

# The Depository Trust Company

Condensed Financial Statements  
as of March 31, 2019 and December 31, 2018 and for the  
three months ended March 31, 2019 and 2018

# THE DEPOSITORY TRUST COMPANY

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# THE DEPOSITORY TRUST COMPANY

## CONDENSED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

<u>(In thousands, except share data)</u>	<u>As of March 31, 2019</u>	<u>As of December 31, 2018</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 568,409	\$ 529,478
Accounts receivable	37,539	40,826
Participants' Fund cash deposits	1,886,182	1,834,363
Other Participants' assets	897,535	513,542
Other current assets	1,389	6,893
Total current assets	<u>3,391,054</u>	<u>2,925,102</u>
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$117,763 and \$117,582 as of March 31, 2019 and December 31, 2018, respectively	17,266	17,447
Intangible assets - net of accumulated amortization of \$133,872 and \$131,598 as of March 31, 2019 and December 31, 2018, respectively	27,302	26,283
Other non-current assets	44,761	45,004
Total non-current assets	<u>89,329</u>	<u>88,734</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,480,383</u>	<u>\$ 3,013,836</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 26,210	\$ 20,332
Participants' Fund cash deposits	1,886,182	1,834,363
Payable to Participants	897,535	513,542
Other current liabilities	5,272	—
Total current liabilities	<u>2,815,199</u>	<u>2,368,237</u>
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	6,070	6,165
Total liabilities	<u>2,821,269</u>	<u>2,374,402</u>
COMMITMENTS AND CONTINGENCIES (Note 2)		
<b>SHAREHOLDERS' EQUITY</b>		
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	445,718	426,038
Total shareholders' equity	<u>659,114</u>	<u>639,434</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 3,480,383</u>	<u>\$ 3,013,836</u>

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

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

<b>(In thousands)</b>	<b>For the three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>REVENUES</b>		
Settlement and asset services	\$ 103,635	\$ 105,828
Other services	3,109	4,071
Total revenues	<u>106,744</u>	<u>109,899</u>
<b>EXPENSES</b>		
Employee compensation and related benefits	45,183	42,163
Information technology	8,366	6,569
Professional and other services	20,372	26,698
Occupancy	2,792	2,417
Depreciation and amortization	2,455	3,247
General and administrative	4,735	5,452
Total expenses	<u>83,903</u>	<u>86,546</u>
Total operating income	<u>22,841</u>	<u>23,353</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest income	16,153	9,307
Refunds to Participants	(11,924)	(7,226)
Interest expense	(2,448)	(2,333)
Other non-operating income	2,549	1,930
Total non-operating income	<u>4,330</u>	<u>1,678</u>
Income before taxes	27,171	25,031
Provision for income taxes	7,491	7,433
Net income	<u>\$ 19,680</u>	<u>\$ 17,598</u>

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

# THE DEPOSITORY TRUST COMPANY

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

<u>(In thousands)</u>	<u>Preferred Stock Series A</u>	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
BALANCE - January 1, 2019	\$ 150,000	\$ 1,850	\$ 61,546	\$ 426,038	\$ 639,434
Net income	—	—	—	19,680	19,680
BALANCE - March 31, 2019	<u>\$ 150,000</u>	<u>\$ 1,850</u>	<u>\$ 61,546</u>	<u>\$ 445,718</u>	<u>\$ 659,114</u>

<u>(In thousands)</u>	<u>Preferred Stock Series A</u>	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
BALANCE - January 1, 2018	\$ 150,000	\$ 1,850	\$ 61,546	\$ 345,261	\$ 558,657
Net income	—	—	—	17,598	17,598
BALANCE - March 31, 2018	<u>\$ 150,000</u>	<u>\$ 1,850</u>	<u>\$ 61,546</u>	<u>\$ 362,859</u>	<u>\$ 576,255</u>

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

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

<b>(In thousands)</b>	<b>For the three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 19,680	\$ 17,598
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	2,455	3,247
Deferred income taxes	340	531
Net change in:		
Accounts receivable	3,287	3,242
Other assets	5,407	4,714
Other Participants' assets	—	2,117
Accounts payable and accrued expenses	5,878	3,760
Other liabilities	5,177	3,766
Participants' Fund liabilities, net	51,819	(23,246)
Payable to Participants	383,993	28,084
Net cash provided by/(used in) operating activities	<u>478,036</u>	<u>43,813</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Intangible assets	(3,293)	(2,665)
Net cash provided by/(used in) investing activities	<u>(3,293)</u>	<u>(2,665)</u>
Net increase/(decrease) in Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets	474,743	41,148
Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets - Beginning of the period	<u>2,877,383</u>	<u>3,075,695</u>
Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets - End of the period	<u>\$ 3,352,126</u>	<u>\$ 3,116,843</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Cash income taxes paid to DTCC - net of refunds	<u>\$ (306)</u>	<u>\$ —</u>

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

# THE DEPOSITORY TRUST COMPANY

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

### 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 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. BASIS OF PRESENTATION AND USE OF ESTIMATES

**Basis of presentation.** The accompanying Condensed Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The accompanying interim financial statements have not been audited. These interim financial statements do not include all of the information and notes required by U.S. GAAP for complete financial statements and should be read in conjunction with DTC's Audited Financial Statements for the years ended December 31, 2018 and 2017, which are located on the Company's website at <http://www.dtcc.com/legal/financial-statements>. See Note 2 in DTC's Audited Financial Statements for the years ended December 31, 2018 and 2017, for additional information on the Company's Summary of Significant Accounting Policies.

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

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

**Impacts to previously reported results.** The Company reclassified prior period amounts related to capitalized software consultant cost, allocated depreciation and amortization and pension to conform to the current year presentation.

The impact of the change in presentation for capitalized software consultant cost on the Company's previously reported results for the three months ended March 31, 2018 follows (in thousands):

	For the three months ended March 31, 2018		
	As Previously Reported	Reclassification Presentation Adjustment	As Restated
Employee compensation and related benefits:			
Capitalized software consultant cost	\$ 41,286	\$ 877	\$ 42,163
Professional and other services:			
Capitalized software consultant cost	27,575	(877)	26,698

**THE DEPOSITORY TRUST COMPANY****NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)****AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018****2. BASIS OF PRESENTATION AND USE OF ESTIMATES (CONTINUED)**

The impact of the change in presentation for allocated depreciation and amortization on the Company's previously reported results for the three months ended March 31, 2018 follows (in thousands):

	<b>For the three months ended March 31, 2018</b>		
	<b>As Previously Reported</b>	<b>Reclassification Presentation Adjustment</b>	<b>As Restated</b>
Information technology	\$ 8,794	\$ (2,225)	\$ 6,569
Occupancy	3,114	(697)	2,417
General and administrative	2,530	2,922	5,452

The impact of the change in presentation for pension on the Company's previously reported results for the three months ended March 31, 2018 follows (in thousands):

	<b>For the three months ended March 31, 2018</b>		
	<b>As Previously Reported</b>	<b>Reclassification Presentation Adjustment</b>	<b>As Restated</b>
Employee compensation and related benefits: Pension	\$ 873	\$ 1,357	\$ 2,230
Employee compensation and related benefits: Other benefits	5,305	(1,357)	3,948

**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, the Company has reported the cash and cash equivalents related to Participants' Fund cash deposits, Cash in Other Participants' assets within the beginning and ending balances of Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets on the accompanying Condensed Statements of Cash Flows.

A reconciliation of Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets, reported within the Condensed Statements of Financial Condition that sum to the total of the same such amounts shown on the accompanying Condensed Statements of Cash Flows for the three months ended March 31, 2019 and 2018 follows (in thousands):

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 568,409	\$ 478,458
Participants' Fund cash deposits	1,886,182	1,747,832
Cash in Other Participants' assets	897,535	890,553
Total Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets shown on the Condensed Statement of Cash Flows	<u>\$ 3,352,126</u>	<u>\$ 3,116,843</u>

As a result of this accounting change, net cash provided by operating activities of approximately \$478 million is primarily driven by the change in Participants' Fund liabilities and Payable to Participants.

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



# THE DEPOSITORY TRUST COMPANY

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

### 3. PARTICIPANTS' FUND CASH DEPOSITS

Details for the Participants' Fund cash deposits as of March 31, 2019 and December 31, 2018 follow (in thousands):

	<u>2019</u>	<u>2018</u>
Required cash deposits	\$ 1,150,000	\$ 1,150,000
Excess cash deposits	736,182	684,363
Total	<u>\$ 1,886,182</u>	<u>\$ 1,834,363</u>

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.

### 4. 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 March 31, 2019 and December 31, 2018 follow (in thousands):

	<u>2019</u>	<u>2018</u>
Assets:		
Other Participants' assets:		
Cash in Other Participants' assets	<u>\$ 897,535</u>	<u>\$ 513,542</u>
Liabilities:		
Payable to Participants	<u>\$ 897,535</u>	<u>\$ 513,542</u>

As of March 31, 2019 and December 31, 2018, Payable to Participants also includes \$83,000 and \$127,000, 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.

# THE DEPOSITORY TRUST COMPANY

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

### 5. PENSION AND POSTRETIREMENT BENEFITS

Eligible DTCC employees participate in DTCC's trustee non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. Eligible DTCC employees also participate in DTCC's life insurance program, which provides for the payment of death benefits to beneficiaries of eligible retired employees and DTCC's 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 \$2,178,000 and \$2,230,000 for the three months ended March 31, 2019 and 2018, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income in the accompanying Condensed Statements of Income based on the nature of the pension expense component.

### 6. 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 March 31, 2019 and December 31, 2018. 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 was paid in April 2019, to the holders of DTC Series A Preferred stock during 2018.

### 7. 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 March 31, 2019 and December 31, 2018, respectively. (in thousands):

	<b>2019</b>	<b>2018</b>
General business risk capital requirement	\$ 168,194	\$ 169,119
Corporate contribution	84,097	84,559
Total requirement	<u>252,291</u>	<u>253,678</u>
Liquid net assets funded by equity	568,409	529,478
Excess	<u>\$ 316,118</u>	<u>\$ 275,800</u>

# THE DEPOSITORY TRUST COMPANY

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

### 7. CAPITAL REQUIREMENTS (CONTINUED)

**Capital Adequacy.** DTC capital ratios filed with the FRBNY and the NYSDFS as of March 31, 2019 follow:

	DTC	Minimum Capital Ratio <sup>(a)</sup>	Well Capitalized Ratio <sup>(a)</sup>
Tier 1 capital ratio <sup>(a)</sup>	88.64%	6.00%	8.00%
Total capital ratio <sup>(1)</sup>	88.64%	8.00%	10.00%
Tier 1 leverage ratio <sup>(2)</sup>	19.50%	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.

### 8. 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 March 31, 2019 and December 31, 2018 follow:

<b>Committed</b>	<b>2019</b>	<b>2018</b>
<b>Amount</b>	\$1.9 billion	\$1.9 billion
<b>Denomination</b>	USD	USD
<b>No. of Participants/Lenders</b>	33/41	33/41
<b>Uncommitted</b>	<b>2019</b>	<b>2018</b>
<b>Amount</b>	C\$150 million <sup>(1)</sup>	C\$150 million <sup>(1)</sup>
<b>Denomination</b>	CAD	CAD
<b>No. of Participants/Lenders</b>	1/1	1/1

(1) Used to support Canadian settlement.

There were no borrowings under any of these lines during 2019 and 2018.

Details for debt covenants related to the committed line of credit as of March 31, 2019 and December 31, 2018 follow:

	2019	2018
<b>Minimum Net Worth</b>	\$150 million	\$150 million
<b>Minimum Participants' Fund deposits</b>	\$750 million	\$750 million

As of March 31, 2019 and 2018, the Company was in compliance with its debt covenants.

# THE DEPOSITORY TRUST COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF MARCH 31, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

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## 8. LINES OF CREDIT AND CREDIT RATINGS (CONTINUED)

**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 March 31, 2019 follow:

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

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

## 9. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after March 31, 2019 through April 30, 2019, for potential recognition or disclosure in these accompanying Condensed Financial Statements. Other than previously disclosed in Note 6, Shareholders' Equity, no events or transactions occurred during such period that would require recognition or disclosure in these accompanying Condensed Financial Statements.