

The Depository Trust Company

Financial Statements (Unaudited) as of September 30, 2021 and
December 31, 2020 and for the three and nine months ended
September 30, 2021 and 2020

THE DEPOSITORY TRUST COMPANY

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THE DEPOSITORY TRUST COMPANY
STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands, except share data)	As of September 30, 2021	As of December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 637,056	\$ 684,377
Short-term investments	100,000	—
Accounts receivable - net of allowance for credit losses	55,953	53,818
Participants' Fund cash deposits	1,951,000	1,925,137
Other Participants' assets	1,326,223	810,250
Other current assets	2,716	4,829
Total current assets	4,072,948	3,478,411
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$10,407 and \$9,883 as of September 30, 2021 and December 31, 2020, respectively	15,506	16,030
Intangible assets - net of accumulated amortization of \$73,294 and \$61,703 as of September 30, 2021 and December 31, 2020, respectively	36,481	36,458
Other non-current assets	25,680	29,410
Total non-current assets	77,667	81,898
TOTAL ASSETS	\$ 4,150,615	\$ 3,560,309
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 55,392	\$ 20,547
Participants' Fund cash deposits	1,951,000	1,925,137
Payable to Participants	1,326,223	810,250
Other current liabilities	5,523	20,039
Total current liabilities	3,338,138	2,775,973
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	2,751	5,734
Total liabilities	3,340,889	2,781,707
COMMITMENTS AND CONTINGENCIES (Note 2)		
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
Additional paid-in capital	61,546	61,546
Retained earnings	596,330	565,206
Total shareholders' equity	809,726	778,602
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,150,615	\$ 3,560,309

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

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF INCOME (UNAUDITED)

(In thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
REVENUES				
Settlement and asset services	\$ 126,410	\$ 88,183	\$ 354,345	\$ 310,879
Other services	5,671	6,832	18,897	17,189
Total revenues	<u>132,081</u>	<u>95,015</u>	<u>373,242</u>	<u>328,068</u>
EXPENSES				
Employee compensation and related benefits	50,289	50,917	152,361	148,079
Information technology	9,969	7,968	31,869	24,165
Professional and other services	26,476	18,101	69,391	59,997
Occupancy	2,461	2,542	7,436	7,869
Depreciation and amortization	4,074	3,151	12,115	8,290
General and administrative	6,646	7,208	18,880	19,430
Total expenses	<u>99,915</u>	<u>89,887</u>	<u>292,052</u>	<u>267,830</u>
Total operating income	<u>32,166</u>	<u>5,128</u>	<u>81,190</u>	<u>60,238</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	1,498	1,182	3,869	11,341
Refunds to Participants	(809)	(537)	(1,915)	(7,534)
Interest expense	(1,569)	(2,190)	(4,898)	(6,759)
Other non-operating income, net	1,924	2,204	5,641	6,621
Total non-operating income	<u>1,044</u>	<u>659</u>	<u>2,697</u>	<u>3,669</u>
Income before taxes	33,210	5,787	83,887	63,907
Provision for income taxes	9,263	1,126	22,763	17,346
Net income	<u>\$ 23,947</u>	<u>\$ 4,661</u>	<u>\$ 61,124</u>	<u>\$ 46,561</u>

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

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(In thousands)	Preferred Stock Series A	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
BALANCE - January 1, 2021	\$ 150,000	\$ 1,850	\$ 61,546	\$ 565,206	\$ 778,602
Common stock dividend	—	—	—	(30,000)	(30,000)
Net income	—	—	—	15,054	15,054
BALANCE - March 31, 2021	150,000	1,850	61,546	550,260	763,656
Net income	—	—	—	22,123	22,123
BALANCE - June 30, 2021	150,000	1,850	61,546	572,383	785,779
Net income	—	—	—	23,947	23,947
BALANCE - September 30, 2021	<u>\$ 150,000</u>	<u>\$ 1,850</u>	<u>\$ 61,546</u>	<u>\$ 596,330</u>	<u>\$ 809,726</u>

(In thousands)	Preferred Stock Series A	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
BALANCE - January 1, 2020	\$ 150,000	\$ 1,850	\$ 61,546	\$ 499,915	\$ 713,311
Net income	—	—	—	21,500	21,500
BALANCE - March 31, 2020	150,000	1,850	61,546	521,415	734,811
Net income	—	—	—	20,400	20,400
BALANCE - June 30, 2020	150,000	1,850	61,546	541,815	755,211
Net income	—	—	—	4,661	4,661
BALANCE - September 30, 2020	<u>\$ 150,000</u>	<u>\$ 1,850</u>	<u>\$ 61,546</u>	<u>\$ 546,476</u>	<u>\$ 759,872</u>

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

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	For the nine months ended September 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 61,124	\$ 46,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,115	8,290
Deferred income taxes	3,827	859
Other	(2,645)	504
Net change in:		
Accounts receivable	(2,135)	21,221
Other assets	2,016	3,290
Accounts payable and accrued expenses	35,325	206
Other liabilities	(14,854)	11,784
Participants' Fund liabilities	25,863	12,657
Payable to Participants	515,973	679,045
Net cash provided by operating activities	<u>636,609</u>	<u>784,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Short-term investments	(250,000)	(100,000)
Maturities of Short-term investments	150,000	—
Capitalized software development costs	(11,614)	(11,272)
Net cash used in investing activities	<u>(111,614)</u>	<u>(111,272)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock dividend payment	(30,000)	—
Dividend on preferred stock	(480)	(2,640)
Net cash used in financing activities	<u>(30,480)</u>	<u>(2,640)</u>
Net increase in Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets	494,515	670,505
Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets - Beginning of period	<u>3,419,764</u>	<u>3,073,804</u>
Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 3,914,279</u>	<u>\$ 3,744,309</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 5,179</u>	<u>\$ 7,037</u>
Income taxes paid - net of refunds	<u>\$ 36,791</u>	<u>\$ —</u>

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

THE DEPOSITORY TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF September 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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 (referred to herein as its 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 risk management, 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 unaudited, interim financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The interim financial statements exclude some of the disclosures required in audited financial statements and should be read in conjunction with DTC's Audited Financial Statements for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, for additional information on the Company's Summary of Significant Accounting Policies.

The 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 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, impairment of intangible assets, fair value measurements, expense allocations 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.

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

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 Statements of Financial Condition, Income or Cash Flows.

THE DEPOSITORY TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

2. BASIS OF PRESENTATION AND USE OF ESTIMATES (CONTINUED)

Revenue recognition. The Company derives its revenue from transaction fees, subscription revenue, and usage fees. Revenue from transaction fees is billed monthly and calculated based on the number of executed transactions and the established fee schedules, less any applicable volume discounts. The volume targets or thresholds for the discounts reset monthly. 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. Usage fees are recognized when services are provided based on contractual terms.

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

Settlement and asset services. Revenue derived from this revenue stream is in the form of transaction fees and subscription revenue. The Company provides settlement services for equity, corporate and municipal debt trades and money market instruments in the United States of America. Asset Servicing includes a broad range of services for underwriting, custody, corporate actions, dividend, proxy and reorganization services, as well as the electronic registration and transfer of securities processing.

Other services. Revenue derived from this revenue stream may be in the form of subscription revenue and usage fees, which include 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.

Correction of an error. During the first quarter of 2021, the Company identified an error that resulted in overbilling clients for a specific Settlement and Asset Services product in 2020 and 2019. The amount overbilled for the years ended December 31, 2020 and 2019, amounted to approximately \$5.2 million and \$2.8 million, respectively. The error also resulted in an overstatement of Settlement and asset services revenue by \$1.2 million and \$4.0 million for the three and nine months ended September 30, 2020. The error was deemed immaterial to the prior period financials and as a result, the Company recorded the correction of the error and accrued for all overbilled amounts in March 2021. Revenue was reduced as a result of the correction, for the three and nine months ended September 30, 2021 are \$0.0 million and \$8.0 million, respectively. The Company refunded all overbilled amounts in June 2021.

Deferred revenue. Deferred revenue represents the Company's liability to perform services in the future related to payments received in advance of those services. Deferred revenue as of September 30, 2021 and December 31, 2020 was \$4,307,000 and \$3,950,000, respectively, and is included in Other current liabilities and Other non-current liabilities on the accompanying Statements of Financial Condition. Of the \$3,950,000 as of December 31, 2020, \$687,000 and \$2,675,000 was recognized as revenue during the three and nine months ended September 30, 2021, respectively.

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 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.

Reconciliation of Cash and cash equivalents and other limited use cash. When reconciling the beginning and ending total amounts shown in the Statements of Cash Flows, the Company includes all cash on the Statements of Financial Condition, regardless of which line it is included. The Statement of Cash Flows includes Cash and cash equivalents and cash balances that are not available for general corporate purposes due to certain limitations, including - Participants' Fund cash deposits and Cash in Other Participants' assets.

THE DEPOSITORY TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

2. BASIS OF PRESENTATION AND USE OF ESTIMATES (CONTINUED)

A reconciliation of Cash and cash equivalents, Participants' Fund cash deposits, and 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 accompanying Statements of Cash Flows follows (in thousands):

	September 30, 2021	December 31, 2020	September 30, 2020
Cash and cash equivalents	\$ 637,056	\$ 684,377	\$ 585,374
Participants' Fund cash deposits (see Note 4)	1,951,000	1,925,137	1,969,798
Cash in Other Participants' assets	1,326,223	810,250	1,189,137
Total Cash and cash equivalents, Participants' Fund cash deposits and Cash in Other Participants' assets shown on the Statements of Cash Flows	<u>\$ 3,914,279</u>	<u>\$ 3,419,764</u>	<u>\$ 3,744,309</u>

Novel coronavirus. The outbreak of the novel coronavirus ("COVID-19") in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The World Health Organization has declared COVID-19 a "Public Health Emergency of International Concern." The global impact of the outbreak continues to evolve, and as cases of the virus have continued to be identified, many countries have reacted by instituting quarantines and restrictions on travel. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. Nevertheless, COVID-19 could have a material impact on the Company's financial statements. In addition to the factors described above, other factors either in the U.S or internationally that may affect market, economic and geopolitical conditions, and thereby adversely affect the Company's business include, without limitation, economic slowdown, changes in interest rates and/or a lack of availability of credit, changes in law and/or regulation, and uncertainty regarding government and regulatory policy. At this time the Company has not experienced any impairments to the Company's assets or material adverse financial impacts related to COVID-19.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

See Note 3 in DTC's Audited Financial Statements for the years ended December 31, 2020 and 2019, for additional information on the Company's Accounting and Reporting Developments.

Standard	Description	Impact on the financial statements or other significant matters
<i>Financial Accounting Standards Board Standard Issued, but not yet Adopted</i>		
ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	<ul style="list-style-type: none">Clarifies and simplifies aspects of accounting for income taxes.Eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for basis differences between book and tax.	<ul style="list-style-type: none">Effective January 1, 2022.The Company is evaluating the impact on its financial statements and related disclosures.
<i>Issued December 2019</i>		

THE DEPOSITORY TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

4. PARTICIPANTS' FUND CASH DEPOSITS

Details for the Participants' Fund cash deposits as of September 30, 2021 and December 31, 2020 follow (in thousands):

	<u>2021</u>	<u>2020</u>
Total deposits	\$ 1,951,000	\$ 1,925,137
Less: Required deposits	1,150,000	1,150,000
Excess deposits	<u>\$ 801,000</u>	<u>\$ 775,137</u>

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

5. LINES OF CREDIT AND CREDIT RATINGS

Lines of credit. The Company maintains lines of credit to support settlement of its payment obligations in the event of the default of any of its Participants pursuant to DTC's rules. Details for the terms of the outstanding lines of credit as of September 30, 2021 and December 31, 2020 follow:

<u>Committed</u>	<u>2021</u>	<u>2020</u>
Amount	\$1.9 billion	\$1.9 billion
Denomination	USD	USD
Number of Participants/Lenders	29/35	32/37
Borrowing Rate	The greatest of the FRBNY rate, adjusted LIBOR, or zero, on the day of borrowing, plus 1.40%.	
Maturity Date	May 2022	May 2021
Annual Facility Fee	0.10% ⁽¹⁾	0.20% ⁽¹⁾

(1) The annual facility fee associated with maintaining the line of credit is included in Professional and other services in the accompanying Statements of Income.

<u>Uncommitted</u>	<u>2021</u>	<u>2020</u>
Amount	C\$150 million ⁽²⁾	C\$150 million ⁽²⁾
Denomination	CAD	CAD
Number of Participants/Lenders	1/1	1/1
Borrowing rate	A rate per annum equal to the Canadian Prime Rate minus 0.50%	
Maturity Date	On Demand	On Demand

(2) Used to support Canadian settlement.

There were no borrowings under the lines of credit during 2021 and 2020.

Details for debt covenants related to the committed line of credit as of September 30, 2021 and December 31, 2020 follow:

	<u>2021</u>	<u>2020</u>
Minimum Net Worth	\$200 million	\$200 million
Minimum Participants' Fund deposits	\$750 million	\$750 million

As of September 30, 2021 and December 31, 2020, the Company was in compliance with its debt covenants.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

5. 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 issuer credit ratings and ratings outlooks for the Company as of September 30, 2021 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.

6. FAIR VALUE MEASUREMENTS

See Note 9 in DTC's Audited Financial Statements for the years ended December 31, 2020 and 2019, for the Company's valuation basis, including valuation techniques and inputs, as well as the fair value hierarchy used in measuring the Company's financial assets and liabilities that are both accounted for at fair value and at other than fair value.

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 periods ended September 30, 2021 and December 31, 2020.

Financial assets and liabilities measured at other than fair value. 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 September 30, 2021 and December 31, 2020 follow (in thousands):

	2021				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 637,056	\$ 637,056	\$ 637,056	\$ —	\$ —
Short-term investments	100,000	100,000	—	100,000	—
Participants' Fund cash deposits	1,951,000	1,951,000	1,951,000	—	—
Other Participants' assets	1,326,223	1,326,223	1,326,223	—	—
Total	<u>\$ 4,014,279</u>	<u>\$ 4,014,279</u>	<u>\$ 3,914,279</u>	<u>\$ 100,000</u>	<u>\$ —</u>
Liabilities:					
Participants' Fund liabilities	\$ 1,951,000	\$ 1,951,000	\$ 1,951,000	\$ —	\$ —
Payable to Participants	1,326,223	1,326,223	1,326,223	—	—
Total	<u>\$ 3,277,223</u>	<u>\$ 3,277,223</u>	<u>\$ 3,277,223</u>	<u>\$ —</u>	<u>\$ —</u>

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

6. FAIR VALUE MEASUREMENTS (CONTINUED)

	Carrying Amount	Total Fair Value	2020		
			Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 684,377	\$ 684,377	\$ 684,377	\$ —	\$ —
Participants' Fund cash deposits	1,925,137	1,925,137	1,925,137	—	—
Other Participants' assets	810,250	810,250	810,250	—	—
Total	<u>\$ 3,419,764</u>	<u>\$ 3,419,764</u>	<u>\$ 3,419,764</u>	<u>\$ —</u>	<u>\$ —</u>
Liabilities:					
Participants' Fund liabilities	\$ 1,925,137	\$ 1,925,137	\$ 1,925,137	\$ —	\$ —
Payable to Participants	810,250	810,250	810,250	—	—
Total	<u>\$ 2,735,387</u>	<u>\$ 2,735,387</u>	<u>\$ 2,735,387</u>	<u>\$ —</u>	<u>\$ —</u>

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 they are determined to be impaired or when an observable event occurs.

7. RETIREMENT PLANS

Defined contribution retirement plans. Eligible U.S. DTCC employees participate in one of two defined contribution plans, The Depository Trust & Clearing Corporation Employee Savings Plan (Employee Savings Plan) and The Depository Trust & Clearing Corporation Operations Level Employee Savings Plan (Operations Level Savings Plan). The Employee Savings Plan is a single employer plan covering non-bargaining unit employees. The Operations Level Savings Plan is a single employer plan covering bargaining unit employees.

Defined benefit pension and other postretirement benefit plans. Eligible DTCC employees participate in DTCC's non-contributory defined benefit pension and other postretirement plans, which provide for certain benefits upon retirement. DTCC's sponsored non-contributory plans include a defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan. The other postretirement plans include retiree medical and life insurance plans for eligible retired employees and their beneficiaries.

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 defined contribution retirement plans costs allocated to DTC were expense of \$3,127,000 and \$2,914,000 for the three months ended September 30, 2021 and 2020, respectively, and expense of \$8,971,000 and \$8,657,000 for the nine months ended September 30, 2021 and 2020, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to DTC were income of \$193,000 and \$49,000 for the three months ended September 30, 2021 and 2020, respectively, and income of \$222,000 and expense of \$925,000 for the nine months ended September 30, 2021 and 2020, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income, net in the accompanying Statements of Income based on the nature of the pension expense component.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

8. INCOME TAXES

Rollforward of unrecognized tax benefits for the nine months ended September 30, 2021 and 2020 follow (in thousands):

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 2,267	\$ 3,024
Increases:		
Prior period tax positions	1,423	—
Decreases:		
Prior period tax positions	(1,199)	(713)
Settlements with tax authorities	<u>(1,068)</u>	<u>(44)</u>
Unrecognized tax benefit	1,423	2,267
Accrued interest	356	2,153
Ending balance	<u>\$ 1,779</u>	<u>\$ 4,420</u>

On February 1, 2021, the Company and the New York City tax authority reached a settlement agreement related to income tax audits of the 2012-2014 fiscal years. The Company reduced the related unrecognized tax benefit and accrued interest by \$1,199,000 and \$1,446,000, respectively.

See Note 11 in DTC's Audited Financial Statements for the years ended December 31, 2020 and 2019 for additional information pertaining to the Company's income taxes.

9. 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 September 30, 2021 and December 31, 2020. 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 2020 annual dividend amount of \$480,000 was approved and declared by the Board of Directors in February 2021, and was paid in April 2021, to the holders of DTC Series A Preferred stock during 2020.

Common stock dividend. On February 10, 2021, the Board of Directors approved a dividend in the amount of \$30 million from DTC to DTCC, which was paid in April 2021.

10. CAPITAL REQUIREMENTS

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

General Business Risk Capital Requirement. This 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 corporate contribution is applied to losses of the Company as provided in DTC's rules. The amount of the corporate contribution is generally equal to 50% of the Company's general business risk capital requirement.

THE DEPOSITORY TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

10. CAPITAL REQUIREMENTS (CONTINUED)

Details for the general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the Company as of September 30, 2021 and December 31, 2020 follow (in thousands):

	2021	2020
General business risk capital requirement	\$ 189,385	\$ 179,187
Corporate contribution	94,693	89,593
Total requirement	284,078	268,780
Liquid net assets funded by equity	737,056	684,377
Excess	\$ 452,978	\$ 415,597

Capital Adequacy. The capital and leverage ratios required by the FRBNY and the NYSDFS as of September 30, 2021 follow:

	Ratio	Minimum Capital Ratio ^(a)	Well Capitalized Ratio ^(a)
Tier 1 capital ratio ⁽¹⁾	92.81 %	6.00 %	8.00 %
Total capital ratio ⁽¹⁾	92.81 %	8.00 %	10.00 %
Tier 1 leverage ratio ⁽²⁾	20.88 %	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) Total capital and Tier 1 capital include 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.

11. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2021 through October 29, 2021, the date these financial statements are available to be issued, for potential recognition or disclosure. No events or transactions occurred during such period that would require recognition or disclosure in these financial statements.