

The Depository Trust & Clearing Corporation

Consolidated Financial Statements (Unaudited) as of June 30,
2023 and December 31, 2022 and for the three and six months
ended June 30, 2023 and 2022

THE DEPOSITORY TRUST & CLEARING CORPORATION

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THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

| | As of June 30, 2023 | As of December 31, 2022 |
|---|------------------------|----------------------------|
| (In thousands, except share data) | | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 15,273,335 | \$ 16,167,430 |
| Participants' segregated cash | 115 | 2,020 |
| Short-term investments | 200,000 | 750,000 |
| Accounts receivable - net of allowance for credit losses | 195,871 | 191,244 |
| Participants' and Clearing Funds | 75,128,045 | 61,735,088 |
| Other Participants' assets | 774,469 | 931,071 |
| Other current assets | 165,758 | 197,928 |
| Total current assets | 91,737,593 | 79,974,781 |
| NON-CURRENT ASSETS: | | |
| Premises and equipment - net of accumulated depreciation of \$300,299 and \$280,175 as of June 30, 2023 and December 31, 2022, respectively | 193,021 | 195,203 |
| Goodwill | 57,699 | 57,699 |
| Intangible assets - net of accumulated amortization of \$685,132 and \$620,506 as of June 30, 2023 and December 31, 2022, respectively | 267,838 | 290,423 |
| Operating lease right-of-use-asset | 172,752 | 188,552 |
| Other non-current assets | 588,407 | 347,689 |
| Total non-current assets | 1,279,717 | 1,079,566 |
| TOTAL ASSETS | \$ 93,017,310 | \$ 81,054,347 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Commercial paper - net of unamortized discount | \$ 7,723,549 | \$ 9,109,638 |
| Long-term debt, current portion | 999,060 | 1,997,307 |
| Pension and postretirement benefits | 21,417 | 21,456 |
| Operating lease liability | 26,760 | 30,512 |
| Accounts payable and accrued expenses | 209,037 | 216,013 |
| Participants' and Clearing Funds | 75,128,045 | 61,735,088 |
| Payable to Participants | 774,584 | 933,091 |
| Other current liabilities | 214,601 | 292,765 |
| Total current liabilities | 85,097,053 | 74,335,870 |
| NON-CURRENT LIABILITIES: | | |
| Long-term debt | 3,749,394 | 2,736,286 |
| Pension and postretirement benefits | 106,329 | 111,331 |
| Operating lease liability | 197,060 | 209,910 |
| Other non-current liabilities | 235,243 | 242,999 |
| Total non-current liabilities | 4,288,026 | 3,300,526 |
| Total liabilities | 89,385,079 | 77,636,396 |
| COMMITMENTS AND CONTINGENCIES (Note 2) | | |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock: | | |
| Series A, \$0.50 par value - 10,000 shares authorized, issued (above par), and outstanding | 300 | 300 |
| Series B, \$0.50 par value - 10,000 shares authorized, issued (above par), and outstanding | 300 | 300 |
| Series D, \$0.50 par value - 2,000 shares authorized, issued (above par), and outstanding | 490,900 | 490,900 |
| Common stock, \$100 par value - 80,000 shares authorized, 50,908 shares issued and outstanding | 5,091 | 5,091 |
| Additional paid-in capital | 411,065 | 411,065 |
| Retained earnings | 2,759,408 | 2,546,925 |
| Accumulated other comprehensive loss, net of tax | (184,833) | (186,630) |
| Non-controlling interests | 150,000 | 150,000 |
| Total shareholders' equity | 3,632,231 | 3,417,951 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 93,017,310 | \$ 81,054,347 |

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

THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| (In thousands) | For the three months ended June 30, | | For the six months ended June 30, | |
|--|-------------------------------------|------------------|-----------------------------------|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| REVENUES | | | | |
| Settlement and asset services | \$ 138,455 | \$ 129,854 | \$ 276,564 | \$ 256,383 |
| Clearing services | 210,475 | 218,366 | 422,081 | 451,240 |
| Matching services | 73,293 | 75,667 | 146,526 | 154,124 |
| Repository and derivatives services | 82,341 | 82,782 | 163,182 | 166,495 |
| Wealth management services | 31,039 | 30,309 | 61,624 | 60,658 |
| Data and other services | 13,886 | 13,599 | 26,562 | 26,237 |
| Investment income (loss), net | 3,758 | (13,487) | 8,402 | (21,038) |
| Total revenues | <u>553,247</u> | <u>537,090</u> | <u>1,104,941</u> | <u>1,094,099</u> |
| EXPENSES | | | | |
| Employee compensation and related benefits | 245,633 | 205,570 | 482,378 | 416,429 |
| Information technology | 60,629 | 59,209 | 126,964 | 115,962 |
| Professional and other services | 89,734 | 98,907 | 183,702 | 188,327 |
| Occupancy | 14,783 | 13,805 | 29,196 | 27,253 |
| Depreciation and amortization | 42,360 | 42,469 | 86,414 | 84,710 |
| General and administrative | 12,478 | 13,424 | 23,522 | 24,482 |
| Total expenses | <u>465,617</u> | <u>433,384</u> | <u>932,176</u> | <u>857,163</u> |
| Total operating income | <u>87,630</u> | <u>103,706</u> | <u>172,765</u> | <u>236,936</u> |
| NON-OPERATING INCOME (EXPENSE) | | | | |
| Interest income | 630,443 | 97,800 | 1,205,070 | 119,364 |
| Refunds to Participants | (414,736) | (64,786) | (795,077) | (78,727) |
| Interest expense | (163,814) | (37,548) | (309,542) | (60,279) |
| Other non-operating income, net | 12,034 | 7,616 | 24,215 | 14,857 |
| Total non-operating income (expense) | <u>63,927</u> | <u>3,082</u> | <u>124,666</u> | <u>(4,785)</u> |
| Income before taxes | 151,557 | 106,788 | 297,431 | 232,151 |
| Provision for income taxes | 38,265 | 21,871 | 76,510 | 55,758 |
| Net income | <u>\$ 113,292</u> | <u>\$ 84,917</u> | <u>\$ 220,921</u> | <u>\$ 176,393</u> |

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

THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| (In thousands) | For the three months ended June 30, | | For the six months ended June 30, | |
|---|-------------------------------------|-----------|-----------------------------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net income | \$ 113,292 | \$ 84,917 | \$ 220,921 | \$ 176,393 |
| OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax: | | | | |
| Defined benefit pension and other plans | — | — | 8 | — |
| Foreign currency translation | 78 | (6,331) | 1,789 | (7,923) |
| Other comprehensive income (loss) | 78 | (6,331) | 1,797 | (7,923) |
| Comprehensive income | \$ 113,370 | \$ 78,586 | \$ 222,718 | \$ 168,470 |

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

THE DEPOSITORY TRUST & CLEARING CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

| (In thousands) | Accumulated Other Comprehensive Income (Loss), Net of Tax | | | | | | | | | |
|-----------------------------|--|----------|------------|--------------|----------------------------|-------------------|-----------------|-------------|---------------------------|----------------------------|
| | Preferred Stock | | | Common Stock | Additional Paid-In Capital | Retained Earnings | Defined Benefit | Foreign | Non-controlling Interests | Total Shareholders' Equity |
| | Series A | Series B | Series D | | | | Pension and | Currency | | |
| | | | | | | | Other Plans | Translation | | |
| BALANCE - January 1, 2023 | \$ 300 | \$ 300 | \$ 490,900 | \$ 5,091 | \$ 411,065 | \$ 2,546,925 | \$ (170,698) | \$ (15,932) | \$ 150,000 | \$ 3,417,951 |
| Net income | — | — | — | — | — | 107,629 | — | — | — | 107,629 |
| Other comprehensive income | — | — | — | — | — | — | 8 | 1,711 | — | 1,719 |
| BALANCE - March 31, 2023 | \$ 300 | \$ 300 | \$ 490,900 | \$ 5,091 | \$ 411,065 | \$ 2,654,554 | \$ (170,690) | \$ (14,221) | \$ 150,000 | \$ 3,527,299 |
| Net income | — | — | — | — | — | 113,292 | — | — | — | 113,292 |
| Other comprehensive income | — | — | — | — | — | — | — | 78 | — | 78 |
| Dividend on preferred stock | — | — | — | — | — | (8,438) | — | — | — | (8,438) |
| BALANCE - June 30, 2023 | \$ 300 | \$ 300 | \$ 490,900 | \$ 5,091 | \$ 411,065 | \$ 2,759,408 | \$ (170,690) | \$ (14,143) | \$ 150,000 | \$ 3,632,231 |

| | | | | | | | Accumulated Other Comprehensive Loss, Net of Tax | | | |
|-----------------------------|-----------------|----------|------------|----------|-----------------|--------------|---|----------------------|-----------------------|----------------------|
| | Preferred Stock | | | Common | Additional | Retained | Defined Benefit | Foreign | Non- | Total |
| (In thousands) | Series A | Series B | Series D | Stock | Paid-In Capital | Earnings | Pension and Other Plans | Currency Translation | controlling Interests | Shareholders' Equity |
| BALANCE - January 1, 2022 | \$ 300 | \$ 300 | \$ 490,900 | \$ 5,091 | \$ 411,065 | \$ 2,231,213 | \$ (201,239) | \$ (7,294) | \$ 150,000 | \$ 3,080,336 |
| Net income | — | — | — | — | — | 91,476 | — | — | — | 91,476 |
| Other comprehensive loss | — | — | — | — | — | — | — | (1,592) | — | (1,592) |
| BALANCE - March 31, 2022 | \$ 300 | \$ 300 | \$ 490,900 | \$ 5,091 | \$ 411,065 | \$ 2,322,689 | \$ (201,239) | \$ (8,886) | \$ 150,000 | \$ 3,170,220 |
| Net income | — | — | — | — | — | 84,917 | — | — | — | 84,917 |
| Other comprehensive loss | — | — | — | — | — | — | — | (6,331) | — | (6,331) |
| Dividend on preferred stock | — | — | — | — | — | (8,438) | — | — | — | (8,438) |
| BALANCE - June 30, 2022 | \$ 300 | \$ 300 | \$ 490,900 | \$ 5,091 | \$ 411,065 | \$ 2,399,168 | \$ (201,239) | \$ (15,217) | \$ 150,000 | \$ 3,240,368 |

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

THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| (In thousands) | For the six months ended June 30, | |
|--|-----------------------------------|---------------|
| | 2023 | 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 220,921 | \$ 176,393 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: | | |
| Depreciation and amortization | 86,414 | 84,710 |
| Deferred income taxes | (18,157) | (12,267) |
| Accretion of discount on Commercial paper, net of associated interest paid | (340) | 7,497 |
| Other | 15,894 | 20,284 |
| Net change in: | | |
| Accounts receivable | (3,923) | 16,607 |
| Other assets | 7,251 | 24,786 |
| Accounts payable and accrued expenses | (5,794) | 27,236 |
| Pension and postretirement benefits | (5,052) | 418 |
| Operating lease liability | (14,867) | (15,337) |
| Other liabilities | (60,424) | (123,479) |
| Participants' and Clearing Funds liabilities | (307,817) | 1,986,843 |
| Payable to Participants | (158,505) | 79,085 |
| Net cash (used in)/provided by operating activities | (244,399) | 2,272,776 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of Short-term investments | (500,000) | (795,000) |
| Maturities of Short-term investments | 1,050,000 | 445,000 |
| Purchases of Investments in marketable securities | — | (17,989) |
| Purchases of Premises and equipment | (19,033) | (31,345) |
| Capitalized software development costs | (41,761) | (48,459) |
| Proceeds from sale of Equity investments | 49,468 | — |
| Proceeds from Company owned life insurance policies | 2,757 | 174 |
| Net cash provided by/(used in) investing activities | 541,431 | (447,619) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Commercial paper | 28,364,526 | 34,839,378 |
| Repayments of Commercial paper | (29,750,275) | (34,634,543) |
| Proceeds from issuance of debt, net of debt issuance costs | 990,283 | — |
| Repayments on long-term debt | (1,000,000) | — |
| Preferred stock dividend payments | (8,438) | (8,437) |
| Payment to Non-controlling interests | — | (135) |
| Net cash (used in)/provided by financing activities | (1,403,904) | 196,263 |
| Effect of foreign exchange rate changes on Cash and cash equivalents | (303) | (5,466) |
| Net (decrease)/increase in Cash and cash equivalents, Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets, Restricted cash | (1,107,175) | 2,015,954 |
| Cash and cash equivalents, Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets, Restricted cash - Beginning of period | 49,079,355 | 44,058,025 |
| Cash and cash equivalents, Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets, Restricted cash - End of period | \$ 47,972,180 | \$ 46,073,979 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Interest paid | \$ 278,571 | \$ 36,550 |
| Income taxes paid - net of refunds | \$ 56,366 | \$ 38,193 |

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

THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF JUNE 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022

1. BUSINESS AND OWNERSHIP

The Depository Trust & Clearing Corporation (DTCC) is the parent company of various operating subsidiaries, including The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC ITP LLC (ITP), DTCC Deriv/SERV LLC (Deriv/SERV), DTCC Solutions LLC (Solutions (US)), DTCC Solutions (UK) Limited (Solutions (UK)), Business Entity Data, B.V. (BED); collectively, the “Company” or “Companies.”

Subsidiaries

DTC 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.

NSCC is organized as a business corporation under New York law, and is a clearing agency registered with the SEC. NSCC provides central counterparty (CCP) services, including clearing, settlement and risk management services to its members for trades involving equities, corporate and municipal debt, exchange-traded funds, and unit investment trusts.

FICC is a clearing agency registered with the SEC that provides CCP services for the U.S. government and mortgage-backed securities markets, consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, clearing, risk management and electronic pool notification. FICC has two divisions, the Government Securities Division (GSD) and the Mortgage-Backed Securities Division (MBSD).

DTC, NSCC and FICC are designated as Systemically Important Financial Market Utilities (SIFMUs) 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. This designation subjects the clearing agencies to enhanced standards for risk management, operation and governance, as established by the SEC's Standards for Covered Clearing Agencies (CCAS).

The members of DTCC's clearing agencies are collectively referred to as Participants.

ITP, through itself, its subsidiary and affiliates, provides post-trade matching, processing and other related services, primarily to members of the financial services community. ITP's subsidiary and applicable affiliates are authorized to provide certain post-trade matching services pursuant to certain orders issued by regulatory authorities and may be subject to the supervision and examination by these authorities in the jurisdiction in which they operate including the SEC, the Financial Conduct Authority (FCA) in the United Kingdom, and the Autorité des Marchés Financiers (AMF) and the Ontario Securities Commission (OSC) in Canada.

Deriv/SERV enhances transparency and provides operational efficiency for derivatives and securities financing transactions processing and reporting through various legal entities, including affiliated locally registered or recognized trade repositories. Deriv/SERV also offers the Trade Information Warehouse asset servicing for credit default swaps and oversees other pre and post derivative trade activities offered by other DTCC legal entities. The trade repositories are subject to supervision and examination by regulatory authorities in the jurisdictions they operate including the Commodity Futures Trading Commission (CFTC), SEC, FCA, thirteen Canadian provincial and territorial regulators, the European Securities and Markets Authority (ESMA), the Swiss Financial Market Supervisory Authority (FINMA), the Monetary Authority of Singapore (MAS), the Financial Services Agency of Japan (JFSA), and the Australian Securities and Investments Commission (ASIC).

Solutions (US) is a New York limited liability company, which provides data related solutions. Used primarily by financial firms, these solutions include referential and activity-based data, analytics and benchmarks across a variety of asset classes.

THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF JUNE 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022

1. BUSINESS AND OWNERSHIP (CONTINUED)

Solutions (UK) offers software solutions and consulting services. Its software solution, DTCC Report Hub®, centers on pre and post trade reporting to help firms manage the complexities of meeting multiple regulatory mandates across jurisdictions. The consulting services business offers specialized advisory services to firms primarily in the financial services industry.

BED owns and operates the GMEI® utility legal entity identifier (LEI) solution in the federated Global LEI System (GLEIS). The Global Markets Entity Identifier (GMEI) utility is designed to provide a single, universal standard identifier to any organization or firm involved in a financial transaction internationally across all asset classes. LEIs issued by the GMEI utility are ISO 17442 compliant and are recognized by all members of the Regulatory Oversight Committee, which coordinate and oversee a worldwide framework of LEI. BED is accredited with the Global Legal Entity Identifier Foundation (GLEIF).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying unaudited consolidated financial statements (interim 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 exclude some of the disclosures required in audited financial statements and should be read in conjunction with DTCC's audited consolidated financial statements for the years ended December 31, 2022 and 2021, which are located on the Company's website at <http://www.dtcc.com/legal/financial-statements>. See Note 2 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2022 and 2021, for additional information on the Company's Summary of Significant Accounting Policies.

The interim 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. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

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 consolidated 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, pension benefit obligation 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.

Equity investments. All equity investments that represent less than a 20% ownership interest are initially recognized at cost and included in Other non-current assets on the accompanying Consolidated Statements of Financial Condition. Subsequently, these investments are measured at fair value, which represents cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar security. Changes in the fair values of these investments are recorded in Other non-operating income, net in the accompanying Consolidated Statements of Income.

On December 19, 2022, the London Stock Exchange Group, plc (LSEG) agreed to acquire 100% of the Acadisoft, Inc. (Acadia) outstanding stocks. The transaction closed on March 31, 2023. DTCC owned 7% of Acadia at the time of the sale and received proceeds of \$49,468,000 upon closing. The Company recorded a gain of \$38,717,000 on the sale, of which \$38,445,000 was recorded during the year ended December 31, 2022. The gain is included in Other non-operating income, net in the accompanying Consolidated Statements of Income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Consolidated Statements of Financial Condition, Income or Cash Flows.

Revenue recognition. The Company recognizes revenue to depict the transfer of promised services and related performance obligations to customers in an amount that reflects the consideration to which the Company expects to be entitled, upon satisfaction, in exchange for those services.

The Company derives its revenue from transaction fees, subscription revenue, support services, and usage fees. Revenue from transaction fees is billed monthly and calculated based on the value and volume of executed transactions and the established fee schedules, less any applicable volume discounts. The volume targets or thresholds for the discounts primarily reset monthly. Subscription and support 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 Consolidated Statements of Income follow:

Settlement and asset services. Revenue derived from this revenue stream are 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.

Clearing services. Revenue derived from this revenue stream are in the form of transaction fees that are based on either the volume or value of trading activity. Services include the continuous net settlement of equity and corporate bonds, and the netting and settlement of mortgage backed securities clearing and government securities clearing.

Matching services. Revenue derived from this revenue stream may be in the form of transaction fees, subscription revenue and support services. Services include trade enrichment, trade agreement, LEIs and data analytics.

Repository and derivatives services. Revenue derived from this revenue stream may be in the form of transaction fees, subscription revenue and support services. Services support derivatives trade data submissions covering real-time price reporting, transaction details, valuation data to meet members' reporting obligations in various jurisdictions globally, as well as an asset servicing infrastructure for credit default swaps, matching service for equity derivatives payments and tools to member firms to address the quality of their derivatives trade submissions.

Wealth management services. Revenue derived from this revenue stream may be in the form of transaction fees. Services include centralized, automated processing and information services for mutual fund, alternative investment, and insurance and retirement products.

Data and other services. Revenue derived from this revenue stream may be in the form of subscription revenue, support services, consulting projects and usage fees. Services 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. The Company provides a broad range of other services which include consulting services and bank fees charged back to Participants.

Investment income (loss), net. Revenue derived from this revenue stream is related to changes in the fair values of investment assets related to the Company's deferred compensation plan (structured as a Rabbi Trust). The investment income (loss) is recognized in the period the realized/unrealized gain or loss on investment assets held occurs. A corresponding offset to the investment income (loss) related to the deferred compensation liability is recorded in the same period and is included in the Employee compensation and related benefits in the accompanying Consolidated Statements of Income.

THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF JUNE 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 June 30, 2023 and December 31, 2022 was \$16,548,000 and \$14,532,000, respectively, and is included in Other current liabilities and Other non-current liabilities on the accompanying Consolidated Statements of Financial Condition, as disclosed in Note 7. Of the \$14,532,000 as of December 31, 2022, \$3,884,000 and \$9,938,000 were recognized as revenue during the three and six months ended June 30, 2023, respectively.

Reconciliation of Cash and cash equivalents and other limited use cash. When reconciling the beginning and ending total amounts shown in the Consolidated Statements of Cash Flows, the Company includes all cash on the Consolidated Statements of Financial Condition, regardless of which line it is included. The Consolidated Statements 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' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets and Restricted cash.

A reconciliation of Cash and cash equivalents, Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets and Restricted cash reported within the accompanying Consolidated Statements of Financial Condition that sum to the total of the same such amounts shown on the accompanying Consolidated Statements of Cash Flows follows (in thousands):

| | June 30, 2023 | December 31, 2022 | June 30, 2022 |
|--|----------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 15,273,335 | \$ 16,167,430 | \$ 14,186,931 |
| Participants' segregated cash | 115 | 2,020 | 10,243 |
| Participants' and Clearing Funds cash deposits | 31,662,929 | 31,970,747 | 30,467,005 |
| Cash in Other Participants' assets | 774,469 | 931,071 | 1,401,795 |
| Restricted cash included in Other non-current assets | 261,332 | 8,087 | 8,005 |
| Total Cash and cash equivalents, Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets and Restricted cash shown on the Consolidated Statements of Cash Flows | <u>\$ 47,972,180</u> | <u>\$ 49,079,355</u> | <u>\$ 46,073,979</u> |

Global Events and Crises. Global pandemics, sanctions, war, or natural disasters may have an adverse impact on market, economic and geopolitical conditions and trigger a period of global economic slowdown. Such a slowdown may have a material impact on the Company's financial results including changes in revenue, interest rates, liquidity/credit, and government and regulatory policy. At this time, the Company has not experienced significant adverse impacts to its financial statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

AS OF JUNE 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022

3. PARTICIPANTS' SEGREGATED CASH, OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS

Details for Participants' segregated cash, Other Participants' assets and Payable to Participants as of June 30, 2023 and December 31, 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|-------------------------------|-------------------|-------------------|
| Assets: | | |
| Participants' segregated cash | \$ 115 | \$ 2,020 |
| Other Participants' assets | 774,469 | 931,071 |
| Total | <u>\$ 774,584</u> | <u>\$ 933,091</u> |
| Liabilities: | | |
| Payable to Participants | <u>\$ 774,584</u> | <u>\$ 933,091</u> |

4. ACCOUNTS RECEIVABLE

Details for Accounts receivable as of June 30, 2023 and December 31, 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|-------------------|
| Due from Participants and customers for services | \$ 181,112 | \$ 172,330 |
| Allowance for credit losses | (311) | (2,220) |
| Due from Participants and customers for services, net | 180,801 | 170,110 |
| Other receivables | 15,070 | 21,134 |
| Total | <u>\$ 195,871</u> | <u>\$ 191,244</u> |

Details for allowance for credit losses for the three and six months ended June 30, 2023 and 2022 follow (in thousands):

| | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|--|--|-----------------|--|-----------------|
| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| Beginning balance of allowance for credit losses | \$ 2,149 | \$ 371 | \$ 2,220 | \$ 253 |
| (Decrease)/Increase in allowance | (1,779) | 1,760 | (1,773) | 1,930 |
| Less: Write-offs | (59) | (179) | (136) | (231) |
| Ending balance of allowance for credit losses | <u>\$ 311</u> | <u>\$ 1,952</u> | <u>\$ 311</u> | <u>\$ 1,952</u> |

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5. PARTICIPANTS' AND CLEARING FUNDS

Details for the Participants' and Clearing Funds as of June 30, 2023 and December 31, 2022 follow (in thousands):

| 2023 | | | | |
|-------------------------|-------------------|---------------------|----------------------|----------------------|
| | DTC | NSCC | FICC | Total |
| Total deposits | \$ 2,045,520 | \$ 11,689,180 | \$ 61,393,345 | \$ 75,128,045 |
| Less: Required deposits | 1,175,000 | 8,601,491 | 49,332,301 | 59,108,792 |
| Excess deposits | <u>\$ 870,520</u> | <u>\$ 3,087,689</u> | <u>\$ 12,061,044</u> | <u>\$ 16,019,253</u> |

| 2022 | | | | |
|-------------------------|-------------------|---------------------|----------------------|----------------------|
| | DTC | NSCC | FICC | Total |
| Total deposits | \$ 2,001,893 | \$ 12,002,310 | \$ 47,730,885 | \$ 61,735,088 |
| Less: Required deposits | 1,170,000 | 10,817,731 | 37,612,013 | 49,599,744 |
| Excess deposits | <u>\$ 831,893</u> | <u>\$ 1,184,579</u> | <u>\$ 10,118,872</u> | <u>\$ 12,135,344</u> |

Cash and Securities. Details for cash and securities of the Participants' and Clearing Funds, which may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company pursuant to the rules of the relevant subsidiaries of the Company, as of June 30, 2023 and December 31, 2022 follow (in thousands):

| 2023 | | | | |
|--|---------------------|----------------------|----------------------|----------------------|
| | DTC | NSCC | FICC | Total |
| Cash and cash equivalents ⁽¹⁾ | \$ 2,045,520 | \$ 11,125,673 | \$ 18,491,736 | \$ 31,662,929 |
| U.S. Treasury Securities | — | 563,507 | 37,612,233 | 38,175,740 |
| U.S. Agency Residential Mortgage-Backed Securities | — | — | 4,685,711 | 4,685,711 |
| U.S. Agency Issued Debt Securities | — | — | 603,665 | 603,665 |
| Total | <u>\$ 2,045,520</u> | <u>\$ 11,689,180</u> | <u>\$ 61,393,345</u> | <u>\$ 75,128,045</u> |

| 2022 | | | | |
|--|---------------------|----------------------|----------------------|----------------------|
| | DTC | NSCC | FICC | Total |
| Cash and cash equivalents ⁽¹⁾ | \$ 2,001,893 | \$ 11,201,776 | \$ 18,767,078 | \$ 31,970,747 |
| U.S. Treasury Securities | — | 800,534 | 25,939,504 | 26,740,038 |
| U.S. Agency Residential Mortgage-Backed Securities | — | — | 2,693,060 | 2,693,060 |
| U.S. Agency Issued Debt Securities | — | — | 331,243 | 331,243 |
| Total | <u>\$ 2,001,893</u> | <u>\$ 12,002,310</u> | <u>\$ 47,730,885</u> | <u>\$ 61,735,088</u> |

(1) The Company's cash and cash equivalents of the Participants' and Clearing Funds are all bank deposits as of June 30, 2023 and December 31, 2022, respectively.

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6. OTHER ASSETS

Details for Other assets as of June 30, 2023 and December 31, 2022 follow (in thousands):

| | 2023 | 2022 |
|--|------------|------------|
| Prepaid expenses | \$ 145,147 | \$ 136,503 |
| Interest receivable | 18,860 | 25,838 |
| Prepaid taxes | — | 20,154 |
| Business employment incentive program | — | 12,667 |
| Interest rate swap ⁽¹⁾ | — | 1,035 |
| Other current assets | 1,751 | 1,731 |
| Total other current assets | 165,758 | 197,928 |
| Restricted cash | 261,332 | 8,087 |
| Long-term incentive plan assets | 125,528 | 121,171 |
| Cash surrender value on insurance policies | 62,077 | 65,105 |
| Prepaid expenses | 50,256 | 51,103 |
| Pension and postretirement | 31,323 | 28,867 |
| Deferred tax assets | 26,757 | 14,369 |
| Interest rate swaps ⁽¹⁾ | 21,355 | — |
| Investment in Federal reserve stock | 6,402 | 6,402 |
| Equity investments | 1,194 | 50,389 |
| Other non-current assets | 2,183 | 2,196 |
| Total other non-current assets | 588,407 | 347,689 |
| Total | \$ 754,165 | \$ 545,617 |

(1) The interest rate swaps may change from an asset to liability position.

7. OTHER LIABILITIES

Details for Other liabilities as of June 30, 2023 and December 31, 2022 follow (in thousands):

| | 2023 | 2022 |
|---|------------|------------|
| Compensation payable | \$ 90,189 | \$ 176,086 |
| Accrued payroll and payroll withholdings | 43,237 | 46,081 |
| Long-term incentive plan liabilities | 29,646 | 30,814 |
| Deferred revenue | 15,868 | 13,768 |
| Payroll taxes payable | 14,595 | 20,214 |
| Income taxes payable | 14,205 | — |
| Deferred sublease income | 5,039 | 5,687 |
| Other current liabilities | 1,822 | 115 |
| Total other current liabilities | 214,601 | 292,765 |
| Long-term incentive plan liabilities | 203,150 | 207,757 |
| Unrecognized tax benefits | 28,643 | 25,954 |
| Asset retirement obligations ⁽¹⁾ | 2,642 | 2,597 |
| Deferred revenue | 680 | 764 |
| Deferred tax liabilities | 128 | 5,927 |
| Total other non-current liabilities | 235,243 | 242,999 |
| Total | \$ 449,844 | \$ 535,764 |

(1) The Company is legally required under certain lease agreements to restore its leased sites to the original condition at the end of the agreement. The amount of asset retirement obligations are accreted to the estimated undiscounted obligations that will be paid to restore the leased sites to the original condition and such accretion is recognized as expense.

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8. COMMERCIAL PAPER

Details for Commercial paper as of June 30, 2023 and December 31, 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|--|--------------|--------------|
| Commercial paper - net of unamortized discount of \$22,771 and \$27,750 as of June 30, 2023 and December 31, 2022, respectively | \$ 7,723,549 | \$ 9,109,638 |
| Weighted-average interest rate | 5.13 % | 4.11 % |

Interest expense on Commercial paper, included in Interest expense in the accompanying Consolidated Statements of Income, was \$123,180,000 and \$18,015,000 for the three months ended June 30, 2023 and 2022, respectively, and \$231,895,000 and \$22,945,000 for the six months ended June 30, 2023 and 2022, respectively.

9. LONG-TERM DEBT

Details for Long-term debt as of June 30, 2023 and December 31, 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Senior notes - net of unamortized discount and debt issuance costs | \$ 4,748,454 | \$ 4,733,593 |
| Less: Current portion of long-term debt | (999,060) | (1,997,307) |
| Non-current portion of long-term debt | <u>\$ 3,749,394</u> | <u>\$ 2,736,286</u> |

Details for principal payments due on Long-term debt for each of the next five years and thereafter follow (in thousands):

| | |
|------------|---------------------|
| 2023 | \$ 1,000,000 |
| 2024 | 400,000 |
| 2025 | 2,150,000 |
| 2026 | — |
| 2027 | 600,000 |
| Thereafter | 600,000 |
| | <u>\$ 4,750,000</u> |

Senior notes. The proceeds from the issuances constitute liquid resources that, together with other liquid resources of the Company, are available to enable NSCC to affect the settlement of its payment obligations in the event of the default of any of its Participants pursuant to NSCC's rules.

The April 2020 senior note issuance at 1.2% with a principal of \$1 billion was repaid in full on April 24, 2023, the first business day after the maturity date.

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9. LONG-TERM DEBT (CONTINUED)

Details of the senior notes as of June 30, 2023 follow (in thousands):

| Issue Date | Maturity | Payable | Rate | Principal Balance | Carrying Value |
|-------------------|-------------------|---------------|-------|---------------------|---------------------|
| April 23, 2020 | April 23, 2025 | Semi-annually | 1.50% | \$ 1,000,000 | \$ 996,950 |
| December 7, 2020 | December 7, 2023 | Semi-annually | 0.40% | 1,000,000 | 999,060 |
| December 7, 2020 | December 7, 2025 | Semi-annually | 0.75% | 750,000 | 746,514 |
| November 21, 2022 | November 21, 2024 | Semi-annually | 5.05% | 400,000 | 398,148 |
| November 21, 2022 | November 21, 2027 | Semi-annually | 5.10% | 600,000 | 604,887 |
| May 30, 2023 | May 30, 2025 | Semi-annually | 5.15% | 400,000 | 397,544 |
| May 30, 2023 | May 30, 2028 | Semi-annually | 5.00% | 600,000 | 605,351 |
| | | | | <u>\$ 4,750,000</u> | <u>\$ 4,748,454</u> |

Interest expense and amortization of discount and issuance costs, included in Interest expense in the accompanying Consolidated Statements of Income, were \$26,205,000 and \$11,012,000 for the three months ended June 30, 2023 and 2022, respectively, and \$50,477,000 and \$22,023,000 for the six months ended June 30, 2023 and 2022, respectively. The weighted-average interest rate was 2.65% and 0.98% as of June 30, 2023 and 2022, respectively. The aggregate unamortized debt issuance costs and discount associated with the senior notes were \$22,901,000 and \$17,850,000, as of June 30, 2023 and December 31, 2022, respectively.

Fair value hedge. On November 21, 2022, the Company entered into an interest rate swap contract with a notional amount of \$600 million to receive a fixed-rate of 5.1% and pay floating-rate of USD-Federal Funds-OIS Compound plus 1.365%. The Company uses the interest rate swap to hedge the fair value of a fixed-rate senior note of \$600 million, maturing November 21, 2027. The Company designated the interest rate swap as a fair value hedge of the related long-term debt and applied the short-cut method for hedge accounting purposes.

On May 30, 2023, the Company entered into three interest rate swap contracts with notional amounts of \$300 million, \$150 million, and \$150 million to receive a fixed-rate of 5.0% and pay floating-rate of USD-Federal Funds-OIS Compound plus 1.4621%. The Company uses the interest rate swaps to hedge the fair value of fixed-rate senior note of \$600 million, maturing May 30, 2028. The Company designated the interest rate swaps as a fair value hedge of the related long-term debt and applied the short-cut method for hedge accounting purposes.

Details for the total fair value of derivative assets and liabilities as of June 30, 2023 and December 31, 2022 follow (in thousands):

| | Other Current Assets | | Other Non-Current Assets | | Other Non-Current Liabilities | |
|--|----------------------|----------|--------------------------|------|-------------------------------|------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Derivatives designated as hedging instruments: | | | | | | |
| Fair value hedges - Interest rate swap contracts | \$ — | \$ 1,443 | \$ 21,355 | \$ — | \$ — | \$ — |

Interest rate swaps may expose the Company to credit-related losses in the event of nonperformance by its counterparty. Credit risk is monitored on an ongoing basis. See Note 20, Off Balance Sheet and Concentrations of Credit Risks, in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2022 and 2021, for the Company's concentration of credit risk related to interest rate swap.

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9. LONG-TERM DEBT (CONTINUED)

Lines of credit. DTCC maintains a committed line of credit for general funding purpose, while its subsidiaries DTC and NSCC maintain committed lines of credit, pursuant to its respective rules, to support settlement of its payment obligations in the event any of its Participants default.

Details for the terms of the outstanding lines of credit as of June 30, 2023 and December 31, 2022 follow:

| | 2023 | 2022 |
|---------------------------------------|--|--|
| DTCC | | |
| Committed Amount | \$500 million | \$500 million |
| Denomination | USD | USD |
| Number of Participants/Lenders | 13/13 | 13/13 |
| Borrowing Rate | Base Rate plus 0.125%, or Adjusted Term Secure Overnight Financing Rate (SOFR) or Adjusted Daily SOFR plus 1.125% | Base Rate plus 0.125%, or Adjusted Term Secure Overnight Financing Rate (SOFR) or Adjusted Daily SOFR plus 1.125% |
| Maturity Date | January 2025 | January 2025 |
| Annual Facility Fee | 0.15% ⁽¹⁾ | 0.15% ⁽¹⁾ |
| DTC | | |
| Committed Amount | \$1.9 billion | \$1.9 billion |
| Denomination | USD | USD |
| Number of Participants/Lenders | 29/35 | 30/36 |
| Borrowing Rate | The greatest of the FRBNY rate, Adjusted Daily SOFR, or zero on the day of borrowing, plus 1.40% | The greatest of the FRBNY rate, Adjusted Daily SOFR, or zero on the day of borrowing, plus 1.40% |
| Maturity Date | April 2024 | May 2023 |
| Annual Facility Fee | 0.10% ⁽¹⁾ | 0.10% ⁽¹⁾ |
| NSCC | | |
| Committed Amount | \$9.5 billion | \$10.0 billion |
| Denomination | USD | USD |
| Number of Participants/Lenders | 29/35 | 30/36 |
| Borrowing Rate | The greatest of the FRBNY rate, Adjusted Daily SOFR, or zero on the day of borrowing plus 1.40% | The greatest of the FRBNY rate, Adjusted Daily SOFR, or zero on the day of borrowing plus 1.40% |
| Maturity Date | April 2024 | May 2023 |
| Annual Facility Fee | 0.10% ⁽¹⁾ | 0.10% ⁽¹⁾ |

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

There were no borrowings under the lines of credit during 2023 and 2022.

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9. LONG-TERM DEBT (CONTINUED)

Details for debt covenants related to the lines of credit as of June 30, 2023 and December 31, 2022 follow:

| | 2023 | 2022 |
|---|----------------|----------------|
| <u>DTCC</u> | | |
| Minimum Net Worth | \$1.65 billion | \$1.65 billion |
| Maximum Priority Debt | \$200 million | \$200 million |
| <u>DTC</u> | | |
| Minimum Net Worth | \$200 million | \$200 million |
| Minimum Participants Fund deposits | \$750 million | \$750 million |
| <u>NSCC</u> | | |
| Minimum Net Worth | \$200 million | \$200 million |
| Minimum Clearing Fund deposits | \$1.5 billion | \$1.5 billion |

As of June 30, 2023 and December 31, 2022, the Company was in compliance with its debt covenants.

Credit Ratings. DTCC, DTC, FICC and NSCC are 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 DTCC and its three clearing agency subsidiaries as of June 30, 2023 follow:

| | Moody's ⁽¹⁾ | | | S&P | | |
|-------------|------------------------|------------|---------|-----------|------------|---------|
| | Long-term | Short-term | Outlook | Long-term | Short-term | Outlook |
| DTCC | Aa3 | N/A | Stable | AA- | A-1+ | Stable |
| DTC | Aaa | P-1 | Stable | AA+ | A-1+ | Stable |
| FICC | Aaa | P-1 | Stable | AA | A-1+ | Stable |
| NSCC | Aaa | P-1 | Stable | AA+ | A-1+ | Stable |

(1) Moody's categorizes the long-term issuer ratings of DTC, FICC and NSCC as clearing counterparty ratings (CCR) under the agency's Clearing Houses Rating Methodology.

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10. FAIR VALUE MEASUREMENTS

See Note 14 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2022 and 2021, 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.

Fair value measurements of those items measured on a recurring basis as of June 30, 2023 and December 31, 2022 are summarized below (in thousands):

| | 2023 | | | |
|---|----------------------|---------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Clearing Funds | | | | |
| U.S. Treasury Securities | \$ 38,175,740 | \$ — | \$ — | \$ 38,175,740 |
| U.S. Agency Issued Debt Securities | 340,248 | 263,417 | — | 603,665 |
| U.S. Agency Residential Mortgage-Backed Securities | — | 4,685,711 | — | 4,685,711 |
| Other non-current assets | | | | |
| Long-term incentive plan assets - Mutual fund and Stable value fund investments | 108,958 | 16,570 | — | 125,528 |
| Interest rate swaps | — | 21,355 | — | 21,355 |
| Total assets | <u>\$ 38,624,946</u> | <u>\$ 4,987,053</u> | <u>\$ —</u> | <u>\$ 43,611,999</u> |
| Liabilities: | | | | |
| Clearing Funds | | | | |
| Securities liabilities | \$ 38,515,988 | \$ 4,949,128 | \$ — | \$ 43,465,116 |
| Total liabilities | <u>\$ 38,515,988</u> | <u>\$ 4,949,128</u> | <u>\$ —</u> | <u>\$ 43,465,116</u> |
| | | | | |
| | 2022 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Clearing Funds | | | | |
| U.S. Treasury Securities | \$ 26,740,038 | \$ — | \$ — | \$ 26,740,038 |
| U.S. Agency Issued Debt Securities | 217,206 | 114,038 | — | 331,244 |
| U.S. Agency Residential Mortgage-Backed Securities | — | 2,693,059 | — | 2,693,059 |
| Cash deposits - Money market fund investments | | | | |
| Other current assets | | | | |
| Interest rate swap | — | 1,443 | — | 1,443 |
| Other non-current assets | | | | |
| Long-term incentive plan assets - Mutual fund and Stable value fund investments | 102,528 | 18,643 | — | 121,171 |
| Total assets | <u>\$ 27,059,772</u> | <u>\$ 2,827,183</u> | <u>\$ —</u> | <u>\$ 29,886,955</u> |
| Liabilities: | | | | |
| Clearing Funds | | | | |
| Securities liabilities | \$ 26,957,244 | \$ 2,807,097 | \$ — | \$ 29,764,341 |
| Total liabilities | <u>\$ 26,957,244</u> | <u>\$ 2,807,097</u> | <u>\$ —</u> | <u>\$ 29,764,341</u> |

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10. FAIR VALUE MEASUREMENTS (CONTINUED)

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 financial assets and liabilities approximate their fair values because they are short-term in duration, have no defined maturity or have market-based interest rates.

The carrying values, fair values and fair value hierarchy levels of all financial instruments measured at other than fair value on the accompanying Consolidated Statements of Financial Condition as of June 30, 2023 and December 31, 2022 follow (in thousands):

| | 2023 | | | | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|-------------|
| | Carrying Amount | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 15,273,335 | \$ 15,273,335 | \$ 15,273,335 | \$ — | \$ — |
| Participants' segregated cash | 115 | 115 | 115 | — | — |
| Short-term investments | 200,000 | 200,000 | — | 200,000 | — |
| Participants' and Clearing Funds: | | | | | |
| Cash deposits - Bank deposits | 31,662,929 | 31,662,929 | 31,662,929 | — | — |
| Other Participants' assets | 774,469 | 774,469 | 774,469 | — | — |
| Total | <u>\$47,910,848</u> | <u>\$47,910,848</u> | <u>\$47,710,848</u> | <u>\$ 200,000</u> | <u>\$ —</u> |
| Liabilities: | | | | | |
| Commercial paper | \$ 7,723,549 | \$ 7,723,549 | \$ — | \$ 7,723,549 | \$ — |
| Participants' and Clearing Funds: | | | | | |
| Cash deposits - Bank deposits | 31,662,929 | 31,662,929 | 31,662,929 | — | — |
| Payable to Participants | 774,584 | 774,584 | 774,584 | — | — |
| Long-term debt | 4,748,454 | 4,591,972 | — | 4,591,972 | — |
| Total | <u>\$44,909,516</u> | <u>\$44,753,034</u> | <u>\$32,437,513</u> | <u>\$12,315,521</u> | <u>\$ —</u> |
| | 2022 | | | | |
| | Carrying Amount | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 16,167,430 | \$ 16,167,430 | \$ 16,167,430 | \$ — | \$ — |
| Participants' segregated cash | 2,020 | 2,020 | 2,020 | — | — |
| Short-term investments | 750,000 | 750,000 | — | 750,000 | — |
| Participants' and Clearing Funds: | | | | | |
| Cash deposits - Bank deposits | 31,970,747 | 31,970,747 | 31,970,747 | — | — |
| Other Participants' assets | 931,071 | 931,071 | 931,071 | — | — |
| Total | <u>\$49,821,268</u> | <u>\$49,821,268</u> | <u>\$49,071,268</u> | <u>\$ 750,000</u> | <u>\$ —</u> |
| Liabilities: | | | | | |
| Commercial paper | \$ 9,109,638 | \$ 9,109,638 | \$ — | \$ 9,109,638 | \$ — |
| Participants' and Clearing Funds: | | | | | |
| Cash deposits - Bank deposits | 31,970,747 | 31,970,747 | 31,970,747 | — | — |
| Payable to Participants | 933,091 | 933,091 | 933,091 | — | — |
| Long-term debt | 4,733,593 | 4,570,058 | — | 4,570,058 | — |
| Total | <u>\$46,747,069</u> | <u>\$46,583,534</u> | <u>\$32,903,838</u> | <u>\$13,679,696</u> | <u>\$ —</u> |

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10. FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a non-recurring basis. Certain financial 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.

Financial assets measured at fair value on a non-recurring basis include equity investments, which are classified as Level 3 instruments. The mark-to-market gain during the three and six months ended June 30, 2023, was a \$0 and \$272,000, respectively, and is included in Other non-operating income, net in the accompanying Consolidated Statements of Income. The carrying amount of the investments were \$1,194,000 and \$50,389,000 as of June 30, 2023 and December 31, 2022, respectively. See Note 2 Summary of Significant Accounting Policies - Equity Investment for the sale of Acadia.

11. RETIREMENT PLANS

See Note 15 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2022 and 2021 for additional information on the Company's retirement plans.

Defined benefit pension and other postretirement benefit plans. Details of the components of net periodic benefit expense (income) and amortization for the Company's pension and postretirement benefit plans, included in Employee compensation and related benefits, Interest expense, and Other non-operating income, net in the accompanying Consolidated Statements of Income, for the three months ended June 30, 2023 and 2022 follow (in thousands):

| | Pension Benefits | | Other Benefits | |
|--|-------------------------|-----------------|-----------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| Components of net periodic benefit expense (income): | | | | |
| Expected return on plan assets | \$ (11,612) | \$ (9,525) | \$ — | \$ — |
| Interest cost | 10,435 | 6,575 | 591 | 345 |
| Service cost | 1,075 | 496 | 68 | 117 |
| Amortizations: | | | | |
| Prior service cost (credit) | 22 | 22 | — | (260) |
| Actuarial loss | 3 | 2,293 | (290) | 99 |
| Settlement loss | 9 | — | — | — |
| Net periodic benefit (income) expense | <u>\$ (68)</u> | <u>\$ (139)</u> | <u>\$ 369</u> | <u>\$ 301</u> |

Details of the components of net periodic benefit expense (income) and amortization for the Company's pension and postretirement benefit plans six months ended June 30, 2023 and 2022, follow (in thousands):

| | Pension Benefits | | Other Benefits | |
|--|-------------------------|-----------------|-----------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| Components of net periodic benefit expense (income): | | | | |
| Expected return on plan assets | \$ (23,224) | \$ (19,050) | \$ — | \$ — |
| Interest cost | 20,870 | 13,150 | 1,182 | 690 |
| Service cost | 2,150 | 992 | 136 | 234 |
| Amortizations: | | | | |
| Prior service cost (credit) | 44 | 44 | — | (520) |
| Actuarial loss | 6 | 4,586 | (580) | 198 |
| Settlement loss | 18 | — | — | — |
| Net periodic benefit (income) expense | <u>\$ (136)</u> | <u>\$ (278)</u> | <u>\$ 738</u> | <u>\$ 602</u> |

THE DEPOSITORY TRUST & CLEARING CORPORATION

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11. RETIREMENT PLANS (CONTINUED)

The Company did not make any contributions to the Pension Plan for the three and six months ended June 30, 2023 and does not anticipate making any contributions for the remainder of the fiscal year.

Defined contribution retirement plans. Total expense for the defined contribution retirement plans included in Employee compensation and related benefits in the accompanying Consolidated Statements of Income was \$12,874,000 and \$12,984,000 for the three months ended June 30, 2023 and 2022, respectively, and \$24,484,000 and \$25,175,000 for the six months ended June 30, 2023 and 2022, respectively.

12. INCOME TAXES

Details for unrecognized tax benefits, included in Other non-current liabilities on the accompanying Consolidated Statements of Financial Condition, for the six months ended June 30, 2023 and 2022 follow (in thousands):

| | For the six months ended June 30, | |
|------------------------------|-----------------------------------|-----------|
| | 2023 | 2022 |
| Beginning balance | \$ 23,645 | \$ 19,954 |
| Increases: | | |
| Prior period tax positions | 342 | — |
| Current period tax positions | 2,131 | 200 |
| Decreases: | | |
| Prior period tax positions | (376) | (5,134) |
| Unrecognized tax benefit | 25,742 | 15,020 |
| Accrued interest | 2,901 | 1,346 |
| Ending balance | \$ 28,643 | \$ 16,366 |

See Note 16 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2022 and 2021 for additional information pertaining to the Company's income taxes.

13. SHAREHOLDERS' EQUITY

DTCC Series A Preferred stock. All 10,000 shares of DTCC Series A Preferred stock are issued and outstanding and held of record by Stock Clearing Corporation, a wholly owned subsidiary of the New York Stock Exchange LLC, the successor-in-interest to the New York Stock Exchange Inc. In the event of DTCC's voluntary or involuntary liquidation, dissolution or winding-up, the holders of Series A Non-Cumulative Perpetual Preferred stock are entitled to a liquidation preference of \$30.00 per share.

DTCC Series B Preferred stock. All 10,000 shares of DTCC Series B Preferred stock are issued and outstanding and held of record by National Clearing Corporation, a wholly owned subsidiary of the Financial Industry Regulatory Authority Inc. ("FINRA"). In the event of DTCC's voluntary or involuntary liquidation, dissolution or winding-up, the holders of Series B Preferred stock are entitled to a liquidation preference of \$30.00 per share.

DTCC Series D Fixed Rate Reset Non-Cumulative Perpetual Preferred stock. DTCC issued 2,000 shares of Fixed Rate Reset Non-Cumulative Perpetual Preferred stock, Series D, \$0.50 par value per share, with a liquidation preference of \$250,000 per share. When declared by DTCC's Board of Directors, dividends on the Series D Preferred stock are payable in arrears on June 20 and December 20 of each year, beginning December 20, 2021 through June 20, 2026, at a fixed rate of 3.375% per annum. From June 20, 2026 onward, dividends will accrue at a rate equal to the five-year U.S. Treasury rate plus 2.606% per annum.

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AS OF JUNE 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022

13. SHAREHOLDERS' EQUITY (CONTINUED)

Details of dividends paid to holders of the Series D Preferred Stock during the six months ended June 30, 2023 follow:

| Approved and Declared Date | Record Date | Payment Date | Declared Dividend | Shares Outstanding | Dividend Paid |
|----------------------------|--------------|---------------|-------------------|--------------------|---------------|
| April 17, 2023 | May 31, 2023 | June 20, 2023 | \$ 4,218.75 | 2,000 | \$ 8,437,500 |

Details of dividends paid to holders of the Series D Preferred Stock during the six months ended June 30, 2022 follow:

| Approved and Declared Date | Record Date | Payment Date | Declared Dividend | Shares Outstanding | Dividend Paid |
|----------------------------|--------------|---------------|-------------------|--------------------|---------------|
| May 9, 2022 | May 10, 2022 | June 21, 2022 | \$ 4,218.75 | 2,000 | \$ 8,437,500 |

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. The ownership of DTC preferred stock is reported as non-controlling interests in the consolidated financial statements. 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 June 30, 2023 and December 31, 2022. Dividends are subject to regulatory limitations and restrictions per the New York Banking Law and Federal Reserve Act and must be approved and declared by the Board of Directors. When declared, dividend amounts are 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.

There were no dividends declared to holders of the DTC Series A Preferred Stock during the six months ended June 30, 2023.

Details of dividends paid to holders of the DTC Series A Preferred Stock during the six months ended June 30, 2022 follow:

| Approved and Declared Date | Record Date | Payment Date | Declared Dividend | Dividend Paid |
|----------------------------|-------------------|------------------|-------------------|---------------|
| February 23, 2022 | February 23, 2022 | April 11, 2022 | \$ 45,000 | \$ 45,000 |
| December 15, 2021 | December 17, 2021 | January 11, 2022 | \$ 90,000 | \$ 90,000 |

14. 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 each of the clearing agencies 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 clearing agencies can continue operations and provide services as a going concern if those losses materialize. It is determined based on the general business risk profile and estimated time to execute a recovery or orderly wind-down of critical operations for each of the clearing agencies and, at a minimum, is equal to six months of operating expenses.

Corporate Contribution. The corporate contribution is applied to losses as provided in each of the respective clearing agencies rules. The amount of the corporate contribution is generally equal to 50% of each clearing agency's general business risk capital requirement.

THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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14. CAPITAL REQUIREMENTS (CONTINUED)

Details of the general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the clearing agencies as of June 30, 2023 and December 31, 2022 follow (in thousands):

| | 2023 | | |
|---|------------|------------|------------|
| | DTC | NSCC | FICC |
| General business risk capital requirement | \$ 232,941 | \$ 227,187 | \$ 155,503 |
| Corporate contribution | 116,470 | 113,594 | 77,751 |
| Total requirement | 349,411 | 340,781 | 233,254 |
| Liquid net assets funded by equity | 699,907 | 721,755 | 358,556 |
| Excess | \$ 350,496 | \$ 380,974 | \$ 125,302 |

| | 2022 | | |
|---|------------|------------|------------|
| | DTC | NSCC | FICC |
| General business risk capital requirement | \$ 229,966 | \$ 224,590 | \$ 150,500 |
| Corporate contribution | 114,983 | 112,295 | 75,250 |
| Total requirement | 344,949 | 336,885 | 225,750 |
| Liquid net assets funded by equity | 648,185 | 645,416 | 336,147 |
| Excess | \$ 303,236 | \$ 308,531 | \$ 110,397 |

Regulatory capital. DTCC's regulated subsidiaries maintain and report regulatory capital in accordance with all relevant laws, rules and guidelines. As a multinational enterprise, various DTCC subsidiaries are subject to regulatory capital regimes, as applicable. Certain DTCC subsidiaries submit regulatory capital reports to various regulators, including, but not limited to, FRBNY, the NYSDFS and the CFTC in the United States; ESMA in Europe; FCA in the UK; OSC in Canada; and the MAS in Singapore.

Capital adequacy. DTC is subject to capital guidelines issued by United States federal and state banking regulators.

DTC capital and leverage ratios required by the FRBNY and the NYSDFS as of June 30, 2023 follow:

| | Ratio | Minimum Capital Ratio ^(a) | Well Capitalized Ratio ^(a) |
|--------------------------------------|---------|--------------------------------------|---------------------------------------|
| Tier 1 capital ratio ⁽¹⁾ | 93.19 % | 6.00 % | 8.00 % |
| Total capital ratio ⁽¹⁾ | 93.19 % | 8.00 % | 10.00 % |
| Tier 1 leverage ratio ⁽²⁾ | 19.72 % | 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.

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15. GUARANTEES

FICC and NSCC provide CCP services, including clearing, settlement and risk management services. Acting as a CCP, FICC (through GSD and MBSD) and NSCC guarantee the settlement of trades in the event one or more of their Participants' defaults. A Participant default is defined in the respective rules of NSCC, GSD and MBSD. In their guarantor role, each clearing subsidiary has equal claims to and from Participants, as applicable, on opposite sides of netted transactions. To cover their default risk, FICC (through GSD and MBSD) and NSCC use risk-based margining to determine Participants' required cash and eligible securities deposits to their Clearing Funds. NSCC's trade guaranty generally attaches at the point of validation for locked-in submissions, or at the point of comparison and validation for bilateral submissions.

DTC, NSCC, FICC and The Options Clearing Corporation have also entered into a multilateral netting contract and limited cross-guaranty agreement. In accordance with the cross-guaranty agreement, these clearing agencies have agreed to make payments to each other for any remaining unsatisfied obligations of a common defaulting Participant to the extent that these clearing agencies have excess resources belonging to the defaulting Participant. Under this agreement, no party ever needs to pay out of pocket and no party can receive more than its loss.

Details for open CCP positions for which a trade guaranty applied as of June 30, 2023 and December 31, 2022 follow (in billions):

| | <u>2023</u> | <u>2022</u> |
|------|-------------|-------------|
| FICC | | |
| GSD | \$ 1,587 | \$ 1,418 |
| MBSD | 349 | 282 |
| NSCC | 233 | 166 |

There were no defaults by Participants to these obligations in 2023 and 2022.

See Note 19 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2022 and 2021 for additional information on the Company's guarantees.

16. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after June 30, 2023 through August 7, 2023, the date these consolidated financial statements were 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 consolidated financial statements.