINGENCIES (Note 15)		
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	426,038	345,261
Total shareholders' equity	639,434	558,657
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,013,836	$ 3,222,993

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, 2018	2017
REVENUES		
Settlement and asset services	$ 427,547	$ 417,537
Other services	17,884	6,659
Total revenues	445,431	424,196
EXPENSES		
Employee compensation and related benefits	180,739	150,897
Information technology	29,429	22,188
Professional and other services	95,717	110,305
Occupancy	11,307	8,933
Depreciation and amortization	12,386	13,697
General and administrative	21,046	20,128
Impairment of Intangible assets	1,233	—
Total expenses	351,857	326,148
Total operating income	93,574	98,048
NON-OPERATING INCOME (EXPENSE)		
Interest income	50,594	27,736
Refunds to Participants	(36,964)	(21,759)
Interest expense	(10,199)	(9,293)
Other non-operating income	8,574	8,163
Total non-operating income	12,005	4,847
Income before taxes	105,579	102,895
Provision for income taxes	22,462	62,435
Net income	$ 83,117	$ 40,460

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, 2017	$ 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
Net income	—	—	—	83,117	83,117
Dividend on preferred stock	—	—	—	(2,340)	(2,340)
BALANCE - December 31, 2018	$ 150,000	$ 1,850	$ 61,546	$ 426,038	$ 639,434

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, 2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 83,117	$ 40,460
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	12,386	13,697
Loss on Impairment of Intangible assets	1,233	—
Deferred income taxes	8,675	30,020
Net change in:		
Accounts receivable	(397)	259
Other assets	(1,165)	(1,589)
Other Participants' assets	4,184	(1,670)
Accounts payable and accrued expenses	8,023	(3,349)
Other liabilities	(11,508)	(2,385)
Participants' Fund liabilities, net	63,285	18,647
Payable to Participants	(350,994)	(93,512)
Net cash provided by/(used in) operating activities	(183,161)	578
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Intangible assets	(14,071)	(11,768)
Net cash provided by/(used in) investing activities	(14,071)	(11,768)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend on preferred stock	(1,080)	(480)
Net cash provided by/(used in) financing activities	(1,080)	(480)
Net increase/(decrease) in Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets	(198,312)	(11,670)
Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets - Beginning of the year	3,075,695	3,087,365
Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets - End of the year	$ 2,877,383	$ 3,075,695
SUPPLEMENTAL DISCLOSURE:		
Cash income taxes paid to DTCC - net of refunds	$ 25,309	$ 35,312

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).

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, 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 enhanced standards for operation and governance, as established by the SEC's Standards for Covered Clearing Agencies (CCAS).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The Company reclassified prior period amounts related to Refunds to Participants, restricted cash, certain components of net periodic pension cost allocated, and allocated depreciation and amortization to conform to the current year presentation. See below and Note 3 for additional information.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 investments is accrued and refunded to Participants within Refunds to Participants 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 Other Participants' assets with a corresponding liability recorded 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, 2018 and 2017. The FRB stock, amounting $6,402,000 at December 31, 2018 and 2017, 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, while 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition. On January 1, 2018, the Company adopted Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers* under the full retrospective method of adoption. See Note 3 for additional information.

The Company recognizes revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. To achieve that principle, the Company applies the following steps: identify the contract(s) with the customer, identify the performance obligations in the contract(s), determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation.

The Company recognizes revenue from contracts with customers as performance obligations are satisfied when promised services are transferred to the customer. The majority of the promised services and related performance obligations are recognized at the point in time when the control of the promised service is transferred to the customer.

The amount of revenue recognized reflects the consideration the Company expects to be entitled to for transferring the promised services to the customer. For certain contracts with customers, the consideration in which the Company expects to be entitled to in exchange for transferring promised service to a customer consists of variable consideration. The variable consideration primarily relates to volume based discounts or rebates for certain services, however, the volume targets or thresholds typically reset on a monthly basis therefore, the variable consideration does not have an impact on the revenue recognition.

The Company derives its revenue from transaction fees, subscription revenue and other services. Revenue from transaction fees is recognized at a point in time on the transaction date, as the customer obtains the control and benefit of the service at that point. Subscription revenues are recognized ratably over the performance period of the relevant contract using a time elapsed measure of progress as the customer receives the benefits of the services throughout the term of the contract. Other services, which represent fees generated from offering referential based data and business processing solutions to financial institutions globally, is recognized when services are provided based on contractual terms. The Company typically bills its customers 30 days in arrears.

Revenue streams. Details for each revenue stream presented in the Company's Statements of Income follow:

S*ettlement and asset services.* The Company provides settlement services for equity, corporate and municipal debt trades and money market instruments in the U.S. The payment and transfer of securities ownership occurs at the Company, which provides custody and asset servicing for securities. Asset services include underwriting, corporate actions processing, securities processing, global tax services and issuer services.

Other services. The Company offers referential and activity-based, announcement, security reference, and liquidity data through the DTCC Data Services product. These offerings are delivered in fixed or configurable formats, sourced from the Company's transaction, reference, position and asset servicing data.

Accounts receivable and deferred revenue. The period in which the Company recognizes revenue may differ from the timing of payments received from customers. The Company records a receivable when revenue is recognized prior to payment and there is an unconditional right to payment. See Accounts receivable on the Statements of Financial Condition for the Company's receivables related to revenues from contracts with customers. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied. Deferred revenue represents the Company's contract liabilities related to billings or payments received in advance for subscription and other services, where the performance obligation has not yet been satisfied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impacts to previously reported results. The impact of the new revenue recognition standard on the Company's previously reported results for the year ended December 31, 2017 follows (in thousands):

	For the year ended December 31, 2017		
	As Previously Reported	New Revenue Standard Adjustment	As Restated
Interest income	$ 7,883	$ 19,853	$ 27,736
Refunds to Participants	(1,906)	(19,853)	(21,759)

Restricted cash. As a result of the adoption of ASU 2016-18, *Statement of Cash Flows: Restricted Cash* under the full retrospective method of adoption, (see Note 3), the Company has reported the cash and cash equivalents related to Participants' Fund cash deposits and Cash in Other Participants' assets within the beginning and ending balances of Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' on the accompanying Statement of Cash Flows.

A reconciliation of Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets, reported within the Statements of Financial Condition that sum to the total of the same such amounts shown on the Statements of Cash Flows as of December 31, 2018 and 2017 follow (in thousands):

	2018	2017
Cash and cash equivalents	$ 529,478	$ 444,265
Participants' Fund cash deposits (see Note 4)	1,834,363	1,771,078
Cash in Other Participants' assets (see Note 5)	513,542	860,352
Total Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets shown on the Statements of Cash Flows	$ 2,877,383	$ 3,075,695

As a result of this accounting change, net cash used in operating activities of approximately $183 million is primarily driven by the change in Participants' Fund liabilities and Payable to Participants.

Impacts to previously reported results. The impact of the new cash flows standard on the Company's previously reported results for the year ended December 31, 2017 follows (in thousands):

	For the year ended December 31, 2017		
	As Previously Reported	New Restricted Cash Standard Adjustment	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Other Participants' assets	$ —	$ (1,670)	$ (1,670)
Participants' Fund liabilities, net	—	18,647	18,647
Payable to Participants	—	(93,512)	(93,512)
Net cash provided by/(used in) operating activities	77,113	(76,535)	578

Income taxes. The Provision for income taxes is computed using the asset and liability method. The tax currently payable is based on taxable income for the year. Taxable income differs from Income before taxes as reported in the accompanying Statement of Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. 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 (deferred tax liability) or deductible (deferred tax asset) 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Company accounted for the tax effects of the Tax Reform Act on a provisional basis in its 2017 Financial Statements and completed the related accounting in the fourth quarter of 2018.

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.

*Retirement benefits***.** On January 1, 2018, the Company adopted ASU 2017-07, *Compensation: Retirement Benefits* under the retrospective method of adoption. See Note 3 for additional information.

Impacts to previously reported results. The impact of the new retirement benefits standard on the Company's previously reported results for the year ended December 31, 2017 follows (in thousands):

	For the year ended December 31, 2017		
	As Previously Reported	New Retirement Benefits Standard Adjustment	As Restated
Employee compensation and related benefits	$ 152,027	$ (1,130)	$ 150,897
Interest expense	—	(9,293)	(9,293)
Other non-operating income	—	8,163	8,163

Reclassification. In the fourth quarter of 2018, the Company changed its financial statement presentation for allocated depreciation and amortization expenses. Accordingly, the Company reclassified prior period amounts related to allocated depreciation and amortization expenses to conform to the current year presentation. This reclassification had no impact on previously reported total assets, total liabilities, revenues, net income, and cash flows.

Impacts to previously reported results. The impact of the change in presentation for allocated depreciation and amortization on the Company's previously reported results for the year ended December 31, 2017 follows (in thousands):

	For the year ended December 31, 2017		
	As Previously Reported	Reclassification Presentation Adjustment	As Restated
Information technology	$ 32,021	$ (9,833)	$ 22,188
Occupancy	10,326	(1,393)	8,933
General and administrative	8,902	11,226	20,128

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Impact on the financial statements or other significant matters
Financial Accounting Standards Board Standard Issued, but not yet Adopted		
ASU 2018-14 Changes to the Disclosure Requirements for Defined Benefit Plans *Issued August 2018*	• Eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the Financial Accounting Standards Board (FASB) considers pertinent.	• Effective January 1, 2021. • The Company is evaluating the impact on related disclosures in its Financial Statements.
ASU 2018-18 Clarifying how the revenue standard affects the accounting for collaborative arrangements. *Issued November 2018*	• Amends Collaborative Arrangement to clarify that certain transactions between participants in a collaborative arrangement should be accounted for under new revenue recognition standard when the collaborative partner is considered the customer. Requires revenues from such collaborative contracts to be recognized upon transfer of control of a good or service in the amount of consideration expected to be received from the collaborative partner. • Precludes an entity from presenting collaborative arrangement consideration as revenue from contracts with customers if the collaborative partner is not considered the customer.	• Effective January 1, 2020. • The Company is evaluating the impact on its Financial Statements and related disclosures.
ASU 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (CCA) That Is a Service Contract *Issued August 2018*	• Implementation costs incurred by customers in CCA that is a service contract are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance.	• Effective January 1, 2020. • The Company is evaluating the impact on its Financial Statements and related disclosures.
ASU 2018-13 Changes to the Disclosure Requirements for Fair Value Measurement *Issued August 2018*	• Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy (see Note 8). • Public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. • Modifies certain disclosure requirements for nonpublic entities to make them less burdensome.	• Effective January 1, 2020. • The Company is evaluating the impact on related disclosures in its Financial Statements.

3. ACCOUNTING AND REPORTING DEVELOPMENTS (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
Financial Accounting Standards Board Standard Issued, but not yet Adopted (Continued)		
ASU 2016-13 Customer's 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.	• Effective January 1, 2020. • The Company is evaluating the impact on its Financial Statements and related disclosures.
Recently Adopted Accounting Standards		
ASU 2014-09 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.	• Adopted January 1, 2018. • The Company adopted the revenue recognition standard under the full retrospective transition method of adoption. • The Company's implementation efforts included the identification of revenue within the scope of the standard and the evaluation of revenue contracts using the practical expedient portfolio approach. • The adoption of the standard did not have a material impact to the recognition and timing of its revenues, but required the Company to change the presentation of Interest Income and Refunds to Participants from a net basis to a gross basis in the accompanying Statements of Income. See Note 2 for additional information.
ASU 2017-07 Compensation - Retirement Benefits *Issued March 2017*	• Requires the components of the net periodic pension and postretirement benefit costs (service cost, interest cost, and actuarial gains/losses) to be reported separately from one another in the Company's Statements of Income. • Requires retrospective application and presentation in the Statements of Income.	• Adopted January 1, 2018. • The adoption of the standard did not change the Company's net income, but required the Company to reclassify certain components of net periodic pension cost allocated to the Company (Note 10) from Total operating income to Total non-operating income (expense). The service cost component is presented in Employee compensation and related benefits, the interest cost component is presented in Interest expense, and all other components of net periodic pension cost allocated are presented in Other non-operating income (expense) in the accompanying Statements of Income. See Note 2 for additional information.

3. ACCOUNTING AND REPORTING DEVELOPMENTS (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
Recently Adopted Accounting Standards (Continued)		
ASU 2016-18 Statement of Cash Flows - Restricted Cash *Issued November 2016*	• Requires inclusion of restricted cash in the cash and cash equivalents balances in the Statements of Cash Flows. • Requires additional disclosures to supplement the Statements of Cash Flows. • Requires retrospective application to all periods presented.	• Adopted January 1, 2018. • The Company adopted the new restricted cash standard under the retrospective method of adoption. • The adoption did not change the Company's Statements of Financial Condition or Statements of Income; however, it resulted in a presentation change related to the Statements of Cash Flows by broadening the definition of cash and cash equivalents to include items that are not on the balance sheet's cash line, e.g., Participants' Fund cash deposits and Cash in Other Participants' assets. See Note 2 for additional information.

4. PARTICIPANTS' FUND CASH DEPOSITS

Details for the Participants' Fund cash deposits as of December 31, 2018 and 2017 follow (in thousands):

	2018	2017
Required cash deposits	$ 1,150,000	$ 1,150,000
Excess cash deposits	684,363	621,078
Total	$ 1,834,363	$ 1,771,078

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

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 respectively, are included in Other Participants’ assets, with a corresponding liability recorded in Payable to Participants, on the accompanying Statements of Financial Condition.

Details for Other Participants’ assets and Payable to Participants as of December 31, 2018 and 2017 follow (in thousands):

	2018	2017
Assets:		
Other Participants' assets:		
Cash in Other Participants' assets	$ 513,542	$ 860,352
Other	—	4,184
Total Other Participants' assets	$ 513,542	$ 864,536
Liabilities:		
Payable to Participants	$ 513,542	$ 864,536

5. OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS (CONTINUED)

As of December 31, 2018 and 2017, Payable to Participants also includes $127,000 and $435,000, 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, 2018 and 2017 follow (in thousands):

	Furniture and equipment	Leasehold improvements	Buildings and improvements	Land	Total
Cost:					
As of January 1, 2017	$ 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
Disposals	(13,387)	—	(1,503)	—	(14,890)
As of December 31, 2018	$ 53,664	$ 67,376	$ 11,483	$ 2,506	$ 135,029
Accumulated depreciation:					
As of January 1, 2017	$ 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
Depreciation expense	—	424	302	—	726
Disposals	(13,387)	—	(1,503)	—	(14,890)
As of December 31, 2018	$ 53,664	$ 59,604	$ 4,314	$ —	$ 117,582
Net book value:					
As of January 1, 2017	$ —	$ 8,756	$ 7,774	$ 2,506	$ 19,036
As of December 31, 2017	$ —	$ 8,196	$ 7,471	$ 2,506	$ 18,173
As of December 31, 2018	$ —	$ 7,772	$ 7,169	$ 2,506	$ 17,447

7. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization and net carrying value of capitalized software for the years ended December 31, 2018 and 2017 follow (in thousands):

	Capitalized Software
Gross carrying value:	
As of January 1, 2017	$ 246,550
Additions	11,768
Impairment	(112,534)
As of December 31, 2017	145,784
Additions	14,071
Impairment	(1,974)
As of December 31, 2018	$ 157,881
Accumulated amortization:	
As of January 1, 2017	$ 220,379
Amortization expense	12,834
Write-offs	(112,534)
As of December 31, 2017	120,679
Amortization expense	11,660
Impairment	(741)
As of December 31, 2018	$ 131,598
Net carrying value:	
As of January 1, 2017	$ 26,171
As of December 31, 2017	$ 25,105
As of December 31, 2018	$ 26,283

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

2019	$ 9,557
2020	8,744
2021	5,559
2022	2,423
Total future estimated amortization	$ 26,283

The Company recognized impairment charges of $1,233,000 and $0 related to capitalized software for the years ended December 31, 2018 and 2017, respectively, that were determined to have no realizable value. The impairment charges were included in Impairment of Intangible assets in the accompanying Statements of Income.

8. 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.
There were no assets or liabilities measured at fair value on a recurring basis during the years ended December 31, 2018 and 2017.

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 accrued expenses 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, 2018 and 2017 (in thousands):

	2018				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 529,478	$ 529,478	$ 529,478	$ —	$ —
Accounts receivable	40,826	40,826	—	40,826	—
Participants' Fund cash deposits	1,834,363	1,834,363	1,834,363	—	—
Other Participants' assets	513,542	513,542	513,542	—	—
Total	$ 2,918,209	$ 2,918,209	$ 2,877,383	$ 40,826	$ —
Liabilities:					
Accounts payable and accrued expenses	$ 20,332	$ 20,332	$ —	$ 20,332	$ —
Participants' Fund liabilities	1,834,363	1,834,363	1,834,363	—	—
Payable to Participants	513,542	513,542	513,542	—	—
Total	$ 2,368,237	$ 2,368,237	$ 2,347,905	$ 20,332	$ —

8. FAIR VALUE MEASUREMENTS (CONTINUED)

	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 liabilities	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	$ —

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.

Fair values on the aforementioned impairments disclosed in Note 7 were based on discounted cash flows using Level 3 inputs under the fair value guidance. The cash flows are those expected to be generated by the market participants, discounted at a rate commensurate with the risk of the cash flows.

9. 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 estimated proportion of each subsidiary’s salary cost relative to DTCC's total salary cost. The benefit plan costs allocated to DTC were $3,361,000 and $3,253,000 for the years ended December 31, 2018 and 2017, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income in the accompanying Statements of Income.

10. 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 (Benefit) for income taxes calculated on a separate company basis for the years ended December 31, 2018 and 2017 follow (in thousands):

	2018	2017
Current income tax/(benefit):		
Federal	$ 15,389	$ 28,366
State and local	9,739	6,267
Total current income tax/(benefit)	25,128	34,633
Deferred income tax/(benefit):		
Federal	6,072	27,939
State and local	(8,738)	(137)
Total deferred income tax/(benefit)	(2,666)	27,802
Provision for income taxes	$ 22,462	$ 62,435

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, 2018 and 2017, the Company paid income taxes to DTCC, net of refunds, of $25,309,000 and $35,312,000, respectively.

The Company recognized a provisional income tax charge of $22,485,000 in 2017 as a result of the Tax Reform Act, which was included as a component of the Company's Provision for income taxes. The Company completed its analysis within the one year measurement period from the enactment date and recorded a tax benefit of $1,103,000 for the year ended December 31, 2018.

The 2018 and 2017 effective tax rates differ from the 21% and 35% Federal statutory rate, respectively, primarily due to state and local taxes, changes in unrecognized tax benefits, the enactment of the Tax Reform Act, and settlements of tax audits. 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, 2018 and 2017 follow:

	2018	2017
U.S. statutory tax rate	21.0%	35.0%
State and local income taxes, net of Federal tax benefit	6.2	5.5
Change in unrecognized tax benefits	(8.5)	(1.7)
Enactment of the Tax Reform Act	(1.0)	21.8
Settlements of tax audits	2.8	0.1
Other	0.8	—
Effective tax rate	21.3%	60.7%

10. INCOME TAXES (CONTINUED)

Details for the components of deferred tax assets and liabilities as of December 31, 2018 and 2017 follow (in thousands):

	2018	2017
Deferred tax assets:		
Accrued compensation and benefits	$ 32,900	$ 36,049
Depreciation	4,659	5,801
Deferred rent	4,062	4,472
Other	1,396	5,019
Total deferred tax assets	43,017	51,341
Deferred tax liabilities:		
Capitalized software	(4,415)	(4,064)
Total deferred tax liabilities	(4,415)	(4,064)
Net deferred tax assets	$ 38,602	$ 47,277

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, 2018 and 2017 follow (in thousands):

	2018	2017
Beginning balance at January 1,	$ 10,146	$ 11,873
Increases based on prior period tax positions	665	180
Decreases based on prior period tax positions	(5,685)	(1,850)
Decreases related to settlements with taxing authorities	(2,102)	(57)
Ending balance as of December 31,	$ 3,024	$ 10,146

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, 2018 and 2017, accrued interest related to unrecognized tax benefits recorded on the accompanying Statements of Financial Condition totaled $1,544,000 and $5,763,000, respectively.

Details for the periods currently under examination and remaining subject to examination by jurisdiction as of December 31, 2018 follow:

	Tax Years	
Jurisdiction	**Under Examination**	**Subject to Examination**
U.S. Federal - Internal Revenue Service	-	2015 - 2017
New York State	-	2015 - 2017
New York City	2012 - 2014	2015 - 2017
State of Illinois	2012 - 2013	2014 - 2017
State of Florida	2013 - 2015	2016 - 2017

Unrecognized tax benefits are estimated based on judgment, assessment of relevant risks, facts and circumstances. Actual results could differ materially from those estimates. The Company believes that the liability for unrecognized tax benefits is the best estimate in relation to the potential for additional assessments. Unexpected results from one or more such tax audits could significantly adversely affect our income tax provision and our results of operations.

11. 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. There was $150,000,000 of DTC Series A preferred stock (1,500,000 shares at par value of $100 per share) outstanding as of December 31, 2018 and 2017. Annual dividends are accrued based on the weighted average rate of interest paid by the Company on required Participants Fund deposits during the dividend period as disclosed in the DTC's rules. The 2018 annual dividend amount of $2,340,000 was approved and declared by the Board of Directors in February 2019, and will be paid in April 2019, to the holders of DTC Series A Preferred stock during 2018.

12. CAPITAL REQUIREMENTS

The capital requirements for DTC is equal to the sum of the general business risk capital requirement and corporate contribution, as described below. The Company must meet the capital requirements by holding liquid net assets funded by equity, as described in rule 17Ad-22(e)(15) of the CCAS and the Clearing Agency Policy on Capital Requirements.

General Business Risk Capital Requirement. The general business risk capital requirement is determined according to Rule 17Ad-22(e)(15) of the CCAS and the Clearing Agency Policy on Capital Requirements. The capital requirement is held to cover potential general business losses so that the Company can continue operations and provide services as a going concern if those losses materialize. It is determined based on the Company's general business risk profile and estimated time to execute a recovery or orderly wind-down of critical operations and, at a minimum, is equal to six months of operating expenses.

Corporate Contribution. The Company maintains an amount referred to as the corporate contribution, to be applied to losses of the Company as provided in the clearing agency rules. The amount of the corporate contribution is generally equal to 50% of the Company's general business risk capital requirement.

Details for general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the Company as of December 31, 2018 and 2017, respectively. (in thousands):

	2018	2017
General business risk capital requirement	$ 169,119	$ 159,181
Corporate contribution	84,559	79,590
Total requirement	253,678	238,771
Liquid net assets funded by equity	529,478	444,265
Excess/(shortfall)	$ 275,800	$ 205,494

Capital Adequacy. DTC capital ratios filed with the FRBNY and the NYSDFS as of December 31, 2018 follow:

	DTC	Minimum Capital Ratio[(a)]	Well Capitalized Ratio[(a)]
Tier 1 capital ratio [(a)]	97.57%	6.00%	8.00%
Total capital ratio [(1)]	97.57%	8.00%	10.00%
Tier 1 leverage ratio [(2)]	19.69%	4.00%	4.00%

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

(1) Tier 1 capital primarily includes common stock, retained earnings and preferred stock. DTC's tier 1 capital and total capital ratios are based on tier 1 capital and total risk-weighted assets.
(2) Tier 1 leverage ratio is based on tier 1 capital and quarterly average total assets.

13. LINES OF CREDIT AND CREDIT RATINGS

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, 2018 and 2017 follow:

Committed	2018	2017
Amount	$1.9 billion	$1.9 billion
Denomination	USD	USD
No. of Participants/Lenders	33/41	32/41

Uncommitted	2018	2017
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 during 2018 and 2017.

Details for debt covenants related to the committed line of credit as of December 31, 2018 and 2017 follow:

	2018	2017
Minimum Net Worth	$150 million	$150 million
Minimum Participants' Fund deposits	$750 million	$750 million

As of December 31, 2018 and 2017, 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, 2018 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.

14. 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 2018 and 2017, 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 in excess of the 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.

14. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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. On May 1, 2018, the agreement between these two companies was terminated. Expenses under this agreement were included in Professional and other services in the accompanying Statements of Income.

On January 1, 2018, a new agreement was created for the Data Services product. Under the agreement, DTCC Solutions LLC sells data products including referential and activity-based data, announcement, security reference, and liquidity, on behalf of DTC. All of the revenue from the sales, the associated expenses incurred by DTCC Solutions LLC, plus a 5% mark-up fee, are billed back to DTC. All revenues under this agreement is included in Other Services and the related expenses incurred are included in Employee compensation and related benefits, Information technology, Professional and other services, Occupancy, Depreciation and amortization and General and administrative, respectively, in the accompanying Statements of Income.

Details for related party transactions for 2018 and 2017 follow (in thousands):

	Expenses For the years ended December 31,		Payables (2) As of December 31,	
Related parties	**2018**	**2017**	**2018**	**2017**
DTCC (1)	$ 24,019	$ 22,678	$ 7,144	$ 1,080
DTCC Solutions LLC	21,614	38,777	2,229	3,420
Total	$ 45,633	$ 61,455	$ 9,373	$ 4,500

(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.

15. 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.

16. 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 of America 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 including the Federal Reserve Bank. These financial institutions are located in the United States of America and Canada, 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

16. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS (CONTINUED)

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. Credit risk is mitigated by investing in highly rated money market mutual funds and having cash returned daily.

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 must provide the Company with certain financial and operational information to be a DTC Participant. 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.

16. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS (CONTINUED)

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 in the Participants' Fund or apply a portion of its retained earnings to cover the loss.

17. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2018 through February 28, 2019, 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.