The Depository Trust Company

Consolidated Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Report

THE DEPOSITORY TRUST COMPANY

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

Tel: +1 212 492 4000
www.deloitte.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
The Depository Trust Company
New York, NY

We have audited the accompanying consolidated statements of financial condition of The Depository Trust Company and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Depository Trust Company and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 28, 2014

THE DEPOSITORY TRUST COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share data)

	As of December 31,	
ASSETS	**2013**	**2012**
CURRENT ASSETS:		
Cash and cash equivalents	$ 230,467	$ 190,228
Accounts receivable - less allowance for doubtful accounts of $575 at December 31, 2013 and 2012	35,770	36,760
Other participant assets	545,898	1,197,842
Participant fund cash deposits	1,976,727	1,921,389
Other current assets	4,998	15,684
Total current assets	2,793,860	3,361,903
NON-CURRENT ASSETS:		
Premises and equipment - less accumulated depreciation of $304,417 and $289,118 at December 31, 2013 and 2012, respectively	48,924	66,106
Intangible assets - less accumulated amortization of $180,945 and $162,288 at December 31, 2013 and 2012, respectively	29,702	35,699
Other non-current assets	83,866	110,082
Total non-current assets	162,492	211,887
TOTAL ASSETS	$ 2,956,352	$ 3,573,790
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 29,648	$ 26,230
Payable to participants	545,898	1,197,842
Participant fund cash deposits	1,826,727	1,771,389
Other current liabilities	9,156	24,054
Current portion of long term debt	4,873	17,807
Total current liabilities	2,416,302	3,037,322
NON-CURRENT LIABILITIES:		
Long-term debt and other borrowings	110,031	109,793
Other non-current liabilities	18,734	61,957
Total non-current liabilities	128,765	171,750
Total liabilities	2,545,067	3,209,072
COMMITMENTS AND CONTINGENT LIABILITIES (Note 17)		
SHAREHOLDERS' EQUITY:		
Preferred stock, Series A, $100 par value - 3,250,000 shares authorized; 1,500,000, issued and outstanding	150,000	150,000
Common stock, $100 par value - 18,500 shares authorized, issued and outstanding	1,850	1,850
Paid-in capital	61,546	61,546
Retained earnings	197,889	151,322
Total Shareholders' equity	411,285	364,718
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,956,352	$ 3,573,790

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(In thousands)

	For the years ended December 31, 2013	2012
REVENUES:		
Settlement and asset services	$ 386,793	$ 385,823
Other revenue	1,521	1,098
Total revenues	388,314	386,921
EXPENSES:		
Employee compensation and related benefits	155,790	176,847
Information technology	15,095	11,321
Professional and other services	100,099	97,379
Occupancy	15,865	17,547
Depreciation and amortization	33,956	39,030
Other general and administrative, net	(8,026)	6,820
Total expenses	312,779	348,944
Total operating income	75,535	37,977
NON-OPERATING INCOME (EXPENSE)		
Interest income	1,391	16,727
Refunds to participants	(97)	(107)
Interest expense	(8,149)	(23,944)
Total non-operating expense	(6,855)	(7,324)
Income before taxes	68,680	30,653
Provision for income taxes	21,873	21,461
Net income	$ 46,807	$ 9,192

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands)

	Preferred Stock Series A	Common Stock	Paid-In Capital	Retained Earnings	Total Shareholders' Equity
BALANCE - December 31, 2011	$ 150,000	$ 1,850	$ 61,546	$ 142,370	$ 355,766
Net income	-	-	-	9,192	9,192
Dividends on preferred stock	-	-	-	(240)	(240)
BALANCE - December 31, 2012	$ 150,000	$ 1,850	$ 61,546	$ 151,322	$ 364,718
Net income	-	-	-	46,807	46,807
Dividends on preferred stock	-	-	-	(240)	(240)
BALANCE - December 31, 2013	$ 150,000	$ 1,850	$ 61,546	$ 197,889	$ 411,285

See notes to consolidated financial statements.

THE DEPOSITORY TRUST COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended December 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 46,807	$ 9,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,956	39,030
Loss on disposal of premises and equipment	1,882	6,161
Deferred income taxes	(3,228)	(9,180)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	989	6,491
Decrease in other assets	40,131	207,364
Increase (decrease) in accounts payable	3,418	(49,749)
(Decrease) increase in other liabilities	(58,120)	22,902
Net cash provided by operating activities	65,835	232,211
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of software	(12,607)	(14,817)
Purchases of premises and equipment	(53)	(62)
Net cash used in investing activities	(12,660)	(14,879)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt and capital lease obligations	(12,696)	(224,658)
Dividends on preferred stock	(240)	(240)
Net cash used in financing activities	(12,936)	(224,898)
Net increase (decrease) in cash and cash equivalents	40,239	(7,566)
Cash and cash equivalents - Beginning of year	190,228	197,794
Cash and cash equivalents - End of year	$ 230,467	$ 190,228
SUPPLEMENTAL DISCLOSURES:		
Non-cash financing activity - capitalized lease	$ -	$ 15,811
Income taxes paid to DTCC - net of refunds	$ 33,963	$ 10,956
Interest paid	$ 8,149	$ 22,496

See notes to consolidated financial statements.

1. BUSINESS AND OWNERSHIP

The Depository Trust Company and subsidiaries (DTC or the Company) is a limited purpose trust company providing central securities depository, settlement and related services to members of the securities, banking and other financial industries (Participants). The principal subsidiary of DTC is DTC Limited Funding Corporation.

DTC is a consolidated subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), Omgeo LLC, DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited, Business Entity Data B.V. (BED) and Avox Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The consolidated financial statements include the accounts of DTC and its wholly-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Management makes estimates regarding the collectability of receivables, the outcome of litigation, the realization of deferred taxes, the recognition of unrecognized tax benefits, fair value measurements, and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could materially differ from those estimates.

Cash and Cash Equivalents. All highly liquid investments purchased with an original maturity of three months or less at the date of acquisition are classified as cash and cash equivalents. Cash equivalents consist primarily of highly liquid investments in time deposits held in banks.

Fair Value Measurements. The guidance related to “Fair Value Measurements” included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

Valuation Hierarchy. FASB ASC Topic 820 established a three-level valuation hierarchy for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets as of the valuation date.

Level 2 — Inputs to the valuation methodology are other than unadjusted quoted market prices for similar assets and liabilities in active markets, which are either directly or indirectly observable as of the valuation date or can be derived principally from or corroborated by observable market data.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial Instruments Measured at Fair Value. The Company has established processes for determining fair values. Fair value is based upon quoted market prices in active markets, where available. Where quotes from recent exchange transactions are not available, the Company determines fair values on discounted cash flow analyses, comparison to similar instruments. Discounted cash flow analyses are dependent upon estimated future cash flows and level of interest rates.

Financial Instruments Not Measured at Fair Value. The carrying amounts of financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods. As discussed in Note 9 Fair Value Measurements, these instruments are discussed on a uniform fair value basis. However, active markets do not exist for a significant portion of these instruments. For financial instruments where quoted prices for identical assets and liabilities in active markets do not exist, the Company determines fair value based on discounted cash flow analyses and comparable pricing of similar instruments.

The Company uses recently executed transactions, other observable market data such as exchange data, broker/dealer quotes, third-party pricing vendors and aggregation services for determining the fair values of financial instruments. The Company assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches to ensure that the highest-ranked market data source is used to validate fair value of financial instruments.

Accounts Receivable. Accounts receivable are stated at cost, net of an allowance. The Company establishes an allowance for doubtful accounts for accounts receivable to ensure the Company has not overstated receivable balances due to uncollectibility. The Company determines the need for an allowance based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, historical experience and the financial condition of customers, and other debtors.

Participant Fund. Participant cash deposits are presented within the Participant Fund on the Consolidated Statements of Financial Condition due to the benefits and risk ownership being accrued to the Company. Deposits and contributions may be in the form of cash and cash equivalents. These deposits may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company as provided in the Company's rules.

Cash Deposits. Deposits may be invested overnight in repurchase agreements, commercial paper, money market funds, and interest-bearing deposits. DTC invests available Participant fund cash deposits principally in overnight reverse repurchase agreements. Reverse repurchase agreements provide for DTC's delivery of cash in exchange for securities having a fair value, which is at least 102% of the amount of the agreements. Securities purchased under overnight reverse repurchase agreements are typically U.S. Treasury and agency securities. Overnight reverse repurchase agreements are recorded at the contract amounts. Any interests earned on these investments are accrued and is included within interest income in the Consolidated Statements of Income. Any amounts that were passed through to Participants are included as refunds to Participants in the Consolidated Statements of Income.

The cash proceeds received from the issuance of 1,500,000 shares of series A preferred stock at the par value of $100 per share, owned by Participants is included in Participant fund cash deposits.

Securities Held in Custody. Securities held in custody by DTC by Participants, which are predominantly in electronic book form, but also include physical certificates, are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to Participants. Short positions occasionally exist in securities balances and are credited to the account of the Participants; such short positions are valued and collateralized daily by 130% of the short position reflected in other Participant assets. DTC's obligation to return such cash collateral to a Participant is also reflected in payable to Participants.

Premises and Equipment. Premises and equipment are stated at cost, net of accumulated depreciation. Routine maintenance, repairs and replacement costs are expensed as incurred and improvements that appreciably extend the useful life of the assets are capitalized. When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income. Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable.

Leasehold improvements are amortized using the straight line method over their useful lives or the remaining term of the related lease, whichever is shorter. Furniture and equipment are depreciated over estimated useful lives ranging from five to seven years, using accelerated double declining methods. Building and improvements are primarily amortized over 39 years using the straight line method. Depreciation expense for leasehold improvements, furniture and equipment, and buildings and improvements is included in depreciation and amortization in the Consolidated Statements of Income.

Identified Intangible Assets. Identified intangible assets with finite lives are amortized in a pattern consistent with the assets' identifiable cash flows or using a straight-line method over their remaining estimated benefit periods if the pattern of cash flows is not estimable. Intangible assets with finite lives are reviewed for possible impairments when events or changed circumstances may affect the underlying basis of the asset. See Note 8 of the Notes to Consolidated Financial Statements for additional disclosures related to intangible assets.

Capitalized Software. The Company capitalizes costs related to acquired software and internal-use software development projects that provide new or significantly improved functionality. The Company capitalizes projects that are expected to result in longer-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is recorded in intangible assets.

The Company considers many factors, including estimated future utility to estimate cash flows. Impairments are reviewed annually or more frequently if certain events or circumstances exist. The Company calculates the estimated fair value of finite lived intangible assets using undiscounted cash flows expected to result from the use of intangible assets or group of assets.

Impairment of Long-Lived Assets. The Company evaluates long lived assets for impairment losses when indicators of impairment are present. The Company periodically evaluates the recoverability of long lived assets when events or changes in circumstances indicate the carrying amount of an asset may not be fully recoverable. When indicators of impairment are present, the carrying values of the assets are evaluated in relation to the operating performance and future undiscounted cash flows of the underlying business. The net book value of the underlying asset is adjusted to its fair value if the sum of the future undiscounted cash flows is less than its book value. Fair values are based on estimates of market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk. Impairment losses are included in general and administrative expenses on the accompanying Consolidated Statements of Income.

The Company considers the following to be important factors which could trigger an event driven impairment review:

- Significant underperformance relative to historical or projected future operating results;
- Identification of other impaired assets within a reporting unit;
- A more likely than not expectation a reporting unit or a significant portion of a reporting unit will be sold;
- Significant adverse changes in business climate or regulations;
- Significant changes in the manner of use of the acquired assets or the strategy for the Company's overall business or significant negative industry or economic trends.

Revenue Recognition. Revenue is generally recognized as services are rendered. Activities are captured daily and billed on a monthly basis. Interest income is recorded on an accrual basis. The Company's revenue primarily consists of settlement and asset services.

Income Taxes. Deferred tax assets and liabilities are reported in current and non-current assets, net, in the Consolidated Statements of Financial Condition and represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. It is the Company's policy to provide for unrecognized tax benefits and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the tax authorities.

Expense Allocations. Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries including DTC, based upon their use of such goods or services as determined by applicable allocation factors, including headcount, square footage, and utilization of technology resources. Accordingly, the expense classifications on the Consolidated Statements of Income represent the allocated expenses, including employee compensation and related benefits, information technology, professional and other services, occupancy, depreciation and amortization, and other general and administrative expenses.

Recently Issued Accounting Standards.

FASB ASC Topic 405, Liabilities. In February 2013, the FASB issued Accounting Standard Update (ASU) No. 2013-04, adding disclosure requirements for entities with joint and severally liable agreements with other co-obligors. This update requires entities to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. Required disclosures include a description of the nature of the arrangement, how the liability arose, the relationship with co-obligors and the terms and conditions of the arrangement (ASC 460-10, Guarantees). For nonpublic entities, the ASU is effective for fiscal years beginning after December 15, 2014, and interim and annual periods thereafter. Early adoption is permitted. The amendments in the ASU should be applied prospectively. DTC will assess the impact of this guidance on the Company's consolidated financial condition, results of operations, and cash flows upon adoption of this guidance.

FASB ASC Topic 740, Income Taxes. In July 2013, the FASB issued ASU No. 2013-11, requiring public and private entities to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss or tax credit carry forward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendments should be applied prospectively to unrecognized tax benefits that exist at the effective date. Early adoption is permitted. DTC will assess the impact of this guidance on the Company's consolidated financial condition, results of operations, and cash flows upon adoption of this guidance.

Recently Adopted Accounting Standards.

FASB ASC Topic 820, Fair Value Measurements and Disclosures. In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in Generally Accepted Accounting Principles and International Financial Reporting Standards. The amendments to ASC Topic 820 include guidance on the application of the highest and best use and valuation premise concepts (including an exception to the valuation premise for certain risks managed on a portfolio basis), the valuation of equity instruments, and the use of premiums and discounts representing adjustments for the size of an entity's holding of an asset or liability (specifically, blockage factors are not permitted). The amendments also include expanded disclosures, including disclosures around fair value measurements categorized within Level 3 of the fair value hierarchy, and disclosures when the entity's use of a nonfinancial asset differs from the highest and best use of that asset. The amendments in ASU No. 2011-04 are to be applied prospectively. The adoption of this guidance did not have an impact on DTC's financial condition, results of operations or cash flows. See Note 9 Fair Value Measurements, for the disclosures.

*FASB ASC Topic 860, Transfers and Servicing***.** In April 2011, the FASB issued amended guidance under ASC Topic 860 in ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. The amendments in ASU No. 2011-03 remove from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and the collateral maintenance implementation guidance related to that criterion. The new rules were effective prospectively for new transfers and exiting transactions for the period beginning on or after December 15, 2011. The adoption of this guidance did not have an impact on DTC's consolidated financial condition, results of operations or cash flows.

ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. In July 2010, the FASB amended the accounting guidance for receivables as it relates to disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires disclosure of credit quality indicators, past due information, and modifications of financing receivables. For nonpublic entities, these disclosures were effective for annual reporting periods ending on or after December 15, 2011. The adoption of this guidance did not have an impact on DTC's financial condition, results of operations or cash flows.

3. CHANGES IN FINANCIAL STATEMENT PRESENTATION

During 2013, the Company changed its accounting policies and practices around the financial statement presentation to improve the transparency and organization of information on its consolidated financial statements to better meet the needs of the readers. Accordingly, the Company made certain reclassifications of prior year amounts to conform to the current year presentation. The changes to the Consolidated Statement of Financial Condition as of December 31, 2012 were as follows (in thousands):

	2012		
	Consolidated As Reported	Reclassification Adjustments	Consolidated As Reclassified
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 3,305,334	$ (3,115,106)	$ 190,228
Other participant assets	-	1,197,842	1,197,842
Accounts receivable	42,724	(5,964)	36,760
Participant fund cash deposits	-	1,921,389	1,921,389
Other current assets	46,668	(30,984)	15,684
		(32,823)	
NON-CURRENT ASSETS:			
Premises and equipment (*)	101,805	(35,699)	66,106
Intangible assets (*)	-	35,699	35,699
Deferred tax asset - net	77,259	(77,259)	-
Other non-current assets	-	110,082	110,082
		32,823	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	167,692	(141,462)	26,230
Payable to participants	1,142,391	55,451	1,197,842
Other current liabilities	-	24,054	24,054
Current portion of long-term debt	-	17,807	17,807
		(44,150)	
NON-CURRENT LIABILITIES:			
Long-term debt and other borrowings	127,600	(17,807)	109,793
Other non-current liabilities	-	61,957	61,957
		44,150	

The Company changed its Consolidated Statement of Cash Flows to capture the effect of the presentation changes on the Consolidated Statement of Financial Condition. In addition to the reclassifications noted above, the Company recognized certain reclassifications within the Consolidated Statement of Income for the year ended December 31, 2012 to conform to the current year presentation. The reclassifications impacted revenues by type and expenses. Revenues are reclassified to better represent current business offerings, including new product lines. The expense reclassifications were for the breakout of depreciation and amortization expenses into a separate financial statement line item. Additionally, the non-operating income and expenses have been separately presented. The Company re-organized and expanded its disclosures based on the changes summarized above.

(*) Prior to 2013, capitalized software was reported within premises and equipment in the amount of $35,699,000. Beginning in 2013, capitalized software is reported separately from premises and equipment in the consolidated statement of financial condition. We have restated 2012 to conform to the 2013 presentation. The reclassifications and restatement had no effect on net income or shareholders' equity previously reported.

4. OTHER PARTICIPANT 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. Amounts received on registered securities withdrawn before the record date but not transferred from the name of Cede and Co., cannot be distributed unless claimed by the owners of the securities through a Participant or other financial institution.

Cash dividends, interest, reorganization, and redemption of $545,898,000 and $1,197,842,000, as of December 31, 2013 and 2012, respectively, are included in other participant assets with a corresponding liability as payable to participants on the Consolidated Statements of Financial Position. Stock dividends payable are not reported in the Consolidated Financial Statements. At December 31, 2013 and 2012, payable to participants also includes $9,776,000 and $33,046,000, respectively, of cash collateral received from Participants representing 130% of short positions. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

5. ACCOUNTS RECEIVABLE

The accounts receivable as of December 31, 2013 and 2012, are as follows (in thousands):

	2013	2012
Securities depository and settlement fees due from participants	$ 34,930	$ 33,480
Other receivables	840	3,280
Total	$ 35,770	$ 36,760

There were no changes in the allowance for doubtful accounts of $575,000 as of December 31, 2013 and 2012.

6. PARTICIPANT FUND CASH DEPOSITS

The rules of DTC require Participants to maintain deposits in the Participant Fund related to their DTC activities based on calculated requirements, as determined by the Company. The deposits which may be applied to satisfy obligations of the depositing Participant, other Participants or DTC as provided in the DTC rules. A summary of the total Participant Fund Cash Deposits held at December 31, 2013 and 2012, is as follows (in thousands):

	2013	2012
Required cash deposits	$ 1,300,000	$ 1,342,030
Excess cash deposits	676,727	579,359
Total cash deposits	$ 1,976,727	$ 1,921,389

Participant cash deposits. Participant cash deposits to the Participant Fund, which may be applied to satisfy obligations of the depositing Participant, as provided in respective clearing agency rules, are invested in interest bearing deposits as of December 21, 2013 and 2012.

7. PREMISES AND EQUIPMENT

Premises and equipment as of December 31, 2013 and 2012 consisted of the following (in thousands):

	2013			2012		
	Cost	**Accumulated Depreciation**	**Net Book Value**	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Furniture and equipment	$ 150,957	$ 145,343	$ 5,614	$ 152,819	$ 140,142	$ 12,677
Leasehold improvements	146,802	123,242	23,560	146,823	119,155	27,668
Leased property under capital leases	40,090	31,529	8,561	40,090	25,822	14,268
Building and improvements	12,986	4,303	8,683	12,986	3,999	8,987
Land	2,506	-	2,506	2,506	-	2,506
Total	$ 353,341	$ 304,417	$ 48,924	$ 355,224	$ 289,118	$ 66,106

Depreciation expense for premises and equipment, including lease properties under capital leases, for the years ended December 31, 2013 and 2012 was approximately $15,299,000 and $20,796,000, respectively, and is included within depreciation and amortization line item in the Consolidated Statements of Income.

During 2013, disposals of premises and equipment resulted in a charge of $1,882,000 and the removal of $1,882,000 from the cost account. During 2012, disposals of fixed assets resulted in a loss of $6,161,000 and the removal of $18,672,000 and $12,601,000 from the related cost and accumulated depreciation accounts and are included in depreciation and amortization in the Consolidated Statement of Income.

8. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization, net carrying value of other finite-lived intangible assets were as follows at December 31, 2013 and 2012 (in thousands):

	2013			2012		
	Cost	**Accumulated Amortization**	**Net Carrying Value**	**Cost**	**Accumulated Amortization**	**Net Carrying Value**
Capitalized software	$ 210,647	$ 180,945	$ 29,702	$ 197,987	$ 162,288	$ 35,699
Total	$ 210,647	$ 180,945	$ 29,702	$ 197,987	$ 162,288	$ 35,699

Capitalized software. Capitalized software costs for software either for internal use or purchased during 2013 and 2012 totaled $12,660,000 and $12,382,000, respectively. Amortization expense for capitalized software for the years ended December 31, 2013 and 2012 was approximately $18,657,000 and $18,234,000, respectively, and is included within depreciation and amortization in the accompanying Consolidated Statements of Income.

During 2013 and 2012, there were no disposals of capitalized software.

Estimated amortization expense relating to intangible assets for each of the next three years is as follows (in thousands):

2014	$	15,448
2015		9,686
2016		4,568
Total future estimated amortization	$	29,702

9. FAIR VALUE MEASUREMENTS

Financial Assets and Liabilities not Measured at Fair Value. A summary of the practices used for determining fair value and the respective level in the valuation hierarchy for financial assets and liabilities not recorded at fair value is as follows:

Cash and Cash Equivalents and Participant Fund Cash Deposits – Consist primarily of highly liquid investments in time deposits held in banks and are classified as Level 1 within the valuation hierarchy.

Long Term Debt and Other Borrowings — Borrowings primarily consist of Industrial Development Agency Bonds, notes payable, and capital lease obligations. The estimated fair value of long term debt is based on current rates for instruments of the same remaining maturity or quoted market prices for the same or similar issues.

The carrying amounts reported in the Consolidated Statements of Financial Condition for cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximate fair value because of their relatively short-term nature.

The table below presents the carrying value, fair value, and fair value hierarchy level of certain financial instruments not measured at fair value in the Consolidated Statements of Financial Condition at December 31, 2013 (in thousands):

	2013				
	Carrying Amount	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 230,467	$ 230,467	$ 230,467	$ -	$ -
Participant fund cash deposits	1,976,727	1,976,727	1,976,727	-	-
Total	$ 2,207,194	$ 2,207,194	$ 2,207,194	$ -	$ -
Liabilities:					
Participant fund cash deposits	$ 1,826,727	$ 1,826,727	$ 1,826,727	$ -	$ -
Long-term debt and other borrowings	114,904	105,920	-	105,920	-
Total	$ 1,941,631	$ 1,932,647	$ 1,826,727	$ 105,920	$ -

The table below presents the carrying value, fair value, and fair value hierarchy level of certain financial instruments not measured at fair value in the Consolidated Statement of Financial Condition at December 31, 2012 (in thousands):

	2012				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 190,228	$ 190,228	$ 190,228	$ -	$ -
Participant fund cash deposits	1,921,389	1,921,389	1,921,389	-	-
Other financial assets	77,259	77,259	-	77,259	-
Total	$ 2,188,876	$ 2,188,876	$ 2,111,617	$ 77,259	$ -
Liabilities:					
Other liabilities	$ 167,130	$ 166,492	$ -	$ 166,492	$ -
Participant fund cash deposits	1,771,389	1,771,389	1,771,389	-	-
Long-term debt and other borrowings	127,600	115,200	-	115,200	-
Total	$ 2,066,119	$ 2,053,081	$ 1,771,389	$ 281,692	$ -

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis. There were no assets or liabilities measured at fair value on a recurring basis during the years ended December 31,2013 and 2012.

Financial Assets and Liabilities Measured at Fair Value on a Non-recurring Basis. There were no assets or liabilities measured at fair value on a non-recurring basis during the years ended December 31,2013 and 2012.

10. OTHER ASSETS

Details for other assets as of December 31, 2013 and 2012, were as follows (in thousands):

	2013	2012
Deferred tax asset, net	$ 4,910	$ 13,863
Sales tax receivable	88	-
Reorganization receivables	-	1,821
Total current assets	$ 4,998	$ 15,684
Long term incentive plan assets	$ 1,887	$ 40,284
Deferred tax asset, net	75,577	63,396
Federal reserve stock	6,402	6,402
Total non-current assets	$ 83,866	$ 110,082
Total	$ 88,864	$ 125,766

The federal reserve stock represents the Federal Reserve Bank's shares issued to member banks, a certain amount of which is a requirement to membership in the system and recorded at cost.

11. OTHER LIABILITIES

Details for other liabilities as of December 31, 2013 and 2012, were as follows (in thousands):

	2013	2012
Taxes payable	8,751	13,608
Deferred rent	405	3,513
Current portion of deferred compensation liability	-	6,933
Total current liabilities	$ 9,156	$ 24,054
Unrecognized tax benefits	14,007	15,342
Other liabilities	3,930	1,500
Deferred rent	797	2,826
Deferred compensation liability	-	42,289
Total non-current liabilities	$ 18,734	$ 61,957
Total	$ 27,890	$ 86,011

Unrecognized tax benefits. DTC applies the provisions of FASB issued Financial Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes (codified primarily in FASB ASC Topic 740, Income Taxes) to record unrecognized tax benefits (UTBs). Refer to Note 14 Income Taxes for additional details.

12. DEBT

The Company's borrowings at December 31, 2013 and 2012, consists of the following (in thousands):

	2013	2012
Notes payable	$ 102,968	$ 112,048
Capital lease obligations	11,936	15,552
Total debt	$ 114,904	$ 127,600
Current portion of long term debt	(4,873)	(17,807)
Total long term debt and other borrowings	$ 110,031	$ 109,793

Interest expense for the years ended December 31, 2013 and December 31, 2012 was $8,149,000 and $23,944,000, respectively.

At December 31, 2013, principal payments due on long-term debt over the next five years from 2014 to 2018 and thereafter are as follows (in thousands):

	Capital Lease	Notes Payable
2014	$ 3,689	$ 1,184
2015	3,763	1,184
2016	3,837	92,311
2017	647	1,184
2018	-	1,184
Thereafter	-	5,921
Total	$ 11,936	$ 102,968

Notes payable. The following table summarizes the term and maturities of the notes payable as of December 31, 2013 and 2012 (in thousands):

				Outstanding Balance	
	Rate	Issue Date	Maturity	2013	2012
DTC term loan	5.03%	11/22/2004	12/15/2023	$ 11,842	$ 13,026
DTC term loan	5.59%	4/6/2009	4/15/2016	51,126	51,126
DTC term loan	5.63%	4/6/2009	4/15/2016	40,000	40,000
DTC asset financing*	4.94%	6/30/2009	6/28/2013	-	7,896
Total				$ 102,968	$ 112,048

*The note was secured by certain premises and equipment pledged at inception of the borrowing, totaling $17,000,000.

Debt covenants. The Company currently holds two private placement financing facilities due April 15, 2016 and one which is due December 15, 2023, as well as a line of credit. The negative covenants relating to the first private placement facility require a minimum net worth of $15 million coupled with a Participant Fund greater than or equal to $575 million, in addition to "priority debt" of less than $125 million. The negative covenants relating to the latter private placement facility require a minimum net worth of $15 million coupled with a Participant Fund greater than $435 million, in addition to "priority debt" of less than 10% of assets.

The negative covenants relating to the line of credit require a minimum net worth of $50 million, coupled with a Participant Fund greater than or equal to $750 million.

Customary affirmative covenants include access to consolidated financial statements, notice of default, and certain other material events, maintenance of business and insurance, and events of default.

As of December 31, 2013 and 2012, the Company was in compliance with the applicable debt covenants.

Lease obligations. Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. As of December 31, 2013, capital lease agreements with remaining future minimum payments including interest, which are due through February 2018, totaling $11,936,000. As of December 31, 2012, remaining future minimum payments including interest totaled $15,552,000.

Lines of credit. The Company maintains lines of credit to support settlement. Terms and outstanding lines of credits as of December 31, 2013 and 2012 were as follows:

2013	Amount	Denomination	No. of Lenders / Participants	Borrowing rate
Committed	$1.9 billion	USD	38/27	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.
Uncommitted	$150 million (1)	CAD	1	N/A

2012	Amount	Denomination	No. of Lenders / Participants	Borrowing rate
Committed	$1.9 billion	USD	33	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.
Uncommitted	$150 million (1)	CAD	1	N/A
Uncommitted	$50 million (2)	USD	2	N/A

(1) Used to support Canadian settlement.
(2) Credit line maintained with NSCC and DTCC to provide support potential short-term operating cash requirements.

There were no borrowings under any of these credit facilities in 2012 and 2013.

13. PENSION AND POST RETIREMENT BENEFITS

Eligible employees participate in DTCC's trusteed non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. Eligible employees also participate in DTCC's life insurance program, which provides for the payment of death benefits to beneficiaries of eligible retired employees, and DTCC's healthcare program, which provides benefits to eligible retired employees.

Cost allocation. DTCC allocates the cost of these plans to participating subsidiaries based primarily upon the proportion of each subsidiary's allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. For the years ended December 31, 2013 and 2012, the benefit plan cost allocated to DTC was $10,810,000 and $16,345,000, respectively. These costs are included in employee compensation and related benefits in the accompanying Consolidated Statements of Income.

Changes to benefit plan. On February 15, 2012, the DTCC Board of Directors approved changes to amend the DTCC benefit plans, in which the Company participates, to freeze the benefit effective December 31, 2013. After the plan freeze, certain plan participants will no longer accrue any benefits under the plans.

14. INCOME TAXES

DTC is included in DTCC's consolidated federal and most combined and unitary state tax returns. DTC files other state tax returns on a separate company basis. The components of the Company's income tax provision (benefit) calculated on a separate company basis for the years ended December 31, 2013 and 2012 were as follows (in thousands):

	2013	2012
Current income tax:		
Federal	$ 21,371	$ 21,977
State and local	5,065	8,664
Deferred income tax (benefit):		
Federal	(971)	(15,693)
State and local	(3,592)	6,513
Provision for income taxes	$ 21,873	$ 21,461

Pursuant to a tax sharing agreement between DTCC and DTC, the Company is liable for its allocable share of federal, state and local tax liabilities that are paid by DTCC. As of December 31, 2013 and 2012, the Company paid income taxes to DTCC, net of refunds, of $33,963,000 and $10,956,000, respectively.

The 2013 and 2012 effective tax rates differ from the 35% federal statutory rate primarily due to state and local taxes, permanent differences between financial statement income and taxable income, and adjustments to deferred tax balances. A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate on income before provision for income taxes is as follows:

	Year ended Dec. 31,	
	2013	2012
U.S. statutory tax rate	35.0%	35.0%
State and local income taxes, net of federal tax benefit	6.2%	6.2%
Change in unrecognized tax benefits	-9.1%	8.6%
Change in state tax rate on deferred tax assets	-	20.1%
Other	-0.3%	0.1%
Effective tax rate	31.8%	70.0%

Deferred tax assets and liabilities. The components of deferred tax assets and (liabilities) at December 31, 2013 and 2012, are as follows (in thousands):

	2013	2012
Deferred tax assets:		
Accrued compensation	$ 37,054	$ 30,414
Accrued employee benefits	64,763	66,741
Software	17,558	11,525
Depreciation	12,943	8,585
Deferred rent	4,566	2,569
Other	8,225	5,551
Total deferred tax assets	145,109	125,385
Deferred tax liabilities:		
Accrued compensation	(22,970)	(19,826)
Accrued employee benefits	(12,936)	(4,017)
Software	(28,716)	(24,283)
Total deferred tax liabilities	(64,622)	(48,126)
Net deferred tax asset/(liabilities) before valuation allowance	80,487	77,259
Valuation allowance	-	-
Net deferred tax assets/(liabilities)	$ 80,487	$ 77,259
Reported as:		
Current deferred tax assets	$ 38,255	$ 36,148
Current deferred tax liabilities	(33,345)	(22,285)
Non-current deferred tax assets	106,854	89,237
Non-current deferred tax liabilities	(31,277)	(25,841)
Net deferred tax assets/(liabilities)	$ 80,487	$ 77,259

The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established.

Details for UTBs as of December 31, 2013 and 2012 were as follows (in thousands):

	2013	2012
Beginning balance at Jan. 1,	$ 12,993	$ 11,095
Prior period tax positions:		
Increases	7,080	-
Decreases	-	(830)
Current period tax positions	-	2,822
Settlements with taxing authorities	(8,525)	-
Lapse of statute of limitations	-	(94)
Ending balance at Dec. 31,	$ 11,548	$ 12,993

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its Consolidated Statements of Income. As of December 31, 2013 and 2012, the amount of accrued interest recorded in the Company's Consolidated Statements of Financial Condition related to UTBs was $2,459,000 and $2,349,000, respectively.

The Company is subject to U.S. federal income tax as well as income tax in various state and local jurisdictions. DTC's federal income tax returns for 2010 through 2011 are currently under examination and the federal income tax return for 2012 remains subject to examination by the IRS. New York State income tax returns for 2008 through 2010 are currently under examination and 2011 and 2012 remain open to examination. During 2013, the Company effectively completed the New York City income tax audit for tax years 2009 through 2011 and New York City income tax returns for 2012 remain subject to examination. Florida income tax returns for 2008 through 2010 are currently under examination and 2011 and 2012 remain open to examination.

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

15. SHAREHOLDERS' EQUITY

Common Stock. DTC has 18,500 authorized shares of common stock with a par value of $100 per share. At December 31, 2013 and 2012, 18,500 shares of common stock were outstanding.

Preferred Stock. In October 2000, DTC issued 750,000 shares of series A preferred stock at the par value of $100 per share, increasing capital by $75 million under a plan adopted by its Board of Directors. DTC issued additional 500,000 and 250,000 shares of series A preferred stock at the par value of $100 per share in December 2006 and March 2009, respectively, thereby increasing the amount of preferred stock to $150 million. Each DTC Participant is required to purchase shares.

Series	**Description**	**Total shares issued and outstanding** *(in thousands)*	**Carrying value at Dec. 31, 2013** *(in thousands)*	**Per annum dividend** *(in thousands)*	**Dividends paid per share in 2013** *(in dollars)*
Series A	Noncumulative Perpetual	1,500	$ 150,000	$ 240	$ 0.16

Dividends are accrued monthly based on the earnings of these funds. In December 2010, DTC's authorized series A preferred stock was increased by 1,750,000 shares bringing the total to 3,250,000 authorized shares, or $325 million. None of these newly authorized shares have been issued.

Capital Adequacy. DTC is a limited purpose trust company regulated by the New York State Banking Department, New Jersey Department of Banking and Insurance, the U.S. Securities and Exchange Commission (SEC), and the Federal Reserve Bank of New York. The Company is required to maintain a Tier 1 capital ratio of 4%. As of December 31, 2013 and 2012, DTC's Tier 1 Capital ratio was approximately 13.1% and 11.2%, respectively.

16. TRANSACTIONS WITH RELATED PARTIES

Transactions with DTCC. DTC has an agreement with DTCC whereby DTCC pays for substantially all of the expenses for the operations of DTC. The related expenses are allocated to DTC based upon DTC's use of such goods or services as determined by applicable allocation factors. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for DTC including administrative, internal audit, finance, and legal services. In 2013 and 2012, the billing for these services was determined as 104% of total allocated expenses, excluding pass through charges and the impact of capitalized software. The fee, representing the amount over actual cost, is included in professional and other services expense on the Consolidated Statements of Income.

Transactions with DTCC Solutions LLC. DTC has an agreement with DTCC Solutions LLC whereby validation services performed by DTCC Solutions LLC on behalf of DTC in connection with DTC's corporate action data information are billed at cost. Expenses under this agreement are included in professional and other services on the Consolidated Statements of Income.

Total fees and outstanding payables to the related parties were as follows for 2013 and 2012 (in thousands):

	Expenses		**Payables**	
	2013	**2012**	**2013**	**2012**
DTCC	$ 11,177	$ 12,967	$ 15,517	$ 13,352
DTCC Solutions LLC	29,781	30,611	548	2,852
Total	$ 40,958	$ 43,578	$ 16,065	$ 16,204

17. COMMITMENTS AND CONTINGENT LIABILITIES

Lease commitment. The Company leases office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2011, rent expense under these leases, which includes allocation of rent from DTCC, was $13,048,000 in 2013 and $16,761,000 in 2012 and included in occupancy on the Consolidated Statements of Income.

At December 31, 2013, future minimum rental payments under all non-cancelable leases are as follows (in thousands):

2014	$ 5,947
2015	6,071
2016	6,196
2017	647
Total minimum rental payments	$ 18,861

Litigation. The Company was 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 Company's consolidated financial position, operations, or cash flows.

18. OFF BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a Participant. The Company's exposure to credit risk comes primarily from settlement service operations. Credit risk also comes from financial assets, which consist principally of cash and cash equivalents, accounts receivable, and the Participant Fund.

Concentrations of credit risk may arise through having large connected individual exposures and significant exposures to groups of Participants whose likelihood of default is driven by common underlying factors, including economic conditions affecting the securities industry and debt issuing countries.

Cash and Cash Equivalents. The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located in different geographical regions, and the Company's policy is designed to limit exposure with any one institution. As part of its cash and risk management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions. The Company only makes deposits with banks and financial institutions with a credit rating of at least A or better from Standard & Poor's and Fitch, or A3 or better from Moody's. The Company also monitors the financial condition of the financial institutions on an ongoing basis to identify any significant change in a financial institution's financial condition. If such a change takes place, the amounts deposited in such financial institutions are adjusted.

Accounts Receivable. Credit risk related to accounts receivable involves the risk of nonpayment by the counterparty. Credit risk is diversified due to the large number of Participants comprising the Company's customer base. The Company also performs ongoing credit evaluations of the financial conditions of its customers and evaluates the delinquency status of the receivables.

Participant Fund Cash Deposits. In addition to risk management policies described above for cash and cash equivalents, when Participants provide cash deposits to the Participant Fund, the Company may invest the cash in overnight reverse repurchase agreements (reverse repos). The Company bears credit risk related to overnight reverse repurchase agreements only to the extent that cash advanced to the counterparty exceeds the value of collateral received. Securities purchased under overnight reverse repos are generally U.S. Treasury and Agency securities and, therefore, have minimal credit risk due to low probability of U.S. government default and the highly liquid nature of these securities. Reverse repo investments are secured; collateral must have a market value greater than or equal to 102% of the cash invested. Additionally, overnight reverse repo investments are only placed with financial institutions with a credit rating of A or better from Standard & Poor's and Fitch, or A3 or better from Moody's. To avoid concentration of credit risk exposures, the Company sets credit limits for each counterparty.

The Participant cash deposits may also be invested in money market mutual funds under Rule 2a-7 of the Investment Company Act of 1940 with a credit rating of AAA from Standard & Poor's, Fitch, or Moody's, respectively. Since the Company only invests in highly rated money market mutual funds and cash is returned each morning, the Company has minimal credit risk related to overnight money market mutual funds.

The Company is exposed to credit risk on a daily basis. This risk arises at DTC should a Participant fail to fulfill its settlement obligation.

The Company provides risk management/mitigation by identifying, measuring and responding to these risks in order to protect the safety and soundness of the DTC settlement system. Various tools are utilized to mitigate these risks including, but not limited to, setting capital adequacy standards, assessing new applicants, performing continuous monitoring of Participants financial condition, reviewing Participants daily trading activity and determining appropriate collateral requirements, maintaining the Participant Fund, trade and continuous trade netting, marking unsettled trades to market, and utilizing a variety of advanced quantitative analytical methodologies, such as back and stress testing.

In order to become a participating member, an applicant must meet minimum eligibility criteria (which are specified in the Company's rules). All applicants to be a DTC Participant must provide the Company with certain financial and operational information. This information is reviewed to ensure that the applicant has sufficient financial ability to make anticipated contributions to the Participant Fund and to meet obligations to the Company. The credit quality of the Participant is evaluated at the time of application and monitored on an ongoing basis to determine if the Participant continues to be financially stable and continue to meet the financial requirements of membership. As part of its review, the Company utilizes an internal credit risk-rating matrix to risk rate its Participants. The resulting rating determines the level of financial review that will be performed on each Participant and may impact their Participant Fund requirements.

Collateralization controls and net debit caps are employed by DTC to protect Participants against the risk that one or more Participants may fail to pay for their settlement obligations. DTC's collateralization controls prevent the completion of transactions that would cause a Participant's net debit balance to exceed the value of collateral in its account. This is designed so that if a Participant fails to pay for its settlement obligation DTC will have sufficient collateral to secure liquidity funding for settlement and liquidation of the collateral to repay any loans. DTC's net debit cap controls limit the net settlement debit that each Participant can incur to an amount, based upon activity level, which would be covered by DTC's sources of liquidity. The net debit cap is structured so that DTC will have sufficient liquidity to complete settlement should any single Participant or Participant family fail to settle.

DTC maintains a committed, secured line of credit to support potential liquidity needs in the event of a Participant default. See Note 12 Debt for additional details.

The Company also limits its exposure to potential losses from default by Participants through its multilateral netting contract and limited cross-guaranty agreements with NSCC, FICC and OCC. This arrangement is designed to provide a mechanism for the sharing of excess net resources of a common defaulting participant held at one clearing agency to cover losses incurred at another clearing agency. DTC and the OCC also have an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual Participant's failure. Further, DTC and NSCC have a netting contract and limited cross-guaranty agreement with DTC which includes certain arrangements so that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized.

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

19. IMPACT FROM SUPERSTORM SANDY

During the last quarter of 2012, the Company's operations were significantly impacted by Superstorm Sandy (Sandy). The floodwaters that engulfed the lobby and underground floors of its corporate headquarters at 55 Water Street in Lower Manhattan forced a lengthy closure of that building, displacing some 2,300 employees along with the Company's operations from the site.

For the years ended December 31, 2013 and 2012, the expenses and insurance recoveries were recorded in other general and administrative, and are as follows (in thousands):

	2013	2012
Clean up and restoration of security certificates	$ 12,313	$ 5,700
Corporate expenses	5,221	3,360
Legal fees	2,229	2,080
Replacement of technical equipment	249	2,880
Property damage and building restoration	(561)	1,280
Total expenses	19,451	15,300
Insurance recoveries and rent credit	(24,720)	(3,200)
Net impact	$ (5,269)	$ 12,100

In addition, as a result of Sandy, DTC is at risk for a range of additional potential exposures. The most significant of these stem from the flooding of the vault and resultant damage to certificates. As a result, the Company has potential contingent liabilities from (i) the issuance of indemnifications to Transfer Agents for damaged certificates to enable the processing of transactions until such time that the certificates become physically available, (ii) replacement of the certificates and (iii) issuance of surety bonds for the replaced certificates.

During 2013, DTCC issued 99,997 Letter of Indemnification (LOI) certificates and rescinded 54,809 of them as of December 31, 2013. The Company continues to assess this matter and believes, based on information available to it, the resolution of these matters will not have a material adverse effect on the financial condition and to the Company's operating results or cash flows for any particular period. Accordingly, no such amounts have been recognized by the Company in the accompanying consolidated financial statements. The Company continues to assess the probability and the estimation of the exposure to determine the extent of further disclosure and/or recognition may be necessary going forward. As of February 27, 2014, the total number of certificates outstanding were 24,415, valued at $10.4 billion.

In accordance with applicable guidance, DTCC establishes accruals for replacement of the certificates and issuance of surety bonds for the replaced certificates where they represent loss contingencies that are both probable and reasonably estimable. As of December 31, 2013, the company established a $2.5 million accrual for these probable cash outflows. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. DTCC will continue to monitor such matters for developments that could affect the amount of the accrual, and will adjust the accrual as appropriate. DTCC believes its accruals for these exposures are appropriate and, in the aggregate, are not material to the consolidated financial position of DTCC, although future accruals could have material effect on net income in a given period.

DTCC maintains a property insurance policy that has sublimit that apply to various types of damage, such as business interruption (lost profits), extra expenses (expenses incurred to keep normal business operations running), debris removal, etc., and also to specific types of damage incurred from catastrophic natural disasters such as hurricanes, earthquakes, and floods. DTCC also maintains insurance coverage for losses relating to its business as a custodian of property, including losses arising from damage or destruction of securities. During 2013, DTCC received $25 million payment against its claims related to property, business interruption and losses arising from damage or destruction of securities and is included within other general and administrative line item in the accompanying Consolidated Statements of Income. Subsequently in January 2014, an additional $7.8 million payment was received against these claims bringing the total insurance recovery amount to $32.8 million.

20. OTHER MATTERS

Lehman Brothers Inc. On September 19, 2008, a Trustee was appointed, under the Securities Investor Protection Act (SIPA), to administer and liquidate the business of Lehman Brothers Inc. (LBI). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. (Barclays), which assets did not, however, include the accounts that LBI maintained at NSCC, FICC, and DTC.

As a result, the Trustee, Barclays, and DTCC, on behalf and for the benefit of NSCC, FICC, and DTC (collectively, the "Clearing Agency Subsidiaries") entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the close out of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of Participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify, and hold harmless DTCC, each of NSCC, FICC, and DTC, and their officers, directors, employees, owners, agents, and representatives against any and all losses, claims, damages, expenses (including legal fees), or liabilities that any of them may incur as a result of winding down and closing out the respective accounts, which guaranty is limited to a $250,000,000 cash deposit (the "Cash Deposit") it provided for that purpose.

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of LBI's Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remains after the close out of the LBI Accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee. The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the Trustee.

With respect to LBI, DTCC and its subsidiaries held the following at December 31:

	2013	2012
Cash Deposits	$ 32,556,821	$ 32,556,821
Participant and clearing funds	1,160,135	1,160,135
Matured MMI accounts	29,616,175	29,616,175
Total	$ 63,333,131	$ 63,333,131

As of December 31, 2013, DTCC had delivered to the Trustee of the LBI estate $5,125,811,000 in cash and Clearing fund securities valued at $159,479,000, attributable to the LBI estate.

MF Global Inc. On October 31, 2011, a Trustee was appointed, under the SIPA, to administer and liquidate the business of MF Global Inc. (MFG). As part of the liquidation of MFG, any losses will first be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of MFG's Clearing or Participant Fund deposits and any clearing agency cross guaranty agreements). If any portion of such funds remains after the close out of the MFG accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee.

With respect to MFG, DTCC and its subsidiaries held the following at December 31:

	2013	2012
Cash Deposits	$ 22,877,984	$ 21,658,797
Participant and clearing funds	6,120,422	6,210,352
Total	$ 28,998,406	$ 27,869,149

As of December 31, 2013, DTCC had delivered cash to the Trustee of the MFG estate $227,287,000, attributable to the MFG estate.

Management does not expect that there will be any losses attributable to the liquidation of the LBI or MFG accounts to be assessed against retained earnings or Participants.

Severance. For the year ended December 31, 2013, DTC incurred severance expense totaling $3,265,000 that is included in employee compensation and related benefits on the accompanying Consolidated Statement of Income. In 2012, there was a similar expense of $10,444,000.

21. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2013 through February 28, 2014, for potential recognition or disclosure in these consolidated financial statements. Except for the items described below, no events or transactions occurred during such period that would require recognition or disclosure in these Consolidated Financial Statements.

On February 6, 2014, the U.S. Securities and Exchange Commission approved DTC rule filing SR-DTC-2014-01. Under the rule change, DTC will no longer count the amount paid by Participants for the purchase of DTC Series A Preferred Stock ($150 million in the aggregate) as a liquidity resource for the Participant Fund; it will account for this amount as capital, available for general business purposes.