First Empire Securities, Inc. is a full-service institutional broker-dealer, headquartered in New York. Since 1984 we have been a strategic partner to depository institutions, municipalities, insurance companies and other institutional clients in the development of fixed-income investment solutions. We follow a proven methodology that produces results. Instead of focusing only on an institution’s investment portfolio, we use a total balance sheet approach to help clients better manage their overall business.

With an eye on securing our client’s best interests, we have earned the respect of institutions nationwide that rely on the quality and integrity of our services. Since our inception, we have been committed to their performance, and have held steadfast to the simple principle of putting our client’s interests above all else.
Total Balance Sheet Approach

Instead of simply applying a strategy of the day, our Financial Strategy Group takes a macro view of an entire institution to help clients go beyond their investments and to understand their potential. Inspired by our clients’ success, we can become a partner who can be counted on year after year.

Drawing on decades of experience, our financial analysts will assess the potential of an institution's investment portfolio and balance sheet to make strategic recommendations that take advantage of opportunities and mitigate risks. We also employ the resources of our affiliate companies* to provide support in key areas:

- Risk management
- Asset liability management
- Regulatory consulting
- Custom analytics

- Loan portfolio strategies
- Deposit and funding solutions
- Bond accounting

First Empire is a client-driven business. Instead of focusing on our own inventory of securities, our traders look for the best value in each sector based on their in-depth knowledge of the marketplace. Our trading desk consists of seasoned professionals who specialize in each fixed income investment sector and have immediate access to hundreds of dealer inventories and the new issue market. This provides a very powerful combination of resources to find the most appropriate investment for an institution.

- Treasuries
- Agencies
- Corporate bonds
- Municipal bonds
- Mortgage-backed securities (MBSs)
- Agency collateralized mortgage obligations (CMOs)

*Balance Sheet Management Services, Inc., LPC Services, Inc. and First Empire CD Management, Inc. are not members of FINRA or SIPC. First Empire Securities, Inc. is solely a member of FINRA and SIPC. This information is subject to change without notice. This document is not, and should not be construed as an offer or solicitation to buy or sell any security or securities.
Clear and Practical Analytics

The risk and reward dilemma often creates an element of emotion that could get in the way of making sound business decisions. That’s why we make it about the numbers and take emotion out of the equation. By utilizing advanced analytics, we can demonstrate a clear and practical approach that makes good business sense.

Our analytic capabilities help effectively manage risk within the investment portfolio, while identifying strategic opportunities. First Empire’s Dynamic Portfolio Analysis (DPA) is a proprietary analytical tool that stands apart from the rest. It allows us to model virtually any form of “what if” investment scenario, and display in real-time the changes side-by-side versus the original portfolio. We can also be flexible with CUSIP level data without being limited to any particular dealer inventory. We can evaluate how investment portfolio changes will affect your interest rate risk, liquidity risk and concentration risk. This comprehensive analysis measures the impact of changes on your balance sheet and overall performance.

Our portfolio analytics team uses the DPA and other analytics to conduct comprehensive reviews of institutions’ investment portfolios. Whether the strategy is to outperform an internal or industry benchmark, maintain a favorable spread to liabilities, understand an examiner’s position, or identify strengths, weaknesses, threats and opportunities, we can help you effectively manage your investment portfolio.

Financial Strategy Group

Comprised of industry professionals with decades of experience, our financial strategy group uses state-of-the-art analytics to help clients assess their portfolio sustainability against various market environments. They take a balanced approach that offers a deeper level of insight into an institution’s overall performance. As a strategic partner, they are recognized as a valued resource.
Empower through Education

As an industry leader in education, we support a learning environment that equips clients with the knowledge they need to make well-informed investment decisions. They are introduced to a wide range of portfolio strategies, investment products and regulatory issues that can help them gain a broader perspective of the marketplace.

Engrained in our company culture is a commitment to education. We demand advanced training from our employees, and encourage clients to become well-versed on the latest products, strategies and developments in the marketplace. The need to understand and explain balance sheet management techniques and investment strategies is critical in today’s environment of higher examiner scrutiny.

We believe that by challenging ourselves to go beyond the industry standards in education, we can help institutions gain a greater awareness of their potential, and ultimately make more intelligent financial decisions.

First Empire’s Continuing Professional Education (CPE) program offers training sessions on a wide range of fixed income asset classes and industry developments through group webinars and workshops. We also invite clients to visit our corporate headquarters in New York, where we present a customized educational agenda on topics such as Fixed Income Portfolio Management, Portfolio Analysis and Balance Sheet Strategies, as well as product-specific education.
First Empire’s Office of Regulatory Affairs is comprised of former examiners from the National Credit Union Administration (NCUA) and the Office of the Comptroller of the Currency (OCC). They provide regulatory updates to assist in the compliance process, respond to client inquiries, and conduct educational seminars. They also offer regulatory commentary about how proposed regulations could impact an institution’s asset liability management, investment and liquidity management programs.
Balance Sheet Management Services provides comprehensive analytics and consulting services to institutions nationwide. These services, which clients use to actively manage their balance sheet, offer data and policy insights on earnings, capital, liquidity, interest rate risk, economic value of equity and gap matrices.

**Asset Liability Management**

Our ALM model is one of the most comprehensive in the industry. While many depository institutions use their ALM report only for regulatory compliance purposes, our user-friendly documents are actually designed to help better manage the balance sheet.

The ALM document includes a historical “peer comparison” of an institution’s primary operating and income ratios, as well as a capital utilization analysis that shows potential growth and leverage forecasts, with details of the maximum regulatory asset growth and potential impact on net income, ROA, ROE and dividends.

The report provides a liquidity management analysis that shows a historical comparison of deposit and loan growth, a ten-year projection of rate-shocked investment portfolio cash flows, plus a comprehensive liquidity calculation. It also features interest rate risk management data in a three-year income simulation of up and down interest rate scenarios, and an economic value rate-shock analysis that details the fair value appraisal of all assets, liabilities and capital.

In addition to the ALM document, institutions receive customized support and strategic insight from a seasoned team of industry professionals. The comprehensive consultation includes a detailed discussion about the inputs, assumptions and results from the report, as well as potential risks and opportunities that were revealed in the analysis.

**Investment Accounting Services**

We provide access to comprehensive portfolio accounting services. After a portfolio is created, the only required maintenance is to confirm any new transactions. As part of the service, clients receive monthly reports and data files, including portfolio distribution and maturity reports; independent market value pricing, premium, discount, amortization and accretion reports; ASC 320 accounting reports; interest accrual reports; transaction reports; ABS, MBS, and CMO information and prepayment reports.

**Policy Reviews and Revisions**

We offer institutions an in-depth understanding of their investment policies, placing emphasis on available investment opportunities, regulations and examiner decisions. Our Office of Regulatory Affairs assists with the review, revision and creation of policies pertaining to interest rate risk and asset liability management, liquidity management and contingency funding, investments, concentration risk and loan participation. We also assist institutions in establishing risk limits and ALCO reporting, as well as examination support and examination concern resolution.

**Board, ALCO and Senior Management**

Our customized presentations feature user-friendly charts and graphs that can make communicating with boards, asset-liability committees and senior management easy and productive. New regulations, interpretive rulings, asset liability management and chartering are among the topics most presented on. We can offer your institution customized presentations on various topics, and provide balance sheet management education to help meet the financial literacy requirements for board directors.

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*Accounting services are offered through FinSer Corp, which is neither an affiliate nor a subsidiary of First Empire Securities, Inc. Any services provided by FinSer Corp. are the sole responsibility of FinSer Corp.*

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Affiliate Services

Loan Portfolio Solutions

LPC Services was founded in response to a growing desire by institutions to enter the loan participation market. Since 2000, LPC has worked with financial institutions to enhance the performance of their loan portfolios and mitigate risks to their balance sheets. With a nationwide network of financial institutions, LPC can provide a myriad of options when assessing whether to buy or sell a loan portfolio.

Loan Participation Program

LPC Services uses a customized approach to provide loan solutions for depository institutions nationwide. Our Loan Participation Program matches buyers and sellers, providing both with several key benefits. Since the local market is limited in scope and may not be able to fully accommodate community depository institutions, our expanded national reach allows us to identify and offer cost-effective options for both buyers and sellers.

For buyers, the program provides additional avenues to diversify loan products and concentration risks, establish new borrower relationships, and extend geographic limitations. We provide the resources to assess the value of loan participations in an institution’s balance sheet.

For the seller, LPC’s value is its ability to quickly market a loan participation package to a host of qualified buyers. With a click of the mouse, loans can be presented on a secure platform to a nationwide network of potential buyers, and shortly thereafter it can be target marketed to those most likely to participate.

Our services include:

• Assistance in funding loan projects outside of an institution’s legal lending limits.
• The ability to offer additional loans to customers to maintain loyalty.
• An outlet to mitigate concentration risk in a product type or geographical area.
• An alternative to high borrowing rates.

Credit Card Alliance Program

Although the credit card portfolio is often perceived as the highest-yielding asset on an institution’s balance sheet, an in-depth analysis often demonstrates that the effective yield is quite a bit lower than the gross yield. That, coupled with the compliance expense, finance charges and fee restrictions mandated by the Credit Card Reform Act of 2009, has led many depository institutions to take another look at the risks and rewards of their portfolio. Since 2006, LPC Services has performed credit card analyses for institutions throughout the United States.

Our LPC specialists are available to review institutions’ current programs and to discuss relevant aspects of their credit card business, such as growth strategies, competition, fraud, credit risk and expenses. A risk-adjusted profitability analysis and assistance in evaluating long-term options are also provided.

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First Empire CD Management, Inc.

Growth Strategies

First Empire CD Management is a reliable source for non-negotiable certificates of deposit and CD funding. We specialize in fixed- and variable-rate CDs with maturities of one year or more, and have an inventory of rates suitable for short- or long-term objectives. A team of experienced professionals is dedicated to assisting CD investors and facilitating CD funding for institutions. Our ultimate goal is to negotiate rates that will complement portfolios of any size and tailor maturities that meet any institution’s requirements.

CD Funding Assistance

First Empire CD Management can help institutions find all the CD funding that they need. By tapping into a nationwide network of institutions, we can quickly identify potential depositors that meet an institution’s specific needs to ensure the cost does not exceed the negotiated rate of interest. Depositors are instructed to wire funds directly, along with their complete return wiring instructions. A transaction confirmation that notes the length and term of the certificate, and the rate of interest being paid, is sent to the institution and each respective depositor. These return rates and terms are predetermined by the receiving institution, and once an estimate of the amount of funds your institution needs is obtained, all necessary processing is completed quickly and efficiently.

CD Investing Assistance

Our financial professionals are constantly working to target CDs that meet an institution’s specific needs. In addition, we provide direct wiring instructions to the issuing institution, assistance in receiving monthly interest checks, and suggestions on maturing jumbo CDs.

First Empire Asset Management, Inc.

First Empire Asset Management (FEAM) is an SEC-registered investment advisor offering personalized fixed income investment advisory services to institutional clients. With direct access to our portfolio managers, clients can be certain that they are making well-informed, calculated investment decisions that could enhance the long-term financial security of their investment portfolios.

At First Empire Asset Management, we provide tailored portfolio solutions utilizing an unbiased approach based on the objectives of our clients. Through our discretionary and non-discretionary, fee-based investment advisor options, our fixed income portfolio managers get to know our clients’ risk tolerances and investment guidelines, allowing them the ability to construct customized portfolios for optimal financial success.

This information is subject to change without notice. This document is not, and should not be construed as an offer or solicitation to buy or sell any security or securities. First Empire CD Management Inc., and First Empire Asset Management Inc., are not members of FINRA or SIPC. First Empire Securities, Inc., is solely a member of FINRA and SIPC.
AUDITED STATEMENT OF FINANCIAL CONDITION

December 31, 2013
INDEPENDENT AUDITORS' REPORT

Board of Directors
First Empire Securities, Inc.
Hauppauge, New York

Report on the Financial Statements

We have audited the accompanying statement of financial condition of First Empire Securities, Inc. (the “Company”) as of December 31, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of First Empire Securities, Inc. as of December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

Hauppauge, New York
February 26, 2014
**FIRST EMPIRE SECURITIES, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
December 31, 2013

**ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$329,833</td>
</tr>
<tr>
<td>Deposits with clearing broker</td>
<td>$258,033</td>
</tr>
<tr>
<td>Securities owned at market</td>
<td>$33,676,045</td>
</tr>
<tr>
<td><strong>Trading</strong></td>
<td>$281,333</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>$281,333</td>
</tr>
<tr>
<td>Cash surrender value of life insurance</td>
<td>$4,225,518</td>
</tr>
<tr>
<td>Other assets</td>
<td>$449,501</td>
</tr>
<tr>
<td>Security deposit</td>
<td>$201,224</td>
</tr>
<tr>
<td>Property, equipment and leasehold improvements</td>
<td>$1,771,051</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$41,192,538</strong></td>
</tr>
</tbody>
</table>

**LIABILITIES AND STOCKHOLDER’S EQUITY**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$1,857,799</td>
</tr>
<tr>
<td>Payable to broker and clearing organization</td>
<td>$29,683,543</td>
</tr>
<tr>
<td>Securities sold, not yet purchased</td>
<td>$326,164</td>
</tr>
<tr>
<td>Deferred compensation payable</td>
<td>$2,900,014</td>
</tr>
<tr>
<td><strong>Total Liabilities and Stockholder’s Equity</strong></td>
<td><strong>34,767,520</strong></td>
</tr>
</tbody>
</table>

**COMMITMENTS AND CONTINGENCY**

**STOCKHOLDER’S EQUITY**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock - no par value, 1,000 shares authorized,</td>
<td>$324,156</td>
</tr>
<tr>
<td>400 issued and outstanding</td>
<td></td>
</tr>
<tr>
<td>Additional paid in capital</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>$4,600,862</td>
</tr>
<tr>
<td><strong>Total Stockholder’s Equity</strong></td>
<td><strong>6,425,018</strong></td>
</tr>
<tr>
<td><strong>Total Stockholder’s Equity</strong></td>
<td><strong>$41,192,538</strong></td>
</tr>
</tbody>
</table>

See notes to statement of financial condition.
**Note 1 – Nature of Business**

First Empire Securities, Inc., (the “Company”) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). All securities transactions are cleared through another broker (clearing broker) that settles all transactions and maintains customer accounts. The Company maintains a nationwide customer base.

**Note 2 – Summary of Significant Accounting Policies**

**Securities Transactions**

Proprietary and customer trading securities are included in trading securities while other securities are included in investment securities. Profit and loss arising from both trading and investment activities is reported on a settlement date basis.

**Cash and Cash Equivalents**

Cash equivalents consist of money market funds and investments with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days and other short-term investments are classified separately.

The Company maintains cash in certain financial institutions that may exceed the insurance limit. The Company has not experienced any losses to date resulting from this policy.

**Property, Equipment and Leasehold Improvements**

Property, equipment and leasehold improvements are recorded at cost net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives which range from three to thirty nine years. Expenditures for maintenance and repairs which do not add to the economic life of the asset are expensed as incurred.

**Impairment of Long-Lived Assets**

The Company reviews the carrying values of long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value cost to sell. Management has determined that there have been no impairments of long-lived assets through December 31, 2013.

**Income Taxes**

The Company is a member of a controlled group of companies, First Empire Holding Corp. and Subsidiaries. First Empire Holding Corp. has elected, by consent of its stockholder, to be taxed as an S Corporation for Federal and State tax purposes and files a consolidated tax return. Under those provisions, the Company does not pay Federal or New York State corporate income taxes on its taxable income. After December 21, 2012, all common stock of First Empire Holding Corp. is owned by an “Employee Stock Ownership Plan” for which the plan is not liable for Federal or State income tax.

Income tax expense included in the financial statements includes surcharges and taxes on other states the Company operates in.
Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Company accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense. The Company has identified its tax status as a corporation electing to be taxed as a pass-through entity as a tax position; however, the Company has determined that such tax position does not result in an uncertainty requiring recognition. In addition to its tax status, the Company has other tax positions that have been determined to be highly certain and therefore no reserve for unrecognized tax liability is deemed necessary. The Company is not currently under examination by any tax jurisdiction. Federal and state income tax returns are generally open for examination for three years.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

Note 3 – Deposits with Clearing Broker

The Company’s clearing broker is Pershing, LLC. The agreement between the Company and Pershing, LLC requires that the Company maintain a collateral deposit of $250,000. The collateral deposit including interest receivable as of December 31, 2013 is $258,033.

Note 4 – Cash Surrender Value of Life Insurance

These assets represent the cash value for insurance contracts concerning certain key employees.
Note 5 – Fair Value

The Company records certain assets and liabilities at fair value using framework provided by accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Various inputs are used in determining fair value. These inputs are summarized in the three broad levels listed below:

Level 1:  Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2:  Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3:  Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Securities measured at fair value on a recurring basis are summarized below:

There were no Level 3 inputs as of December 31, 2013.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Fair Value</th>
<th>Quoted Prices In Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Treasury Bills</td>
<td>$30,000,000</td>
<td>$30,000,000</td>
<td>$-0-</td>
</tr>
<tr>
<td>Bonds/Notes/CD's</td>
<td>1,223,625</td>
<td>-0-</td>
<td>1,223,625</td>
</tr>
<tr>
<td>Government Securities</td>
<td>2,733,753</td>
<td>-0-</td>
<td>2,733,753</td>
</tr>
<tr>
<td></td>
<td>$33,957,378</td>
<td>$30,000,000</td>
<td>$3,957,378</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Fair Value</th>
<th>Quoted Prices In Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities sold, not yet purchased</td>
<td>$326,164</td>
<td>-0-</td>
<td>$326,164</td>
</tr>
</tbody>
</table>

On December 31, 2013, the Company purchased United States Treasury Bills of approximately, $30,000,000, which were sold with a trade date of January 2, 2014. As of December 31, 2013, these Treasury Bills are included in Securities Owned at Market. The Company did not have any other significant investments in United States Treasury Bills during 2013.
Note 6 – Property, Equipment, and Leasehold Improvements

Property, equipment and leasehold improvements consist of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office furniture and fixtures</td>
<td>$1,257,798</td>
</tr>
<tr>
<td>Office equipment</td>
<td>$1,964,201</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>$1,400,755</td>
</tr>
<tr>
<td>Automobile</td>
<td>$ 46,233</td>
</tr>
<tr>
<td></td>
<td><strong>4,668,987</strong></td>
</tr>
</tbody>
</table>

Less: accumulated depreciation and amortization  

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$2,897,936</td>
</tr>
<tr>
<td></td>
<td><strong>1,771,051</strong></td>
</tr>
</tbody>
</table>

Note 7 – Payable to Clearing Broker

The Company clears its trading securities, as described in Note 2, through another broker-dealer on a fully disclosed basis. The amount payable to the clearing broker relates to the aforementioned transactions and is collateralized by securities owned by the Company.

Payable to the clearing broker is for the purchase of securities net of amounts due from the clearing broker from all transactions.

Note 8 – Related Party Transactions

First Empire Securities, Inc. is a member of a controlled group of companies, First Empire Holding Corp. and Subsidiaries. These companies share office facilities, personnel, operating costs and a common paymaster.

The Company has an expense allocation agreement with the aforementioned affiliated companies resulting in the reimbursement of expenses to the Company of approximately $418,000 of operating expenses. At December 31, 2013, the Company had a net balance due from First Empire Holding Corp. and Subsidiaries of $115,362.

Note 9 – Commitments and Contingency

Operating Leases

During 2004, the Company entered into an agreement to rent office space, expiring March 2015, that is accounted for as an operating lease. This lease was renewed for a period expiring March 2027. Rent expense for the year ended December 31, 2013 was approximately $805,000. The Company also entered into various lease agreements for office equipment and transportation equipment expiring through May 2016.
Note 9 – Commitments and Contingency (continued)
Operating Leases (continued)
Future minimum commitments under the aforementioned lease agreements are as follows:

<table>
<thead>
<tr>
<th>Years ending December 31</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>522,372</td>
</tr>
<tr>
<td>2015</td>
<td>415,943</td>
</tr>
<tr>
<td>2016</td>
<td>679,372</td>
</tr>
<tr>
<td>2017</td>
<td>824,986</td>
</tr>
<tr>
<td>2018</td>
<td>841,858</td>
</tr>
</tbody>
</table>

Minimum lease payments in this schedule exclude contingent rentals and rentals under renewal options, which, as of December 31, 2013, are not reasonably assured of being exercised.

Note 10 – Deferred Compensation Payable
The Company sponsors a nonqualified deferred compensation plan (the “Plan”) for certain key employees. The Company designates the Plan participants and the annual benefits that accrue under the Plan. The Company at its sole discretion credits amounts to participants’ account balances under this plan. The Company’s obligation under the Plan is not funded and participant account balances are bookkeeping entries only.

For the year ended December 31, 2013, the projected benefit obligation is $2,900,014 which is included in liabilities. At year end the assumed discount rate is 4.95%.

Note 11 – Retirement Plans
401(k) Plan
The Company participates in a 401(k) plan for eligible employees who meet certain age and service requirements. For the year ended December 31, 2013 employer contributions were $252,438.

Employee Stock Option Plan
First Empire Holding Corp. (the “Sponsor”) Employee Stock Ownership Plan (the “Plan”) was established on December 21, 2012. The purpose of the Plan is to provide retirement benefits to eligible employees. The Plan is a leveraged employee stock ownership plan that covers all employees of the Company that meet certain age and service requirements, as defined. The Sponsor will make annual contributions to the ESOP. As contributions are made by the Sponsor, shares are released from the suspense account and allocated to participants who are actively employed on the last day of the plan year, or who are not actively employed on the last day of the plan year because of disability (as hereinafter defined) or death occurring during such plan year. Although not a guarantor, the common stock of the Company is pledged as collateral for the bank debt owed by First Empire Holding Corp.
Note 12 – Net Capital Requirements

The Company is subject to the Securities and Exchange Commission’s Uniform Net Capital Rule (rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, should not exceed 15 to 1. At December 31, 2013, the Company has net capital of $3,864,558 which is $3,550,205 in excess of its required minimum net capital of $314,353 (the greater of $100,000 or 6.67% of $4,715,339 aggregate indebtedness). At December 31, 2013, the Company’s net capital ratio is 1.22 to 1.
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PERSHING LLC
(An Indirect Wholly Owned Subsidiary of
The Bank of New York Mellon Corporation)

Statement of Financial Condition

December 31, 2013

(With Reports of Independent Registered Public Accounting Firm)
# Table of Contents

<table>
<thead>
<tr>
<th>Report</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of Independent Registered Public Accounting Firm</td>
<td>1</td>
</tr>
<tr>
<td>Statement of Financial Condition</td>
<td>2</td>
</tr>
<tr>
<td>Notes to Statement of Financial Condition</td>
<td>3</td>
</tr>
</tbody>
</table>

**Supplementary Report**

<table>
<thead>
<tr>
<th>Report</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of Independent Registered Public Accounting Firm on Internal Control Pursuant to Securities and Exchange Commission Rule 17a-5</td>
<td>17</td>
</tr>
</tbody>
</table>
Report of Independent Registered Public Accounting Firm

The Board of Managers and
Member of Pershing LLC:

We have audited the accompanying statement of financial condition of Pershing LLC as of December 31, 2013, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the statement of financial condition (the financial statement).

Management’s Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly in all material respects, the financial position of Pershing LLC as of December 31, 2013, in accordance with U.S. generally accepted accounting principles.

February 26, 2014
PERSHING LLC
(An Indirect Wholly Owned Subsidiary of
The Bank of New York Mellon Corporation)

Statement of Financial Condition
December 31, 2013
(Dollars in millions)

Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 583</td>
</tr>
<tr>
<td>Cash and securities segregated for regulatory purposes</td>
<td>5,637</td>
</tr>
<tr>
<td>Collateralized financing agreements:</td>
<td></td>
</tr>
<tr>
<td>Securities borrowed</td>
<td>4,661</td>
</tr>
<tr>
<td>Securities purchased under agreements to resell</td>
<td>796</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>10,100</td>
</tr>
<tr>
<td>Broker-dealers and clearing organizations</td>
<td>2,977</td>
</tr>
<tr>
<td>Affiliates</td>
<td>1,357</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>30</td>
</tr>
<tr>
<td>Financial instruments owned, at fair value</td>
<td>21</td>
</tr>
<tr>
<td>Other assets</td>
<td>347</td>
</tr>
</tbody>
</table>

| Total assets                                                    | $ 26,509|

Liabilities and Member’s Equity

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Drafts payable</td>
<td>$ 390</td>
</tr>
<tr>
<td>Collateralized financing agreements:</td>
<td></td>
</tr>
<tr>
<td>Securities sold under agreements to repurchase</td>
<td>3,292</td>
</tr>
<tr>
<td>Securities loaned</td>
<td>1,938</td>
</tr>
<tr>
<td>Payables:</td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>14,417</td>
</tr>
<tr>
<td>Broker-dealers and clearing organizations</td>
<td>1,727</td>
</tr>
<tr>
<td>Affiliates</td>
<td>2,128</td>
</tr>
<tr>
<td>Financial instruments sold, but not yet purchased, at fair value</td>
<td>4</td>
</tr>
<tr>
<td>Accounts payable, accrued expenses and other</td>
<td>289</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>24,185</td>
</tr>
<tr>
<td>Member’s contributions</td>
<td>756</td>
</tr>
<tr>
<td>Accumulated earnings</td>
<td>1,568</td>
</tr>
<tr>
<td>Total member’s equity</td>
<td>2,324</td>
</tr>
<tr>
<td>Total liabilities and member’s equity</td>
<td>$ 26,509</td>
</tr>
</tbody>
</table>

See accompanying notes to statement of financial condition.
(1) **Organization and Description of Business**

Pershing LLC (the Company) is a single member Delaware Limited Liability Company and a wholly owned subsidiary of Pershing Group LLC (the Parent), which is a wholly owned subsidiary of The Bank of New York Mellon Corporation (BNY Mellon).

The Company is registered as a securities broker-dealer with the Securities and Exchange Commission (SEC) authorized to engage in fully disclosed and omnibus clearing, sales and trading and brokerage services. The Company is a member of the New York Stock Exchange, Inc. (NYSE), Financial Industry Regulatory Authority (FINRA), Chicago Board of Options Exchange, Inc., Securities Investor Protection Corporation (SIPC), and other regional exchanges.

(2) **Summary of Significant Accounting Policies**

The Company’s statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management’s best judgment and estimates. Estimates and assumptions that affect the reported amounts in the statement of financial condition and accompanying notes may vary from actual results.

(a) **Cash and Cash Equivalents**

The Company defines cash and cash equivalents as highly liquid investments with original maturities of three months or less.

(b) **Cash and Securities Segregated for Regulatory Purposes**

The Company defines cash and securities segregated for regulatory purposes as deposits that have been segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the SEC.

(c) **Collateralized Financing Agreements**

Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (resale agreements) are treated as financing arrangements and are carried at their contract amount, the amount at which they will subsequently be resold or repurchased, plus related accrued interest. Repurchase and resale agreements are typically collateralized by cash or government and government agency securities and generally have terms from overnight up to three months. The Company nets repurchase agreements and resale agreements in the statement of financial condition in accordance with Accounting Standards Codification (ASC) 210-20, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*. The impact of netting as of December 31, 2013 was $799.1 million.

Securities borrowed and securities loaned are financing arrangements that are recorded at the amount of cash collateral advanced or received. For securities borrowed, the Company deposits cash, letters of credit or other collateral with the lender. For securities loaned, the Company receives cash collateral that typically exceeds the market value of securities loaned.
It is the Company’s policy to take possession of the underlying collateral, monitor its market value relative to the amounts due under the agreements and, when necessary, require prompt transfer of additional collateral or reduction in the loan balance in order to maintain contractual margin protection. In the event of counterparty default, the financing agreement provides the Company with the right to liquidate the collateral held.

(d) **Receivables and Payables – Broker-Dealers and Clearing Organizations**

Receivables from brokers, dealers and clearing organizations include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date (fails to deliver), deposits with clearing organizations and the Company’s introducing brokers’ margin loans. Payables to brokers, dealers and clearing organizations include amounts payable for securities not received by the Company from a seller by the settlement date (fails to receive), clearing deposits from introducing brokers and amounts payable to the Company's introducing brokers.

(e) **Fair Value of Financial Instruments Owned**

ASC 820, *Fair Value Measurement and Disclosures*, defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 defines fair value as “the price that would be received to sell an asset and paid to transfer a liability in an ordinary transaction between market participants at the measurement date.” Under ASC 820, fair value is generally based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including price activity for equivalent instruments and valuation pricing models. See note 4 to Statement of Financial Condition for disclosures with respect to ASC 820.

(f) **Fixed Assets and Intangibles**

Fixed assets are recorded at cost, net of accumulated depreciation. Depreciation is recorded on a straight-line basis over the useful lives of the related assets, generally two to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of the term of the lease or 10 years. For internal-use computer software, the Company capitalizes qualifying costs incurred during the application development stage. The resulting asset is amortized using the straight-line method over the expected life, which is generally five years. All other nonqualifying costs incurred in connection with any internal-use software projects are expensed as incurred.

Identifiable intangible assets are amortized on a straight-line basis over their estimated useful life, which is generally 15 years from the date of acquisition and are assessed annually for impairment indicators pursuant to the provision of ASC 350, *Intangibles – Goodwill and Other*, and ASC 360, *Property, Plant & Equipment*.

(g) **Customer Transactions**

Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Customer securities transactions are recorded on a settlement date basis, which is generally three business days after trade date.
Securities owned by customers, including those that collateralize margin or other similar transactions are not reflected in the statement of financial condition.

(h) Restricted Stock Units

During the year, BNY Mellon issued restricted stock to employees, including certain Company employees. The Company accounts for this plan in accordance with ASC 718, Compensation – Stock Compensation and, accordingly, compensation cost is measured at the grant date based on the value of the award and is recognized over the vesting period.

(i) Income Taxes

The Company is included in the consolidated federal and combined state and local income tax returns filed by BNY Mellon. In addition, the Company files stand-alone tax returns in certain jurisdictions including New Jersey. Income taxes are calculated using the modified separate return method, and the amount of current tax expense or benefit is either remitted to or received from BNY Mellon, pursuant to a tax sharing agreement between BNY Mellon and the Company.

The Company accounts for income taxes in accordance with FASB ASC 740, Income Taxes, which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and the tax basis of the assets and liabilities. If appropriate, deferred tax assets are adjusted by a valuation allowance, which reflects expectations of the extent to which such assets will be realized.

In accordance with ASC 740, the Company recognizes the effect of the income tax positions only if those positions are more likely than not of being sustained. A tax position that fails to meet a more-likely-than-not recognition threshold will result in either a reduction of the current and deferred tax assets, and/or recording of current or deferred tax liabilities.

(3) Receivables from and Payables to Broker-Dealers and Clearing Organizations

Amounts receivable from and payable to broker-dealers and clearing organizations include the following (dollars in millions):

<table>
<thead>
<tr>
<th>Receivables:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brokers and dealers</td>
<td>$ 2,239</td>
</tr>
<tr>
<td>Securities failed to deliver</td>
<td>555</td>
</tr>
<tr>
<td>Clearing organizations</td>
<td>183</td>
</tr>
<tr>
<td><strong>Total receivables</strong></td>
<td><strong>$ 2,977</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payables:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brokers and dealers</td>
<td>$ 1,159</td>
</tr>
<tr>
<td>Securities failed to receive</td>
<td>568</td>
</tr>
<tr>
<td><strong>Total payables</strong></td>
<td><strong>$ 1,727</strong></td>
</tr>
</tbody>
</table>
(4) Financial Instruments

ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis. This includes those items currently reported in financial instruments owned, at fair value and financial instruments sold, not yet purchased, at fair value on the statement of financial condition.

As defined in ASC 820, fair value is 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. In determining fair value, the Company uses various methods including market and income approaches. Based on these approaches, the Company utilizes certain assumptions that market participants would use in pricing the asset or liability. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial instrument assets and liabilities carried at fair value have been classified and disclosed in one of the following three categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as listed equities.

Level 2 includes those financial instruments that are valued using models or other valuation methodologies calibrated to observable market inputs. These models are primarily industry-standard models that consider various assumptions, including discount margins, credit spreads, discounted anticipated cash flows, the terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, default rates, as well as other measurements. In order to be classified as Level 2, substantially all of these assumptions would need to be observable in the marketplace and can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category include corporate and other debt, CD’s and municipal debt.

Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are unobservable from objective sources. The Company did not have any assets or liabilities classified as Level 3 at December 31, 2013 and there was no change in Level 3 assets or liabilities during the year.
In determining the appropriate levels, the Company performed a detailed analysis of the assets and liabilities that are subject to ASC 820. The following tables present the financial instruments carried at fair value as of December 31, 2013 (dollars in millions):

<table>
<thead>
<tr>
<th>Assets at fair value as of December 31, 2013</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial instruments owned:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equities</td>
<td>$21</td>
<td>—</td>
<td>—</td>
<td>21</td>
</tr>
<tr>
<td>Total financial instruments owned at fair value</td>
<td>$21</td>
<td>—</td>
<td>—</td>
<td>21</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities at fair value as of December 31, 2013</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial instruments sold:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equities</td>
<td>$1</td>
<td>—</td>
<td>—</td>
<td>1</td>
</tr>
<tr>
<td>Corporate and other debt</td>
<td>—</td>
<td>3</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>Total Financial instruments sold at fair value</td>
<td>$1</td>
<td>3</td>
<td>—</td>
<td>4</td>
</tr>
</tbody>
</table>

**Estimated Fair Value of Financial Instruments Not Carried at Fair Value**

The fair values of the other financial assets and liabilities are considered to approximate their carrying amounts because they have limited counterparty credit risk and are short-term, replaceable on demand, or bear interest at market rates.
The table below presents the carrying value and fair value of Pershing LLC’s financial instruments which are not carried at fair value (dollars in millions). The table below therefore excludes items measured at fair value on a recurring basis presented in the table above. In addition, the table excludes the values of non-financial assets and liabilities (dollars in millions).

<table>
<thead>
<tr>
<th>December 31, 2013</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Estimated fair value</th>
<th>Carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary of financial instruments:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities borrowed</td>
<td>$ —</td>
<td>4,661</td>
<td>—</td>
<td>4,661</td>
<td>4,661</td>
</tr>
<tr>
<td>Securities purchased under agreement to resell</td>
<td>—</td>
<td>796</td>
<td>—</td>
<td>796</td>
<td>796</td>
</tr>
<tr>
<td>Receivable from customers</td>
<td>—</td>
<td>10,100</td>
<td>—</td>
<td>10,100</td>
<td>10,100</td>
</tr>
<tr>
<td>Receivable from broker dealers</td>
<td>—</td>
<td>2,977</td>
<td>—</td>
<td>2,977</td>
<td>2,977</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ —</td>
<td>18,534</td>
<td>—</td>
<td>18,534</td>
<td>18,534</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities sold under agreement to repurchase</td>
<td>$ —</td>
<td>3,292</td>
<td>—</td>
<td>3,292</td>
<td>3,292</td>
</tr>
<tr>
<td>Securities loaned</td>
<td>—</td>
<td>1,938</td>
<td>—</td>
<td>1,938</td>
<td>1,938</td>
</tr>
<tr>
<td>Payable to customers</td>
<td>—</td>
<td>14,417</td>
<td>—</td>
<td>14,417</td>
<td>14,417</td>
</tr>
<tr>
<td>Payable to broker dealers</td>
<td>—</td>
<td>1,727</td>
<td>—</td>
<td>1,727</td>
<td>1,727</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ —</td>
<td>21,374</td>
<td>—</td>
<td>21,374</td>
<td>21,374</td>
</tr>
</tbody>
</table>

Fair value can vary from period to period based on changes in a wide range of factors, including interest rates, credit quality, and market perceptions of value and as existing assets and liabilities run off and new transactions are entered into.
Offsetting Assets and Liabilities

The following table presents financial instruments that are either subject to an enforceable netting agreement or offset by collateral arrangements. There were no financial instruments subject to a netting agreement for which the Company is not currently netting (dollars in millions).

<table>
<thead>
<tr>
<th>Financial assets subject to enforceable master netting agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross assets recognized</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td><strong>December 31, 2013</strong></td>
</tr>
<tr>
<td>Securities borrowed</td>
</tr>
<tr>
<td>Securities purchased under agreement to resell</td>
</tr>
<tr>
<td>Total financial assets subject to enforceable master netting agreement</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial liabilities subject to enforceable master netting agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross liabilities recognized</td>
</tr>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td><strong>December 31, 2013</strong></td>
</tr>
<tr>
<td>Securities borrowed</td>
</tr>
<tr>
<td>Securities purchased under agreement to resell</td>
</tr>
<tr>
<td>Total financial liabilities subject to enforceable master netting agreement</td>
</tr>
</tbody>
</table>

(1) The total amount reported in financial instruments is limited to the amount of the related instruments presented in the consolidated statement of financial condition and therefore any over-collateralization of these positions is not included.
(5) **Fixed Assets**

Fixed assets are included in other assets on the statement of financial condition and consists of the following (dollars in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalized software</td>
<td>$145</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>25</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>10</td>
</tr>
<tr>
<td>Computer software</td>
<td>17</td>
</tr>
<tr>
<td>Other</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>211</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(141)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$70</td>
</tr>
</tbody>
</table>

(6) **Third Party Bank Loans and Lines of Credit**

The Company has $2.3 billion in uncommitted and committed lines of credit with banks as of December 31, 2013. There were no borrowings against these lines of credit during the year ended December 31, 2013.

(7) **Income Taxes**

The deferred income taxes reflect the tax effects of temporary differences between the financial reporting and tax bases of asset and liabilities. The Company has a gross deferred tax asset of $18.0 million and a gross deferred tax liability of $14.4 million at December 31, 2013. The deferred tax asset is primarily attributable to nondeductible reserves and the deferred tax liability is primarily attributable to depreciation and a deferred intercompany gain. The net deferred tax asset is $3.6 million. The Company has not recorded a valuation allowance because management believes it is more likely than not that the deferred tax assets will be realized.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (dollars in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2013</td>
<td>$—</td>
</tr>
<tr>
<td>Prior period tax positions:</td>
<td></td>
</tr>
<tr>
<td>Increases</td>
<td>12.0</td>
</tr>
<tr>
<td>Decreases</td>
<td>—</td>
</tr>
<tr>
<td>Current period tax positions</td>
<td>—</td>
</tr>
<tr>
<td>Settlements</td>
<td>—</td>
</tr>
<tr>
<td>Statute expiration</td>
<td>—</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2013</strong></td>
<td>$12.0</td>
</tr>
</tbody>
</table>
Of the above balance at December 31, 2013, $7.8 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods.

The Company had $5.1 million for the payment of interest related to income taxes accrued at December 31, 2013.

The Company anticipates that the total change in the amount of gross unrecognized tax benefits over the next 12 months will not have a material impact on the statement of financial condition.

BNY Mellon’s federal consolidated income tax returns are closed to examination through 2008. The Company’s New York State income tax return examination has been completed through 2006. The Company’s New York City income tax return examination has been closed through 2011. The Company’s New Jersey income tax returns are closed to examination through 2010.

(8) Related Party Transactions

The Company provides clearing and technology related services to indirect wholly owned subsidiaries of BNY Mellon. Cash balances due from/to these affiliates were approximately $1.4 billion and $193.4 million, respectively. They are included in receivable from affiliates and payables to affiliates, respectively, on the statement of financial condition.

The Company has a $6.5 billion unsecured line of credit agreement with the Parent. At December 31, 2013 there were borrowings against the line of credit of approximately $1.284 billion included in payable to affiliate. On August 1, 2013, the Company entered into a loan agreement with an affiliate. At December 31, 2013 there were borrowings against the loan of approximately $62 million, which is included in payables to affiliate.

Balances due to BNY Mellon for taxes, payroll, technology and leased equipment were $60.3 million and included in payable to affiliate. The Company entered into a repurchase agreement with BNY Mellon and at December 31, 2013 had a payable of $500 million included in payable to affiliate.

For the year ended December 31, 2013, the Company leased furniture and fixtures and computer and other communications equipment from an affiliate.

(9) Employee Benefit Plans

BNY Mellon sponsors a 401(k) plan (the Plan) for its active employees. The Plan offers the Company’s employees the opportunity to plan, save and invest for their future financial needs. The Company makes periodic contributions to the Plan based on the discretion of management.

(10) Pledged Assets and Guarantees

Under the Company’s collateralized financing arrangements and the other business activities, the Company either receives or provides collateral. In many cases, the Company is permitted to sell or repledge these securities held as collateral. At December 31, 2013, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $30,271 million and the fair value of the
portion that had been sold or repledged was $14,175 million. The details of these sources and the uses of collateral are noted in the below tables (dollars in millions).

Source of available collateral – received:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial instruments, at fair value</td>
<td>$21</td>
</tr>
<tr>
<td>Securities borrowed</td>
<td>4,576</td>
</tr>
<tr>
<td>Securities purchased under agreements to resell</td>
<td>1,627</td>
</tr>
<tr>
<td>Margin securities available to re-pledge</td>
<td>24,047</td>
</tr>
<tr>
<td><strong>Total source of collateral</strong></td>
<td><strong>$30,271</strong></td>
</tr>
</tbody>
</table>

Use of available collateral – re-pledged, lent or sold:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial instruments sold, but not yet purchased, at fair value</td>
<td>$4</td>
</tr>
<tr>
<td>Securities loaned</td>
<td>1,907</td>
</tr>
<tr>
<td>Securities sold under agreements to repurchase</td>
<td>4,741</td>
</tr>
<tr>
<td>Pledged to clearing corporations</td>
<td>895</td>
</tr>
<tr>
<td>Good faith deposits</td>
<td>24</td>
</tr>
<tr>
<td>Short sale covering</td>
<td>6,604</td>
</tr>
<tr>
<td><strong>Total use of collateral</strong></td>
<td><strong>$14,175</strong></td>
</tr>
</tbody>
</table>

The Company additionally receives securities as collateral in connection with certain security for security transactions. In instances where the Company is permitted to sell or repledge these securities, the Company reports the fair value of the collateral received and obligation to return the collateral in the statement of financial condition. At December 31, 2013, the Company reported $477 million associated with security for security transactions as securities borrowed and securities loaned on the statement of financial condition.

The Company also conducts a fully paid lending program, in which customers agree to make available their fully paid securities to be loaned to third parties in exchange for a fee. At December 31, 2013, the fair value of the securities borrowed under this program was $211 million and is included in securities borrowed and securities loaned on the statement of financial condition and included in the table above.

**Obligations under Guarantees**

The Company has adopted the disclosure and recognition requirements for guarantees in accordance with ASC 460, *Guarantees*, whereby the Company will recognize a liability at the inception of a guarantee for obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that certain events or conditions occur.

The Company provides guarantees to securities clearinghouses and exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company’s liability under these arrangements is not quantifiable or limited and could exceed the cash and securities it has posted as collateral. However, management believes the potential for the Company to be required to make payments under these
arrangements is remote. Accordingly, no contingent liability is carried on the statement of financial condition for these arrangements.

In connection with its securities clearing business, the Company performs securities execution, clearance and settlement services on behalf of other broker-dealer clients. Management believes the potential for the Company to be required to make unreimbursed payments relating to such services is remote due to the contractual capital requirements associated with clients’ activity and the regular review of clients’ capital. Accordingly, no contingent liability is carried on the statement of financial condition for these transactions.

(11) Commitments and Contingences
As of December 31, 2013, the Company had commitments with thirteen customers to lend a maximum total of $2.235 billion for various terms not exceeding 364 days. These commitments consisted of outstanding loans of $1.271 billion, which are reported in receivables from customers on the statement of financial condition, and unfunded commitments totaling $964 million.

The Company has noncancelable leases for office space and equipment that expire on various dates through 2021. At December 31, 2013, minimum future rentals on noncancelable operating leases are as follows (dollars in millions): 2014 $22, 2015 $22, 2016 $23, 2017 $22, 2018 $22 and $51 for the years thereafter.

The Company is involved in various legal proceedings arising in connection with the conduct of the Company’s business. The Company believes that based on currently available information and the advice of counsel, the results of all such proceedings in the aggregate, will not have a material adverse effect on the Company’s financial condition. The Company intends to defend itself vigorously against all claims asserted against it. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and settlements when those matters proceed to a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. The Company will continue to monitor such matters for developments that will affect the amount of the reserve, and will adjust the reserve amount as appropriate.

(12) Regulatory Requirements
As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule under Rule 15c3-1 of the Securities Exchange Act of 1934 and has elected to use the alternative method of computing regulatory net capital requirements provided for in that Rule. Under the alternative method, the required net capital may not be less than two percent of aggregate debit items arising from customer transactions or $1.5 million, whichever is greater. At December 31, 2013, the Company’s regulatory net capital of approximately $1.8 billion was 14.23% of aggregate debit items and in excess of the minimum requirement by approximately $1.6 billion.

Advances to affiliates, repayment of borrowings, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the Rule 15c3-1 and other regulatory bodies.
Pursuant to Rule 15c3-3 of the SEC, the Company may be required to deposit in a Special Reserve Bank Account, cash or acceptable qualifying securities for the exclusive benefit of customers. At December 31, 2013, the Company had approximately $5.25 billion of cash or acceptable qualifying securities on deposit in such accounts.

As a clearing broker, the Company has agreed to compute a reserve requirement for the proprietary accounts of introducing broker-dealers (the PAIB Reserve Formula). The PAIB calculation is completed in order for each correspondent firm that uses the Company as its clearing broker-dealer to classify its assets on deposit at the Company as allowable assets in the correspondents’ net capital calculation. As of December 31, 2013, the Company had approximately $387 million of cash deposits in PAIB 15c3-3 accounts.

(13) Financial Instruments and Related Risks

(a) Customer Activities

Certain market and credit risks are inherent in the Company’s business, primarily in facilitating customers’ trading and financing transactions in financial instruments. In the normal course of business, the Company’s customer activities include execution, settlement, and financing of various customer securities, which may expose the Company to off-balance sheet risk in the event the customer is unable to fulfill its contractual obligations.

The Company’s customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to customers, which is collateralized by cash and/or securities in the customer’s account. In connection with these activities, the Company executes and clears customer transactions involving securities sold but not yet purchased and option contracts. The Company seeks to control risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory, exchange and internal guidelines. The Company monitors required margin levels daily; pursuant to such guidelines, the Company requires the customer to deposit additional collateral or to reduce positions, when necessary. Such transactions may expose the Company to significant off-balance sheet risk in the event the margin is not sufficient to fully cover losses which customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell the collateral at prevailing market prices in order to fulfill the customer’s obligations.

The Company’s customer financing and securities settlement activities may require the Company to pledge customer securities as collateral in support of various secured financing sources, such as securities loaned. Additionally, the Company pledges customer securities as collateral to satisfy margin deposits of the Options Clearing Corporation. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its obligation. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposures.


(b) Credit Risk

As a securities broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of domestic and foreign corporations, governments, and institutional and individual investors. A substantial portion of the Company’s transactions is executed with and on behalf of institutional investors including other broker-dealers, banks, U.S. government agencies, mutual funds, hedge funds and other financial institutions.

Credit risk is the potential for loss resulting from the default by a counterparty of its obligations. Exposure to credit risk is generated by securities and currency settlements, contracting derivative and forward transactions with customers and dealers, and the holding in inventory of bonds and/or loans. The Company uses various means to manage its credit risk. The creditworthiness of all counterparties is analyzed at the outset of a credit relationship with the Company. These counterparties are subsequently reviewed on a periodic basis. The Company sets a maximum exposure limit for each counterparty, as well as for groups or classes of counterparties. Furthermore, the Company enters into master netting agreements when feasible and demands collateral from certain counterparties or for certain types of credit transactions.

(c) Market Risk

Market risk is the potential loss the Company may incur as a result of changes in the market or fair value of a particular financial instrument. All financial instruments are subject to market risk. The Company’s exposure to market risk is determined by a number of factors, including size, duration, composition and diversification of positions held, the absolute and relative level of interest rates and foreign currency exchange rates, as well as market volatility and liquidity. The Company manages market risk by setting and monitoring adherence to risk limits.

Financial instruments sold, not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and thereby, create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk, as the Company’s ultimate obligation to satisfy the sale of financial instruments sold, not yet purchased may exceed the amount reflected in the statement of financial condition.

(d) Operational Risk

In providing a comprehensive array of products and services, the Company may be exposed to operational risk. Operational risk may result from, but is not limited to, errors related to transaction processing, breaches of internal control systems and compliance requirements, fraud by employees or persons outside the Company or business interruption due to systems failures or the other events. Operational risk may also include breaches of the Company’s technology and information systems resulting from unauthorized access to confidential information or from internal or external threats, such as cyber attacks. Operational risk also includes potential legal or regulatory actions that could arise as a result of noncompliance with applicable laws and/or regulatory requirements. In the case of an operational event, the Company could suffer a financial loss as well as damage to their reputation.
(e) **Financial Instruments with Off-Balance-Sheet Risk**

The Company enters into various transactions involving derivatives and other off-balance sheet financial instruments. These financial instruments include forward foreign exchange contracts that are used to meet the needs of customers. Generally, forward foreign exchange contracts represent future commitments to purchase or sell foreign currency at specific terms at specified future dates.

(14) **Subsequent Events**

On January 8, 2014 the Company sold, to an affiliate, substantially all of the assets and liabilities associated with its equity market-making activities. The proceeds in excess of carrying value from this transfer (net of tax), were recorded as an addition to member’s equity.
SUPPLEMENTARY REPORT
Report of Independent Registered Public Accounting Firm
on Internal Control Pursuant to Rule 17a-5

The Board of Managers and
Member of Pershing LLC:

In planning and performing our audit of the financial statements of Pershing LLC (the Company), as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e);

2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13;

3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System; and

4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.
Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2013, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Managers, management, the SEC, Financial Industry Regulatory Authority, Inc. (FINRA), and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

February 26, 2014
THIS DOCUMENT PROVIDES DISCLOSURES REQUIRED OR RECOMMENDED BY THE FOLLOWING ACTS, RULES, REGULATIONS OR REPORTS.

- Financial Industry Regulatory Authority® (FINRA®)
  - Rule 2264 (Margin Disclosure Statement)
  - Rule 2266 (Securities Investor Protection Corporation® [SIPC®])
  - Rule 2267 (Investor Education and Protection)
  - Rule 4311 (Carrying Agreements)
  - Rule 4370 (Business Continuity Plans and Emergency Contact Information)

- Treasury Income Tax Regulations Section 1.408-2(e)(7)(iii) (Nonbank Custodian)

- Treasury Income Tax Regulations Section 35.3405-1T (Federal and State Withholding for Retirement Accounts)


- Municipal Securities Rulemaking Board (MSRB)—Rule G-15 (Electronic Confirmations)

- Regulation E of the Consumer Financial Protection Bureau (Electronic Transfers)


- Securities and Exchange Commission (SEC)
  - Rule 10b-10 (Electronic Confirmations)
  - Rule 17f-1 (Lost Securities)
  - Regulation National Market System (NMS) 607 (Customer Account Statements)

PLEASE READ THIS DOCUMENT CAREFULLY AND RETAIN IT FOR FUTURE USE. IN PARTICULAR, YOU SHOULD REVIEW “CREDIT AND MARGIN DISCLOSURES,” BEGINNING ON PAGE 5.
DISCLOSURE REQUIRED BY FINRA RULE 4311
The firm with which you have opened your securities account (account) has retained Pershing LLC (Pershing) to provide certain record keeping or operational services.

These services—such as the execution and settlement of securities transactions, custody of securities and cash balances, and extension of credit on margin transactions—are provided under a written Clearing Agreement between Pershing and your firm.

As a member of FINRA, Pershing is required (under FINRA Rule 4311) to disclose to you the details of its Clearing Agreement with your firm, which are summarized below.

Responsibilities of Your Firm
Your firm has the responsibility to:

> Approve the opening of your account
> Obtain necessary documentation to help fight the funding of terrorism and money laundering activities (Note: U.S. law and international best practices require firms to obtain, verify and record information that identifies each person who opens an account. This information may be used to perform a credit check and verify your identity through internal sources or third-party vendors)
> Service and supervise your account through its own personnel in accordance with its own policies, procedures, applicable laws, regulations and rules
> Know you and your stated investment objectives
> Provide appropriate investment advice, recommendations or management services based on your investment objectives
> Determine whether particular kinds of transactions—such as margin, options and short sales—are appropriate for you
> Obtain the initial margin as required by Regulation T if a margin account is opened for you
> Accept and, in certain instances, execute securities orders
> Know the facts about any orders for the purchase or sale of securities in your account
> Comply with fair pricing and disclosure responsibilities (if your firm is a market maker in any securities or otherwise trades as principal with you)
> Correctly identify and promptly forward cash or securities intended for your account to Pershing
> Supervise the activities of any individual who services your account
> Resolve any complaints regarding the handling of your account
> Manage the ongoing relationship that it has with you

Pershing has no involvement and assumes no responsibility in all of the above matters relating to the servicing of your account.

Responsibilities of Pershing
In general, Pershing is only responsible for the services within the scope of the Clearing Agreement that is provided at the request of your firm and contains specific direction regarding your account. As such, Pershing may fulfill the following responsibilities on behalf of your account:

> Create computer-based account records
Process orders for the purchase, sale or transfer of securities (Pershing is not obligated to accept orders directly from you and will do so only in exceptional circumstances)

Receive and deliver cash and securities

Record such receipts and deliveries according to information provided either by your firm or directly, in writing, by you

Hold securities and cash in custody (after they come into Pershing's physical possession or control)

Collect and disburse dividends, capital gains and interest

Process reorganization and voting instructions with respect to securities held in custody

Prepare and transmit confirmations of trades to you (or provide facilities to your firm to provide these functions), with the exception of the following transactions, which will alternatively appear on account statements:

- Systematic purchase and redemption transactions of mutual funds or unit investment trusts
- Purchase and redemption transactions of money market funds processed through Pershing's Cash Management platform, provided that there are no purchase and redemption fees
- Dividend and other distribution reinvestment transactions of mutual funds, equities and unit investment trusts
- Dividend and other distribution reinvestment transactions of money market funds, provided that there are no reinvestment fees

Prepare and transmit periodic account statements summarizing transactions

Provide your firm with written reports of all transactions processed for your account to enable your firm to carry out its responsibilities under the Clearing Agreement

Assist you and your firm with any discrepancies or errors that may occur in the processing of transactions

If your firm opens a margin account for you, Pershing may:

Loan you money for the purpose of purchasing or holding securities (subject to the terms of Pershing's written Margin Agreement, margin policies and applicable margin regulations)

Calculate the amount of maintenance margin required and advise you of those requirements (usually through your firm)

Calculate any interest charged on your debit balance

In connection with all of the functions that Pershing performs, Pershing maintains the books and records required by law and business practice.

The Clearing Agreement does not encompass transactions in commodities futures contracts or investments other than marketable securities, which Pershing normally processes on recognized exchanges and over-the-counter (OTC) markets. In furnishing Pershing's services under the Clearing Agreement, Pershing may use and rely upon the services of clearing agencies, automatic data processing vendors, proxy processing vendors, transfer agents, securities pricing services and other similar organizations.

This document addresses the basic allocation of functions regarding the handling of your account. It is not meant as a definitive enumeration of every possible circumstance, but only as a general disclosure.
Pershing does not control, audit or otherwise supervise the activities of your firm or its employees.

Pershing does not verify information provided by your firm regarding your account or transactions processed for your account.

Pershing does not undertake responsibility for reviewing the appropriateness of transactions entered by your firm on your behalf.

Clear-Through Relationships
In certain circumstances, your account may be introduced to Pershing through an intermediary other than the firm with which you opened your account. This intermediary is commonly called a “clear-through broker,” with the agreement between the clear-through broker and your firm called a “clear-through relationship.”

In this situation, the clear-through broker is the agent of the firm with which you opened your account, and will be identified on your confirmations and statements in the upper left-hand corner.

This disclosure statement should be read to encompass the fact that the two financial intermediaries exist. Therefore, where the context requires, “financial organization” and firm should be read to cover both the clear-through broker and the firm with which you opened your account.

If you have any questions about this, you should contact the firm with which you opened your account.

Complaints
Complaints concerning services provided by Pershing may be directed to:

Complaints
Pershing LLC Legal Department
One Pershing Plaza, Tenth Floor
Jersey City, New Jersey 07399
(201) 413-3330

EXCHANGE ACT OF 1934
The Exchange Act of 1934 requires that Pershing annually disclose a statement of financial condition.

Pershing Statement of Financial Condition
On December 31, 2013, Pershing’s regulatory net capital of $1.8 billion was 14.27% of aggregate debit balances and $1.56 billion in excess of the minimum requirement.


FINRA RULE 2264
FINRA Rule 2264 requires certain credit and margin disclosures.

Credit and Margin Disclosures
Cash Accounts. At Pershing’s discretion, cash accounts may be subject to interest on any debit balances (in any currency) resulting from:

> Securities purchased and not paid for by the settlement date
> Untimely delivery of securities sold
> Proceeds of sales paid prior to the settlement date
> Other charges that may be made to the account

Margin Accounts. Purchases of securities on credit, commonly known as “margin purchases,” enable you to increase the buying power of your equity and thus increase the potential for profit or loss.
A portion of the purchase price is deposited when buying securities on margin, and Pershing extends credit for the remainder. This loan will appear as a debit balance on your monthly account statement.

Pershing will charge interest on the debit balance and requires you to maintain securities or cash to repay the loan and its interest.

Interest will be charged in the underlying currency for any credit extended to you, which may include:

> Buying, trading or carrying securities
> Cash withdrawals made against the collateral of securities
> Payment made in advance of settlement on the sale of securities (from date of payment until settlement date)

If any other charge is made to your account for any reason, interest may be charged on the resulting debit balances. Interest you pay on the loan may be shared between your firm and Pershing.

If you have a margin account, pursuant to the margin agreement with Pershing, securities not fully paid for may be loaned to Pershing or loaned out to others, and as permitted by law, certain securities in your account may be used for, among other things, settling short sales and lending the securities for short sales, and, as a result, your firm and Pershing may receive compensation in connection therewith. Further, fully paid for securities held in a cash account (unless otherwise agreed to in a separate written agreement) and fully paid for securities held in a margin account in which there is no debit balance are not loaned.

In locating “hard to borrow” securities to support your short sales, you may be charged a fee. The rate may also include a charge above the fee Pershing assesses. This additional fee represents work done by your firm on your behalf in connection with these transactions.

**Interest Rates.** Interest charged on any debit balance in cash accounts or credit extended in margin accounts may be up to 3% above the Pershing Base Lending Rate for that currency.

The Pershing Base Lending Rate for each currency will be set with reference to commercially recognized interest rates, industry conditions relating to the extension of credit and general credit market conditions.

For a loan in a currency other than U.S. dollars, the Pershing Base Lending Rate will be set based on the above referenced criteria in the country whose currency is the basis of the loan and can change without prior notice.

When the Pershing Base Lending Rate for a particular currency changes during an interest period, interest will be calculated according to the number of days each rate is in effect during that period.

If the rate of interest charged to you is changed for any reason other than stated above, you will be notified at least 30 days in advance.

In compliance with the rules governing the protection of client funds, Pershing earns money by investing your cash awaiting reinvestment or by lending it to other clients. In some cases, a portion of the interest earned on money credit balances held by Pershing may be shared with your firm. Additionally, a portion of the interest paid to Pershing (for example, cash due interest) may be shared with your firm.

**Interest Period.** The interest period begins on the 20th day of each month and ends on the 19th of the following month. Accordingly, interest charges for the period as shown on your monthly statement are based only on the daily net debit and credit balances for the interest period.
Method of Interest Computation. At the close of each interest period during which credit was extended to you, an interest charge will be computed (in each applicable currency) as per the following formula:

\[
\text{Average Daily Debit Balance} \times \text{Applicable Schedule Rate} \times \frac{\text{Days of Outstanding Debit Balance}}{360}
\]

If there has been a change in the Pershing Base Lending Rate, separate calculations will be made computing the number of days within the interest period at each rate.

If credit extended to your account is not paid, the interest charge at the close of the period is added to the opening debit balance for that currency in the next period.

With the exception of credit balances in your short account, all other credit and debit balances in the same currency will be combined daily. Interest will be charged on the resulting average daily net debit balances for that currency for the period.

Credit balances in one currency will not be combined or netted with debit balances in a different currency. If there is a debit in your cash account and you hold a margin account, interest will be calculated on the combined debit balance for that currency and charged to the margin account.

Any credit balance in your short account is disregarded, because such credit collateralizes the stock borrowed for delivery against the short sale. Such credit is disregarded even if you should be long in the same position in your margin account (for instance, short sale against the box).

If the security that you sold short (or sold short against the box) appreciates in market price over the selling price, interest will be charged (in the appropriate currency) on the appreciation in value. Conversely, if the security that you sold short depreciates in market price, the interest charged will be reduced since your average debit balance will decline. This practice is known as “marking to market.” Each week, a closing price is used to determine any appreciation or depreciation of the security sold short. If your account is short shares of stock on the record date of a dividend or other distribution (however such short position occurs), your account will be charged the amount of the dividend or other distribution on the following business day.

Margin Disclosures. These disclosures are intended to provide some basic facts about purchasing securities on margin and to alert you to the risks involved with trading securities in a margin account. Before trading securities in a margin account, it is important to carefully review the written Margin Agreement provided by your firm or its clearing firm (Pershing), and to consult with your firm with any questions or concerns you may have regarding margin accounts.

When you purchase securities, you can pay for them in full or borrow part of the purchase price from Pershing. If you choose to borrow funds from Pershing, you will need to open a margin account with Pershing through your firm.

The securities purchased are used as collateral for the loan that was made to you or any other indebtedness arising after the initial transaction. If the securities in your brokerage account decline in value, so does the value of the collateral supporting your loan. As a result, your firm or Pershing can take action.
For instance, your firm or Pershing may issue a margin call and/or sell securities or liquidate other assets in any of your brokerage accounts held with your firm or Pershing to maintain the required equity in the margin account.

It is important that you fully understand the risks involved in trading securities on margin. These risks include the following:

> You may lose more funds or securities than you deposited in your margin account. A decline in the value of securities that are purchased on margin may require you to provide additional funds to Pershing to avoid the forced sale of those securities or other securities or assets in your account(s).

> Your firm or Pershing may force the sale of securities or other assets in your account(s). If the equity in your account falls below Pershing’s maintenance margin requirements or your firm’s higher “house” requirements, your firm or Pershing may sell the securities or other assets in any of your accounts to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.

> Your firm or Pershing can sell your securities or other assets without contacting you. Some investors mistakenly believe that a firm must contact them for a margin call to be valid, and that the firm cannot liquidate securities or other assets in their account(s) to meet the call unless the firm has contacted them first. This is not the case. Most firms will attempt to notify their clients of margin calls, but they are not required to do so. However, even if a firm has contacted a client and provided a specific date by which the client can meet a margin call, a firm may still take necessary steps to protect its financial interests, including immediately selling the securities without notice to the client. Your firm or Pershing may change margin requirements or margin call time periods without notice to you. With regard to house, maintenance and other margin calls, in lieu of immediate liquidations, Pershing, through your firm, may permit you a period of time to satisfy a call. This time period shall not in any way waive or diminish Pershing’s right in its sole discretion to shorten the time period in which you may satisfy a call, including one already outstanding, or to demand that a call be satisfied immediately. Nor does such practice waive or diminish the right of Pershing or your firm to sell out positions to satisfy the call, which may be as high as the full indebtedness owed by you. Margin requirements may be established and changed by Pershing or your firm in its sole discretion and judgment.

> You are not entitled to choose which securities or other assets in your brokerage account(s) are liquidated or sold to meet a margin call. Because the securities are collateral for the margin loan, your firm or Pershing has the right to decide which securities to sell to protect its interests.

> Your firm or Pershing may increase its “house” maintenance margin requirements at any time and is not required to provide you with advance written notice. These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause your firm or Pershing to liquidate or sell securities in your brokerage account(s).

> You are not entitled to an extension of time on a margin call. Although an extension of time to meet margin requirements may be available to investors under certain conditions, an investor does not have a right to the extension.

> Your written Margin Agreement with Pershing or your firm provides for certain important obligations by you. The Margin Agreement is a legally binding agreement, cannot be modified by conduct, and no failure on the part of Pershing or your firm at any time to
enforce its rights under the Margin Agreement to the greatest extent permitted shall in any way be deemed to waive, modify or relax any of the rights granted Pershing or your firm, including those rights vested in Pershing or your firm to deal with the collateral on all loans advanced to you. Also, the Margin Agreement constitutes the full and entire understanding between the parties with respect to the provision of the Margin Agreement, and there are no oral or other agreements in conflict with the Margin Agreement unless you have advised Pershing or your firm in writing of such conflict. Any future modification, amendment or supplement to the Margin Agreement or any individual provision of the Margin Agreement can only be done in writing and signed by a representative of Pershing. You should carefully review your Margin Agreement for the rights and limitations governing your margin account relationship.

**General Margin Policies.** The amount of credit that Pershing may extend and terms of such extension are governed by the rules of the Federal Reserve Board and FINRA.

Within the guidelines of those rules—and subject to adjustments required by changes in those rules and Pershing's business judgment—Pershing's margin account policies are summarized below:

- **Pershing may require the deposit of additional acceptable collateral at any time**
- **Margin account equity is the current market value of securities and cash less the amount owed Pershing for credit extended at its discretion**
- **It is Pershing's general policy to require margin account holders to maintain a certain level of equity in their accounts regarding common stock: 30% of the current market value or $3 per share, whichever is greater**
- **Any security valued at less than $5 per share may not be purchased in a margin account**
- **From time to time, Pershing may deem certain securities ineligible for margin credit**

For information with respect to general margin maintenance policy for municipal bonds, corporate bonds, U.S. Treasury notes and bonds and other securities—as well as information about the eligibility of particular securities for margin credit—please contact your firm.

Notwithstanding the above general policies, Pershing reserves the right, at its discretion, to require the deposit of additional collateral and to set required margin at a higher or lower amount with respect to particular accounts or classes of accounts as it deems necessary.

In making this determination, Pershing may take into account various factors including but not limited to:

- **Issues as to your securities, such as, among others, the liquidity of a position and concentrations of securities in an account**
- **Considerations as to your status, including but not limited to a decline in creditworthiness**
- **The size of the account**
- **The general condition of the market**
- **Considerations as to the ability of Pershing to obtain financing**
- **Regulatory interpretations and guidelines**

If you fail to meet a margin call in a timely manner, some or all of your positions may be liquidated.
Deposits of Collateral, Lien on Accounts and Liquidation. In the event that additional collateral is requested, you may deposit funds or acceptable securities into your margin account.

If satisfactory collateral is not promptly deposited after a request is made, Pershing or your firm may liquidate securities held in any of your accounts. Pursuant to Pershing’s Margin Agreement, Pershing may retain any asset held in your accounts, including securities held for safekeeping, for as long as any extended credit remains outstanding.

Callable Securities. Securities held for your account in “street name,” or by a securities depository, are commingled with the same securities held for Pershing’s own clients and clients of other firms.

Your ownership of these securities is reflected in Pershing’s records. You have the right at any time to require delivery of any securities that are fully paid for or are in excess of margin requirements.

The terms of many bonds allow the issuer to partially redeem or “call” the issue prior to the maturity date. Certain preferred stocks are also subject to being called by the issuer. Whenever any security being held by Pershing is partially “called,” Pershing determines the ownership of the securities to be submitted for redemption through a random selection procedure—as prescribed by FINRA rules—without regard to unsettled sales. In the event that such securities owned by you are selected and redeemed, your account will be credited with the proceeds.

If you do not wish to be the subject of this random selection process, you may instruct your firm to have Pershing deliver your securities to the transfer agent directly via the Direct Registration System (DRS) or request a physical certificate issued in your name and mailed to you. There will be fees associated with the issuance of certificates or DRS positions, and not all issuers still offer certificates.

To move a security, it must not have been called by the delivery date. When moving a security off the Pershing platform, it will no longer reflect on your brokerage statement. Also, the probability of a security being called is the same whether it is held by Pershing or you.

Miscellaneous Credits. Pershing credits account funds that belong to you—such as dividends, interest, redemptions and proceeds of corporate reorganizations—on the day such funds are received by Pershing.

These funds come to Pershing from issuers and various intermediaries in which Pershing is a participant (such as the Depository Trust Company). Periodically, an intermediary will pass to Pershing some or all of the interest earned on funds while in its possession. To the extent Pershing receives such payments, Pershing retains them.

Your firm is responsible for providing you information regarding when Pershing credits your account with funds due to you, when those funds are available to you and/or when you begin earning interest on those funds.

Substitute Payments. As permitted under your Margin Agreement, Pershing may lend shares in your account when your account has a debit balance. Payments that you receive with respect to loaned securities will be reclassified as “substitute” payments.

The tax consequences of substitute payments may differ from payments made directly from the security’s issuer, such as a qualified dividend. For instance, a qualified dividend received by an individual may be taxed at a preferential rate. If a substitute payment is received instead, the preferential rate will not apply.
Individuals may also be affected if certain payments (such as exempt interest dividends, capital gain distributions, return of capital and foreign tax credit dividends) are reclassified as substitute payments. Corporate taxpayers may also be affected because the dividends-received deduction is not available with respect to substitute payments.

**Substitute Payment Reimbursement.** As permitted under your Margin Agreement, Pershing may lend shares in your account when your account has a debit balance. In the instance in which your securities are on loan over an ex-dividend date, Pershing may issue a substitute payment to your account in lieu of the dividend and, subsequently, a reimbursement to compensate you for the tax differential.

A substitute payment received in lieu of a qualified dividend may be eligible for a reimbursement to the lender's account only if the account is open on the reimbursement date. Please note that these reimbursements are (1) credited at Pershing's discretion, (2) subject to change and (3) may be eliminated without advanced notification.

Pershing suggests that you contact your tax advisor to discuss the tax treatment of substitute payments.

**SEC REGULATION NMS RULE 607**

SEC Regulation NMS Rule 607 requires Pershing to disclose its payment for order flow practices.

**Payment for Order Flow Practices**

Pershing sends certain equity orders to exchanges, electronic communication networks or broker-dealers during normal business hours and during extended trading sessions.

Some of these market centers provide payments to Pershing or charge access fees depending upon the characteristics of the order and any subsequent execution. In addition, Pershing may execute certain equity orders as principal or route orders to an affiliate, called BNY Mellon Capital Markets, LLC, which may also execute as principal while facilitating the trade as a market maker. The details of these payments and fees are available upon written request.

Pershing receives payments for directing listed options order flow to certain option exchanges. Compensation is generally in the form of a per-option contract cash payment. This disclosure only applies to orders directed to Pershing by your firm. For a list of organizations that pay Pershing for order flow, please refer to orderroutingdisclosure.com.

**Stop Order Election/Trigger.** Equity odd-lot sales count toward consolidated and participant exchange volumes, but do not update the last-sale, open, close, high or low price. Since odd-lot executions are not last-sale eligible, they will not trigger nondirected stop, stop-limit or trailing-stop orders routed to Pershing for execution.

**Best Execution.** Notwithstanding the previous paragraph regarding payment for order flow, Pershing selects certain market centers for routing non-directed orders that deliver the following:

> Provide automated execution of electronically transmitted orders in over-the-counter (OTC) and exchange-listed securities

> Execute orders at or better than the national best bid or offer (NBBO) at the time of execution

The designated market centers to which orders are routed are selected based on the following:

> The consistent high quality of their executions in one or more market segments
Their ability to provide opportunities for executions at prices superior to the NBBO
Service, accessibility and speed of execution
Cost
Counterparty credit worthiness

Pershing regularly reviews reports for quality of execution.

**JOINT NASD/INDUSTRY BREAKPOINT TASK FORCE**

A July 2003 report based on the findings of this task force recommends written disclosure regarding mutual fund breakpoints.

**Sales Charges, Breakpoints, Fees and Revenue Sharing Relating to Mutual Funds, Money Funds, FDIC-Insured Bank Products and Annuities**

Before investing in mutual funds, it is important that you understand the sales charges, expenses and management fees that you will be entitled. Understanding these charges and breakpoint discounts will assist you in identifying the best investment for your particular needs and may help you to reduce the cost of your investment.

This section will give you general background information about these charges and discounts; however, sales charges, expenses, management fees and breakpoint discounts vary from mutual fund to mutual fund.

Therefore, you should discuss these matters with your advisor and review each mutual fund’s prospectus and statement of additional information (which are available from your advisor) to obtain the specific information regarding the charges and breakpoint discounts associated with a particular mutual fund.

**Mutual Fund Sales Charges.** Investors who purchase mutual funds must make certain choices, including which funds to purchase and which share class is the most advantageous in light of their specific investing needs. Each mutual fund has a specified investment strategy. You should consider whether the mutual fund’s investment strategy is compatible with your investment objectives. Additionally, many mutual funds offer different share classes. Although each share class represents a similar interest in the mutual fund’s portfolio, the mutual fund will charge you different fees and expenses depending upon your choice of share class.

As a general rule, Class A shares carry a “front-end” sales charge or “load” that is deducted from your investment at the time you buy the fund shares. This sales charge is a percentage of your total purchase.

As explained below, many mutual funds offer volume discounts to the front-end sales charge assessed on Class A shares at certain predetermined levels of investment, which are called “breakpoint discounts.” In contrast, Class B and C shares usually do not carry any front-end sales charges. Instead, investors who purchase Class B or C shares pay asset-based sales charges, which may be higher or lower than the charges associated with Class A shares. Investors who purchase Class B or C shares may also be required to pay a sales charge known as a contingent deferred sales charge when they sell their shares, depending upon the rules of the particular mutual fund. This is known as a “back-end” sales charge or “load.”

**Mutual Fund Breakpoint Discounts.** Most mutual funds offer investors a variety of ways to qualify for breakpoint discounts on the sales charge associated with the purchase of Class A shares. In general, most mutual funds provide breakpoint discounts to investors who make large purchases at one time. The extent of the discount depends upon the size of the purchase.
Generally, as the amount of the purchase increases, the percentage used to determine the sales load decreases. The entire sales charge may be waived for investors who make very large purchases of Class A shares.

Mutual fund prospectuses contain tables that illustrate the available breakpoint discounts and the investment levels at which breakpoint discounts apply. Additionally, most mutual funds allow investors to qualify for breakpoint discounts based upon current holdings from prior purchases through Rights of Accumulation (ROA) and from future purchases based upon Letters of Intent (LOI). Mutual funds have different rules regarding the availability of ROAs and LOIs. Therefore, you should discuss these matters with your advisor and review the mutual fund's prospectus and statement of additional information to determine the specific terms upon which a mutual fund offers ROAs or LOIs.

Rights of Accumulation—Many mutual funds allow investors to include the value of previous purchases of the same fund, or another fund within the same fund family, with the value of the current purchase to qualify for breakpoint discounts. Moreover, mutual funds may allow investors to include existing holdings in multiple accounts, such as individual retirement accounts (IRAs) or accounts at other firms, to qualify for breakpoint discounts. Therefore, if you have accounts at other firms and wish to take advantage of the balances in these accounts to qualify for a breakpoint discount, you must advise your advisor about those balances. You may need to provide documentation if you wish to rely upon balances in accounts at another firm.

In addition, many mutual funds allow investors to include the value of holdings in accounts of certain related parties, such as spouses or children, to qualify for breakpoint discounts. Each mutual fund has different rules that govern when relatives may rely upon each other's holdings to qualify for breakpoint discounts. You should consult your advisor and review the mutual fund's prospectus and statement of additional information to determine what these rules are for the fund family in which you are investing. If you wish to rely upon the holdings of related parties to qualify for a breakpoint discount, you should advise your advisor about these accounts. You may need to provide documentation to your advisor if you wish to rely upon balances in accounts at another firm. Mutual funds also follow different rules to determine the value of existing holdings. Some funds use the current net asset value (NAV) of existing investments to determine whether an investor qualifies for a breakpoint discount. However, a small number of funds use the historical cost, which is the cost of the initial purchase, to determine eligibility for breakpoint discounts. If the mutual fund uses historical costs, you may need to provide account records, such as confirmation statements or monthly statements, to qualify for a breakpoint discount based upon previous purchases. You should consult with your advisor or firm and review the mutual fund's prospectus and statement of additional information to determine whether the mutual fund uses NAV or historical costs to determine breakpoint eligibility.

Letters of Intent (LOI)—Most mutual funds allow investors to qualify for breakpoint discounts by signing an LOI, which commits the investor to purchasing a specified amount of Class A shares within a defined period of time, usually 13 months. For instance, if an investor plans to purchase $50,000 worth of Class A shares over a period of 13 months, but each individual purchase would not qualify for a breakpoint discount, the investor could sign an LOI at the time of the first purchase and receive the breakpoint discount associated with a $50,000 investment on the first and all subsequent purchases. Additionally, some funds offer retroactive LOIs that allow investors to rely upon purchases in the recent past to qualify for a breakpoint discount. However, if an
investor fails to invest the amount required by the LOI, the fund is entitled to retroactively deduct the correct sales charges based upon the amount that the investor actually invested. If you intend to make several purchases within a 13-month period, you should consult your advisor and the mutual fund prospectus to determine if it would be beneficial for you to sign an LOI. As you can see, understanding the availability of breakpoint discounts is important because it may allow you to purchase Class A shares at a lower price. The availability of breakpoint discounts may save you money and may also affect your decision regarding the appropriate share class in which to invest. Therefore, you should discuss the availability of breakpoint discounts with your advisor and carefully review the mutual fund prospectus and its statement of additional information when choosing among the share classes offered by a mutual fund. If you wish to learn more about mutual fund share classes or mutual fund breakpoints, you can also review the investor alerts via the FINRA website: finra.org/Investors/ProtectYourself/InvestorAlerts/MutualFunds/index.htm.

Mutual Fund Fees and Revenue Sharing. Pershing may receive servicing fees from mutual funds that participate in Pershing's mutual fund no-transaction-fee program (FundVest®) in lieu of clearance charges to your firm. Participation by your firm in this program is optional and your firm may share with Pershing in such fees. These fees may be considered revenue sharing and are a significant source of revenue for Pershing and may be a significant source of revenue for your firm. These fees are typically paid in accordance with an asset-based formula.

Pershing also receives operational reimbursements from mutual funds in the form of networking or omnibus processing fees. These reimbursements are based either on a flat fee per holding or a percentage of assets and are remitted to Pershing for its work on behalf of the funds. This work may include, but is not limited to, subaccounting services, dividend calculations and posting, accounting, reconciliation, client confirmation and statement preparation and mailing, and tax statement preparation and mailing. These fees are a significant source of revenue for Pershing. For additional details regarding Pershing's mutual fund no-transaction-fee program or a listing of funds that pay Pershing networking or omnibus fees, refer to pershing.com/mutual_fund.htm.

Money Fund and FDIC-Insured Bank Product Fees and Revenue Sharing. Money fund and FDIC-insured bank deposit fee processing and revenue sharing are significant sources of revenue for Pershing and may be significant sources of revenue for your firm. Pershing also receives distribution fees in the form of 12(b)-1 fees, which may also be shared with your firm. Pershing receives fees from providers for making available money market funds and FDIC-insured bank deposit programs, which you may have selected through your firm. These fees are typically paid according to an asset-based formula. Your firm may share in these fees. A portion of Pershing's fees is applied against costs associated with providing services on behalf of the providers, which may include maintaining cash sweep systems, subaccounting services, dividend and interest calculation and posting, accounting, reconciliation, client statement preparation and mailing, tax statement preparation and mailing, marketing and distribution-related support and other services. For a listing of money funds and FDIC-insured bank deposit programs that pay Pershing revenue-sharing and processing fees, please refer to www.pershing.com/money_fund.htm.

Fees Received by Affiliates. Pershing makes available a variety of money market mutual funds on its platform under the names of "Dreyfus," "Pershing," "General" and "Universal," for which The
Dreyfus Corporation (Dreyfus Corp.) serves as investment advisor and MBSC Securities Corporation (MBSC) serves as the distributor. Both the Dreyfus Corp. and MBSC are affiliates of Pershing and receive compensation for delivering their respective services to the money market mutual funds.

**Annuity Fees and Revenue Sharing.** Pershing may receive servicing fees from certain insurance companies that participate in Pershing's annuity program. Participation by your firm in this program is optional. These fees may be considered revenue sharing and are a source of revenue for Pershing.

Pershing also receives operational reimbursement fees from certain insurance companies. A flat fee per holding is paid to Pershing for the services it provides, which may include, but is not limited to posting, accounting, reconciliation, and client statement preparation and mailing. These fees are a source of revenue for Pershing. For additional details regarding processing annuities and a listing of annuities that pay Pershing revenue sharing and processing fees, please refer to pershing.com/annuity_fees.htm.

**SPONSORSHIP FEES**

Third-party product and service providers (e.g., mutual funds, annuity companies, exchange-traded funds [ETFs], money market funds, money managers, technology and business solutions) offer marketing support in the form of sponsorship fee payments to Pershing (or third parties at Pershing's direction) in connection with educational conferences, events, seminars and workshops for broker-dealers or advisors. These payments may be for the expenses of educational materials or other conference-related expenses. For a listing of companies that pay sponsorship fees to Pershing for events, please refer to pershing.com/event.

**ALTERNATIVE INVESTMENT NETWORK FEES**

Pershing may receive servicing fees from non-traded real estate investment trusts (REITs), managed futures funds, hedge funds and fund of funds (collectively, “alternative investments”) that participate in Pershing's Alternative Investment Network no-fee program in lieu of transaction fees and special product fee charges to your firm. These fees are calculated in accordance with an asset-based formula. Pershing also receives set-up fees from alternative investment providers or broker-dealers in the form of a one-time fee to add an alternative investment to the platform. The fee is a flat fee per CUSIP® and is remitted to Pershing for its work to set up the alternative investment. For additional details regarding Pershing's Alternative Investment Network no-fee program or a listing of entities that pay fees to Pershing, please refer to pershing.com/alternative_investment_network_fees.html.

**TREASURY REGULATION SECTION 1.408-2(e)(7)(iii)**

Pershing will make available a copy of the Internal Revenue Service (IRS) approval letters authorizing it to act as a nonbank custodian for your retirement accounts.

If you are interested in obtaining a copy of the IRS approval letters, please visit pershing.com/non_bank_custodian.html. If you are unable to retrieve the documents online, you may call Pershing's Service Hotline at (888) 860-8510 and select option 3, Nonbank Custodian, where you will be prompted to either say or enter your account number. The document will then be mailed to the address of record for your account.

**TREASURY REGULATION SECTION 35.3405-1T**

Treasury Regulation Section 35.3405-1T requires the disclosures regarding periodic (or streams) of payments.
Federal and State Tax Withholding for Retirement Accounts
Subject to changes in prevailing rules—or changes in your circumstances—you may, at any time, designate or change the federal and state income tax withholding election for distributions from your individual retirement arrangement, 403(b)(7) custodial account or qualified retirement plan. Simply notify your advisor or firm.

If you do not have enough federal or state income tax withheld, you may be responsible for payment of estimated taxes. Penalties and interest may also apply.

MSRB RULE G-15 AND SEC RULE 10b-10
Both the MSRB and SEC require disclosures regarding electronic confirmations.

Electronic Confirmations
Certain clients receive electronic confirmations through Depository Trust Company (DTC) or other delivery systems in lieu of hard copy confirmations. You should be aware that any terms, conditions and disclosures set forth on hard copy confirmations will continue to apply to each confirm processed electronically, including the following:

> Securities purchased on a cash or margin basis are, or may be, hypothecated and, under such circumstances, commingled with securities carried for other clients. Such securities will be withdrawn from hypothecation after receipt of payment.

> If sufficient funds are not already in your cash account to cover a purchase transaction, it is agreed that you will (1) make full payment for the securities described on the confirmation no later than the stated settlement date, and (2) not sell such securities prior to making payment.

> If Pershing does not receive full payment for securities purchased by you, Pershing may, at its option, cancel the transaction without notice to you.

> If sold securities are not already held in your account with Pershing, it will act upon your representation that you or your principal own such securities. It is agreed that you will deposit the securities with Pershing no later than the transaction settlement date.

> If securities sold by you are not delivered to Pershing in proper form on or after the first trading day after settlement date, Pershing may, at its option, cancel or otherwise liquidate the transaction without notice to you.

> You will be liable to Pershing for any loss without limitation, including all expenses, attorney's fees, and other costs incurred by Pershing, and interest thereon, as a result of a cancelled or liquidated transaction.

> Call features may exist for securities. Call features for fixed income securities may affect yield. Complete information will be provided on request.

> The ratings that appear in the description of some fixed income securities have been obtained from rating services that Pershing believes to be reliable. However, Pershing cannot guarantee their accuracy. Securities for which ratings are not available are marked “UNRATED.”

> With transactions involving a security that (1) has an interest in or is secured by a pool of receivables, or (2) is subject to continuous prepayment, such as asset-backed or collateralized mortgage obligations (CMOs), the actual yield of such security may vary according to the rate at which the underlying asset is prepaid. Information concerning
the factors that affect yield (including estimated yield, weighted average life and the prepayment assumptions of underlying yield) will be furnished upon your written request.

> It is understood and agreed that all transactions are subject to the rules and customs of the exchange or market (and its clearing house, if any) where they are executed. The name of the broker or party and the time of execution will be furnished upon request.

> Commission rates are subject to negotiation. Any commission charged to you may be more or less than commissions charged to or by others in similar transactions. The source and amount of other commissions charged by Pershing in connection with the transaction will be furnished upon request.

> Provisions of agreements and contracts shall inure to any successor of your firm or Pershing. Agreements and contracts are governed by the laws of the state of New York.

REGULATION E
Regulation E of the Consumer Financial Protection Bureau establishes disclosures regarding electronic transfers. In addition to the disclosures in this section, you should review the account terms and conditions and other disclosures regarding electronic transfers that are provided to you by your firm. Please note that this disclosure section is not applicable to international remittance transfers. Contact your firm in the event that you have any questions regarding international remittance transfers you have requested.

Electronic Transfers
Electronic transfers include:

> Direct Deposits—you provide your checking account information to a company (such as employer, Social Security Administration) and the company electronically sends deposits to your checking account, which credits the brokerage account.

> Authorized Debits—you provide your checking account information to a company (such as mortgage, utility) and the company electronically sends debits to your checking account, which debits the brokerage account.

> Debit Card Transactions—any merchant purchase, automatic teller machine (ATM) withdrawal, or cash advance done with the debit card issued from the account.

> Electronic Check Conversion—you authorize a merchant or other payee to make a one-time electronic payment from your checking account using information from your check to pay for purchases or to pay bills.

If you have any questions regarding electronic transfers, call Pershing’s Asset Management Account Department at (800) 547-7008 or at (201) 413-4624. You may also write to Pershing at:

Pershing LLC
Asset Management Account Department
One Pershing Plaza, Fifth Floor
Jersey City, NJ 07399

Contact Pershing immediately if you think your statement or transfer receipt is incorrect, or if you need more information about a particular transfer. Pershing must hear from you within 60 days of the date of the first statement on which the transfer in question appeared. When contacting Pershing, please provide:

> Your name
> Account number
> Dollar amount of the transfer
> Description of the transfer
> Explanation indicating why you believe there is an error or why you need more information

If you notify Pershing verbally, it may request that you submit your inquiry in writing. If not received within 10 business days of Pershing’s request, Pershing may not credit your account.

Pershing will inform you of the results of Pershing’s investigation within 10 business days after it receives your inquiry and it will promptly correct any error.

If Pershing needs more time to investigate your inquiry, Pershing will credit your account in the amount of the transfer in question so that you have use of the funds during Pershing’s investigation, which may take up to 45 days to complete.

Pershing will inform you of the results within three business days after completing its investigation. If Pershing decides that there was no error, it will send you a written explanation. You may request copies of the documents that Pershing uses in its investigation.

If you have any questions, contact your advisor or firm. You may also contact Pershing’s Asset Management Account Department at (800) 547-7008 or (201) 413-4624, or by fax at (201) 413-5304.

SEC RULE 17F-1
SEC Rule 17f-1 requires that all lost or stolen securities be reported.

Lost Securities
If your periodic client statement indicates that securities were forwarded to you and you have not received them, you should immediately notify your firm or Pershing. If notification is received within 120 days after the mailing date, as reflected on your periodic statement, replacement will be made free of charge. Thereafter, a fee for replacement may apply.

FINRA RULE 4370
FINRA Rule 4370 requires the disclosure of Pershing’s business continuity plan in the event an interruption occurs to Pershing’s normal course of business.

Pershing’s Business Continuity Plan
To address interruptions to Pershing’s normal course of business, Pershing maintains a business continuity plan, which includes geographically dispersed data centers and processing facilities. The plan is annually reviewed and updated as necessary.

The plan outlines the actions Pershing will take in the event of a building, city or regional incident, including:
> Continuous processing support by personnel located in unaffected facilities
> Relocating technology or operational personnel to alternate regional facilities
> Switching technology data processing to an alternate regional data center

All Pershing operational facilities are equipped for resumption of business and are tested. Regarding all circumstances within Pershing’s control, Pershing’s recovery time objective for business resumption is four (4) hours or less, depending upon the availability of external resources.
If your firm experiences a significant business interruption, you may contact Pershing directly to process limited trade-related transactions, cash disbursements and security transfers. Instructions to Pershing must be in writing and transmitted via facsimile to (201) 413-5368 or by postal service as follows:

Pershing LLC
P.O. Box 2065
Jersey City, NJ 07303-2065

For additional information about how to request funds and securities when your firm cannot be contacted due to a significant business interruption, please select the Business Continuity and Other Disclosures link at the bottom of the home page on the Pershing website at pershing.com. You may also call (201) 413-3635 for recorded instructions.

If you cannot access the instructions from the above website or telephone number, you may call (213) 624-6100, extension 500, an alternate Pershing number for recorded instructions.

FINRA RULE 2266
FINRA Rule 2266 requires Pershing to disclose SIPC contact information.

SIPC Contact Information
Information regarding SIPC, including a SIPC brochure, may be obtained by contacting SIPC via its website at sipc.org or by telephone at (202) 371-8300.

FINRA RULE 2267
FINRA Rule 2267 requires Pershing to provide information about FINRA's BrokerCheck program.

FINRA BrokerCheck Program
An investor brochure that includes information describing FINRA BrokerCheck may be obtained from FINRA. The FINRA BrokerCheck Hotline Number is (800) 289-9999. The FINRA website address is finra.org.

ADDITIONAL DISCLOSURES
Credit Interest
You may receive interest on positive account balances, referred to as “free credit balances,” provided that the funds are awaiting reinvestment and are subject to certain minimum balances and time requirements. Pershing and your firm may receive compensation based on the amount of free credit balances in client accounts. If you maintain free credit balances in your account solely for the purpose of receiving credit interest, and have no intention of investing the funds in the future, contact your advisor or firm to discuss your investment options.

Important Information on Check Disbursements
In situations where you request a check disbursement from your account, Pershing will receive and retain any interest or earnings generated on the amount of the check from the date that it is disbursed until its final settlement and payment.

Transactions in Listed Options
If you purchase options listed on the U.S. national options exchanges, you should review the Characteristics and Risks of Standardized Options disclosure published by The Options Clearing Corporation (OCC). You may obtain a copy of the options disclosure document from your advisor or by visiting the OCC website at optionsclearing.com/about/publications/character-risks.jsp.
Unit Investment Trust Payments
When Pershing acts upon the instruction of your firm to execute the purchase of a unit investment trust, Pershing may receive a payment based on the volume of sales processed by Pershing. Your firm may receive a monetary concession for the sale of the unit investment trust to you. Such payments are disclosed in the applicable unit investment trust prospectus. Additional information regarding such payment is available at pershing.com/UIT_fees.html.

Auction Rate Securities Payments
Pershing may receive payments from the distribution agent for trades in municipal auction rate securities and closed-end fund/preferred auction rate securities executed by Pershing upon your firm’s instruction. These payments are not charged to or paid by you. Additional information regarding such payments is available at pershing.com/ARS_fees.html.

Float Disclosure
Pershing may obtain a financial benefit attributable to the cash balances in any account (including Employee Retirement Income Security Act accounts) that are held by Pershing in accounts that it has with major money center banks (the names of which will be provided upon request). These cash balances result from (1) cash awaiting investment or (2) cash pending distribution. Pershing's financial benefit may be in the form of interest earned on such balances and/or reductions in interest expenses that Pershing would otherwise pay to such money center banks. To the extent that the financial benefit is in the form of interest paid to Pershing, it is often paid at the federal funds rate.

With respect to cash awaiting investment (e.g., new contributions), Pershing obtains such financial benefit until the funds are invested in a money market fund or are used to purchase securities. If an account agreement provides for the automatic investment into a money market fund, such investment will take place on the day after the receipt of cash (and the financial benefit will be one day), unless instructions are received to manually purchase money fund shares on the same day that cash is received. Such instructions must be received before the cutoff time established by each money market fund available to the account. If the account agreement does not provide for automatic investment into a money market fund, such investment will take place on the day after the receipt of appropriate instructions.

When Pershing receives a request for a distribution by check, the account is charged (debited) on the date the check is written. Cash is transferred to a Pershing disbursement account maintained with a major money center bank on the day the check is presented for payment. Pershing mails disbursement checks on the same day that they are written. Pershing may obtain the financial benefit described above from the date the check is written until the date the check is presented for payment, the timing of which is beyond the control of Pershing. When a distribution is requested using a Automated Clearing House instruction, Pershing receives a one-day financial benefit in connection with the distribution. If the distribution is made using the Federal Reserve wire system, Pershing receives no financial benefit in connection with the distribution.

Foreign Currency Transactions
Pershing may execute foreign currency transactions as principal for your account. Pershing's currency conversion rate will not exceed the highest interbank conversion rate identified from customary banking sources on the conversion date or prior business day, increased by up to 1%, unless a particular rate is required by applicable law.
Your firm may also increase the currency conversion rate. Conversion rates may differ from rates in effect on the date a dividend, interest payment, or corporate action is credited or declared.

Unless you instruct your firm otherwise, Pershing may automatically convert foreign currency to or from U.S. dollars for dividends, interest and corporate actions.

Special Note for Non-U.S. Accounts
With respect to assets custodied by Pershing on your behalf, income and capital gains or distributions to you from your account may be taxable in your home jurisdiction and/or country of tax residence. Please consult your tax advisor for the appropriate tax treatment of your transactions.

Liens and Levies
If, for any reason, your account is subject to a lien or levy directed to Pershing, Pershing will abide by the directions of the federal, state or other levying authority unless Pershing receives:

> A court order staying or quashing the lien or levy
> Some other form of release from the levying authority

If Pershing receives a lien or levy on your account, you may be assessed a reasonable processing fee.

Important Notice for California Residents
Pursuant to California state law (Part 3, Title 10, Chapter 7), Pershing, as custodian of your assets, may be required to transfer your assets to the State of California in the event that no activity occurs within the statutorily defined time period. The state law defines the time period as 24 to 30 months where there is no activity within the account, or communication between the account owner and the firm.

Extended-Hours Trading
Terms. Extended-hours trading sessions offer the ability to trade all NMS equity securities that have not been halted both before and after the regular market session (9:30 a.m. to 4 p.m. [ET]). Increased trading opportunity means increased ability to react to news and earnings reports that occur during pre-and post-market sessions.

The following sections provide important information regarding Pershing’s extended-hours trading sessions:

Session Times. Pre-Market Trading— 8:00 a.m. to 9:29 a.m. each business day.

After-Market Trading— 4:01 p.m. to 5:30 p.m. each business day.

Beginning October 3, 2014, these sessions will change to 7:00 a.m. to 9:29:59 a.m. each business day for pre-market trading, and 4:01 p.m. to 6:29:59 p.m. each business day for after-market trading. For certain trading sessions around holidays, early exchange closings at 1 p.m. (ET) will result in modifications to extended trading times.

Allowable Order Types. Limit orders only.

Order Size. Round lots, mixed lots and odd lots, with a maximum order size of 99,999 shares per order.

Order Duration. Orders entered are only in force for the trading session during which they were entered. Good till canceled (GTC), good this day (GTD), good this week (GTW) and good this month (GTM) orders are not allowed.
Securities Available. NMS equity securities are eligible for trading.

NOTE: Non-NMS Quotation Service (NNQS), Pink Sheets and securities traded on foreign exchanges are not eligible for extended-hours trading.

How Pershing Executes Extended-Hours Trades. Pershing executes extended-hours trades by routing orders to a participating exchange. The market center will automatically match client buy and sell orders, with bids and offers they are holding. In addition, markets may be linked to other exchanges or electronic trading systems to improve the opportunity for your order to be executed.

Types of Orders That Can Be Placed During Extended-Hours Trading. Only limit orders may be entered in both the pre- and post-market trading sessions. Other types of orders and order qualifiers, such as market, stop, all-or-none (AON) and fill-or-kill (FOK) are not currently available. The minimum order size is one (1) share and the maximum order size is 99,999 shares per order.

Short Sales During Extended-Hours Trading. Short sales are permitted during extended-hours trading sessions. An affirmative determination is required to verify that the security is available to borrow.

Duration of Orders Placed During Extended-Hours Trading. Orders placed during extended-hours trading sessions are only good for the session during which the order is placed. If the order is not executed during a specific extended-hours session, the order expires at the end of that session and does not roll over to the next regular hours or extended-hours session. Similarly, orders from the regular trading session do not roll over to the extended-hours session. Orders not yet executed can be canceled in the same manner as regular session orders before the close of that session.

Orders executed during an extended-hours session are considered to have been executed during that day’s regular session for settlement and clearing purposes. Settlement dates for extended-hours trades follow the same rule as regular hours trading, which is typically three business days after the day on which the transaction occurred. For instance, if your pre-market order to buy is executed on Monday, the 23rd day of the month, the settlement date is Thursday, the 26th day of the month and payment is due at that time.

Margin Requirements for Extended-Hours Trading. Margin requirements remain the same as during regular trading hours. A stock’s margin eligibility during an extended-hours session is computed using the closing price of the previous regular market session.

Risks. As with any securities trading, there are risks. Additional risks associated with extended-hours trading include:

Risk of Timing of Order Entry—All orders entered and posted during extended-hours trading sessions must be limit orders. You must indicate the price at which you would like your order to be executed. By entering the price, you agree not to buy for more or sell for less than the price you entered, although your order may be executed at a better price. Your order will be executed if it matches an order from another investor or market professional to sell or purchase on the other side of the transaction. In addition, there may be orders entered ahead of your order by investors willing to buy or sell at the same price. Orders entered earlier at the same price level will have a higher priority. This means that if the market is at your requested price level, an order entered prior to your order will be executed first. This may prevent your order from being executed in whole or in part.
Risk of Execution Pricing—For extended-hours trading sessions, quotations will reflect the bid and ask currently available through the used quotation service. The quotation service may not reflect all available bids and offers posted by other participating ECNs or exchanges, and may reflect bids and offers that may not be accessible through Pershing or respective trading partners. This quotation montage applies for both pre- and post-market sessions.

Not all systems are linked. Therefore, you may pay more or less for your security purchases or receive more or less for your security sales through a participating ECN or exchange than you would for a similar transaction on a different ECN or exchange.

Risk of Communications Delays or Failures—Delays or failures in communications due to a high volume of orders or to other computer or system problems, including Internet disruptions, may cause delays in or prevent the execution of your order. Any communication or computer problems experienced by Pershing, its designated order manager, or participating ECN or exchange, may prevent or delay the order from being executed. Pershing reserves the right to temporarily or permanently close an extended-hours trading session without prior notification in the event of system failures or unforeseen emergencies. Pershing will not be held liable for missed executions in the case of a system failure.

Risk of Lower Liquidity—Liquidity refers to the ability to buy and sell securities. Generally, if there are more orders available in the market, then the security is more liquid. Due to limited trading activity in the extended-hours trading sessions, the liquidity in these sessions may be significantly less than during regular market hours. Lower liquidity may prevent your order from being executed in whole or in part, or from receiving as favorable a price as you might receive during regular trading hours. In addition, lower liquidity means fewer shares of a given security are being traded, which may result in larger spreads between bid and ask prices and volatile swings in stock prices.

Risk of Trading Halts—News stories may have a significant impact on stock prices during extended-hours trading sessions. The SEC, FINRA, or a stock exchange may impose a trading halt when significant news has affected a company’s stock price. Any SEC-, FINRA-, or exchange-imposed trading halt will be enforced. Pending orders for a security will be held upon imposition of a trading halt for that security and reinitiated upon resumption of trading during that session.

Risk of Duplicate Orders—There is a risk of duplicate orders if you place an order for the same security in both an extended-hours session and the regular trading session, even if that order is a day order. Orders executed during regular trading hours may not be confirmed until after the post-market extended trading session has already begun. Similarly, orders executed in the pre-market session may not be confirmed until after regular trading has begun.

Risk of Partial Executions—Orders placed during extended trading hours are entered through a participating ECN or exchange, which may be linked to other ECNs or exchanges. Because you cannot add qualifiers to an order, such as AON or FOK, a round lot order may be filled in part by an odd lot or mixed lot order, leaving stock left over to buy or to sell. There is a risk that the remaining order may not be filled during the extended-hours session. An odd lot may not be represented in the displayed quote. This would occur in instances in which an order has an execution leaving an odd lot. There are no execution guarantees for an odd lot or the odd lot portion of a mixed lot portion of an order.
Risk of Lack of Calculation or Dissemination of Underlying Index Value or Intraday Indicative Value—For certain derivative securities products, an updated underlying index value or intraday indicative value may not be calculated or publicly disseminated in extended-hours trading. Since the underlying index value and intraday indicative value are not calculated or widely disseminated during the opening and late trading sessions, an investor who is unable to calculate implied values for certain derivative securities products in those sessions may be at a disadvantage to market professionals.

Risk of Higher Volatility—Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility in extended-hours trading than in regular market hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price in extended-hours trading than you would during regular market hours.

Risk of News Announcements—Normally, issuers make news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended-hours trading, these announcements may occur during trading and, if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.

Risk of Wider Spreads—The spread refers to the difference in price for which you can buy and sell a security. Lower liquidity and higher volatility in extended-hours trading may result in wider than normal spreads for a particular security.

Confirmation of Executions and/or Cancellations. Confirmations of executions or cancellations may be delayed, erroneous (e.g., due to computer system issues) or cancelled/adjusted by an exchange or market center. Any reporting or posting errors, including errors in execution prices or cancellations, will be corrected to reflect what actually occurred in the marketplace; you will be bound by such terms. The cancellation of an order is not guaranteed. The order will only be cancelled if the request to cancel is received by the market center to which the order was routed and matched with the order to be cancelled before it is executed. During market hours, it is rarely possible to cancel a market order or a marketable limit order, as such orders are subject to immediate execution. You should not assume that any order has been executed or canceled until you have received a transaction or cancellation confirmation from your financial organization or Pershing.

Pershing's Impartial Lottery Process: Partial Calls. When a security is subject to a partial redemption, pursuant to New York Stock Exchange (NYSE) Rule 402.30, which has been incorporated into the FINRA Consolidated Rulebook, Pershing must have procedures in place that are designed to treat clients fairly in accordance with an impartial lottery process. When an issuer initiates a partial call of securities, the depository holding such securities (typically, the Depository Trust and Clearing Corporation, or DTCC) conducts an impartial, computerized lottery using an incremental random number technique to determine the allocation of called securities to participants for which it holds securities on deposit (including Pershing). Because DTCC’s lottery is random and impartial, participants may or may not receive an allocation of securities selected for redemption.

When Pershing is notified that it received an allocation of called securities, Pershing conducts a similar, computer-generated random lottery. The lottery determines the accounts that will be selected and the number of securities in the account that will be redeemed. Allocations
are based on the number of trading units held in the account. The probability of any trading unit held by an account being selected as called in a partial call is proportional to the total number of trading units held through Pershing.

Once the lottery is complete, Pershing notifies introducing broker-dealers whose introduced accounts have received an allocation. Securities registered in the client’s name, either in transit or held in custody, are excluded from the Pershing lottery process.

Pershing initiates the lottery process by identifying the accounts holding the called security, the total par value of the called securities held, and the trading unit of the security.

Example (unit of trade = $25,000):

<table>
<thead>
<tr>
<th>Client Account</th>
<th>Par Value</th>
<th>Number of Trading Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC-123234</td>
<td>$100,000</td>
<td>4</td>
</tr>
<tr>
<td>DEF-325465</td>
<td>$75,000</td>
<td>3</td>
</tr>
<tr>
<td>EDR-567433</td>
<td>$150,000</td>
<td>6</td>
</tr>
<tr>
<td>EGT-876574</td>
<td>$50,000</td>
<td>2</td>
</tr>
<tr>
<td>EGT-888345</td>
<td>$25,000</td>
<td>1</td>
</tr>
<tr>
<td>FRT-435234</td>
<td>$25,000</td>
<td>1</td>
</tr>
<tr>
<td>FRT-658797</td>
<td>$75,000</td>
<td>3</td>
</tr>
</tbody>
</table>

In brief, the allocation process involves the following steps:

> The number of trading units held in each account is identified.
> A sequential number is assigned to each trading unit (e.g., account EDR-567433 would be assigned six numbers).
> A random number is generated that will result in one of these trading units being the first unit in the selection process.
> Thereafter, the trading units participating in the allocation are based on an incremental random number technique until the number of trading units allocated to Pershing is exhausted.

Additional Information:

> The allocation of called securities is not made on a pro-rata basis. Therefore, it is possible that a client may receive a full or partial redemption of shares held. Conversely, it is also possible that a client may not have any securities selected for redemption at all.
> When a partial call is deemed favorable to the holders of the called security, Pershing will exclude certain accounts from the lottery. Excluded accounts will include Pershing’s proprietary and employee accounts, as well as proprietary and employee accounts of introducing broker-dealers (if Pershing carries and clears those accounts). No allocation will be made to these proprietary and employee accounts until all other client positions at Pershing in such securities have been called. When a partial call is deemed unfavorable to holders of the called security, Pershing will not exclude any accounts from the lottery.
> If the partial call is made at a price above the current market price as captured in Pershing’s price reporting system, Pershing will generally categorize the partial call as one that is favorable to the holders of such security. If the partial call is made at a price that is equal to or below the current market price of the security as captured in Pershing’s price reporting system, Pershing will generally categorize that call as one that is unfavorable to holders of the security.
> Clients have the right to withdraw uncalled, fully paid securities from Pershing at any time prior to the cutoff date and time established.
by the issuer, transfer agent and/or depository with respect to the partial call. Clients also have the right to withdraw excess margin securities, provided that the client account is not subject to restriction under Regulation T or that such withdrawal will not cause an undermargined condition.

**Estimated Annual Income and Estimated Yield.** The following disclosure pertains to estimated annual income (EAI) and estimated current yield (ECY) figures displayed on Pershing LLC’s brokerage account statements.

The EAI and ECY figures are estimates and for informational purposes only. These figures are not considered to be a forecast or guarantee of future results. These figures are computed using information from providers believed to be reliable; however, no assurance can be made as to the accuracy. Since interest and dividend rates are subject to change at any time, and may be affected by current and future economic, political and business conditions, they should not be relied on for making investment, trading or tax decisions. These figures assume that the position quantities, interest and dividend rates, and prices remain constant. A capital gain or return of principal may be included in the figures for certain securities, thereby overstating them.

The EAI figure for U.S. government, corporate and municipal securities is computed by multiplying the coupon rate by the quantity of the security and then dividing that figure by 100. The resulting figure is reflected on the brokerage account statement in the EAI field.

The EAI for equity, mutual fund, unit investment trust and exchange-traded fund securities is computed using either a historical methodology (HM) or projected methodology (PM), depending on the information from the issuer. The PM annualizes the latest regular cash dividend. The HM accumulates the regular cash dividends over the past twelve months. If there is less than one year of dividend history, the accumulated dividends are annualized. The EAI for preferred securities is computed using the PM. The HM or PM figure, whichever is calculated, is then multiplied by the quantity of the security and the resulting figure is reflected on the brokerage account statement in the EAI field.

The following are important caveats to the HM figure and PM figure.

> The figure is denominated in the same currency as the dividend announcement.
> The figure does not contemplate special or extra dividends.
> When a security pays its first dividend with no specificity as to dividend frequency, the initial dividend will be the reported figure.
> If a security announces a stock split and does not announce a new dividend rate, the figure will be adjusted on the ex-distribution/dividend date.
> For a called security, the figure will remain unchanged until the payment date, at which point it will revert to zero.
> The figure for Canadian securities is calculated the same way as for U.S. securities.
> The figure for mutual funds only includes dividends treated as income.
> The figure will be zero under the following scenarios: a security that has only paid capital gains during the preceding year; a security that has only had stock splits, stock (not cash) dividends or reverse stock splits during the preceding year; a security other than an open-end mutual fund (excluding a money market fund), ADR preferred, or
exchange-traded fund which rescinds or omits a dividend payment; and a security from an issuer which is in arrears and uncertain about its ability to make a dividend payment.

The ECY figure is computed by dividing the EAI figure by the current market price of the security, which may be higher or lower than the purchase price, and then the figure is multiplied by 100. The resulting figure is reflected on the brokerage account statement in the ECY field. With specific regard to a fixed income security, the initial purchase confirmation oftentimes reflects yield to maturity, yield to call and/or yield to worst figures which are more relevant figures from the point of purchase.

**Trailing Stop Orders.** Trailing stop orders can be triggered by either a transaction or by a National Best Bid/Offer (NBBO) quotation update, and can trail by dollar value or percentage, depending on which option your financial advisor chooses on an order-by-order basis at the time the order is placed.

**Canadian Activities.** Pershing LLC operates in Canada under an International Dealer Exception through the Ontario Securities Commission.
Regulatory Agencies

Financial Industry Regulatory Authority

FINRA Broker Check Hotline
www.finra.org
800.289.9999
FES CRD# 15129

U.S. Securities and Exchange Commission

Office of Investor Education and Assistance
100 F Street, NE
Washington, DC 20549
www.sec.gov
800.SEC.0330
202.551.6551
Member Database

The following are SIPC members:

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Trade Name</th>
<th>Address</th>
<th>City</th>
<th>State</th>
<th>Zip</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIRST EMPIRE SECURITIES INC</td>
<td>FIRST EMPIRE SECURITIES INC</td>
<td>100 MOTOR PARKWAY ATTN: LENA BHOLAN</td>
<td>HAUPPAUGE</td>
<td>NY</td>
<td>11788</td>
</tr>
</tbody>
</table>

Return to Main Menu
Account Agreement

You have opened an account with First Empire Securities, Inc. First Empire Securities, Inc. ("First Empire") is an introducing broker dealer that carries its accounts on a fully disclosed basis through Pershing LLC ("Pershing"), a BNY Securities Group Company, pursuant to a written clearing agreement. First Empire and Pershing are both S.E.C. registered broker-dealers.

This agreement sets forth the responsibilities of First Empire and Pershing for your account. At all times we will exercise ordinary care with respect to your account. Your signature below constitutes your acceptance of and agreement to these terms and conditions.

First Empire is independent of Pershing and retained Pershing to provide certain record keeping and operational services, which may include execution and settlement of securities transactions, custody of securities and cash balances, and extension of credit on margin transactions. These services are provided under a written Clearing Agreement between Pershing and First Empire. It is important that you understand the responsibilities of First Empire and Pershing under the Clearing Agreement as outlined below.

Responsibilities of First Empire:

First Empire has general responsibility for servicing and supervising your securities account through its own personnel in accordance with its own policies and applicable laws and regulations. First Empire is responsible for approving the opening of your account and obtaining necessary account documentation. First Empire is responsible for knowing you and your stated investment objectives and any investment advice, investment recommendations, or investment management services that may be provided to you. It is also responsible for determining whether particular kinds of transactions, which may be recommended to you are appropriate for you. First Empire is responsible for the acceptance and, in certain instances, execution of securities orders, and for knowing the facts about any orders for the purchase or sale of securities for your account. If First Empire is a market maker in any securities or otherwise trades as principal with you, it is responsible for compliance with fair pricing and disclosure responsibilities to you.

If First Empire obtains possession of any cash or securities intended for your account, it is responsible for correctly identifying and promptly forwarding the same to Pershing. First Empire is responsible for supervising the activities of the individual (if any) who services your account, for resolving any complaints regarding the handling of your account, and, in general, for the ongoing relationship that it has with you. In all of the above matters relating to the servicing of your account, Pershing has no involvement and assumes no responsibility.

Responsibilities of Pershing:

In general, Pershing is only responsible for those services provided at the request or direction of First Empire as contemplated by the Clearing Agreement. Pershing will create computer-based account records on your behalf in such name(s) and with such address(es) as your financial organization directs. Pershing will process orders for the purchase, sale, or transfer of securities for your account as your financial organization directs. Pershing is not obligated to accept orders for securities transactions for your account directly from you and will do so only in exceptional circumstances. Pershing will receive and deliver cash and securities for your account and will record such receipts and deliveries according to information provided either by First Empire or directly, in writing, by you. Pershing will hold in custody securities and cash received for your account, and will collect and disburse dividends and interest and process reorganization and voting instructions with respect to securities held in custody. Pershing is responsible for the custody of your cash and securities only after it comes into Pershing’s physical possession or control. Pershing will prepare and transmit to you or provide facilities to your financial organization for the preparation and transmission of confirmations of trades. Pershing will prepare and transmit periodic account statements summarizing transactions processed for your account to you. If First Empire opens a margin account for you, Pershing will loan you money for the purpose of purchasing or holding securities subject to the terms of Pershing’s written Margin Agreement and Pershing margin policies and applicable margin regulations. First Empire is responsible for obtaining the initial margin as required by Regulation T. Thereafter, Pershing will calculate the amount of maintenance margin required. Pershing will advise you of those requirements, usually through First Empire. Pershing will also calculate the interest charged on your debit balance, if any. In connection with all of the functions that Pershing performs, Pershing maintains the books and records required by law and by business practice. Pershing will provide First Empire with written reports of all transactions processed for your account to enable it to carry out its responsibilities under the Clearing Agreement. Pershing will assist you and First Empire with any discrepancies or errors that may occur in the processing of transactions for your account.

PERSHING DOES NOT CONTROL, AUDIT, OR OTHERWISE SUPERVISE THE ACTIVITIES OF FIRST EMPIRE OR ITS EMPLOYEES. PERSHING DOES NOT VERIFY INFORMATION PROVIDED BY FIRST EMPIRE REGARDING YOUR ACCOUNT OR TRANSACTIONS PROCESSED FOR YOUR ACCOUNT NOR UNDERTAKE RESPONSIBILITY FOR REVIEWING THE APPROPRIATENESS OF TRANSACTIONS ENTERED BY FIRST EMPIRE ON YOUR BEHALF.
In furnishing its services under the Clearing Agreement, Pershing may use and rely upon the services of clearing agencies, automatic data processing vendors, proxy processing, transfer agents, securities pricing services, and other similar organizations. This statement addresses the basic allocation of functions regarding the handling of your account. It is not meant as a definite enumeration of every possible circumstance, but only as a general disclosure.

**ARBITRATION**

THIS AGREEMENT CONTAINS A PREDISPUTE ARBITRATION CLAUSE. BY SIGNING AN ARBITRATION AGREEMENT THE PARTIES AGREE AS FOLLOWS:

A. ALL PARTIES TO THIS AGREEMENT ARE GIVING UP THE RIGHT TO SUE EACH OTHER IN COURT, INCLUDING THE RIGHT TO A TRIAL BY JURY, EXCEPT AS PROVIDED BY THE RULES OF THE ARBITRATION FORUM IN WHICH A CLAIM IS FILED.

B. ARBITRATION AWARDS ARE GENERALLY FINAL AND BINDING; A PARTY’S ABILITY TO HAVE A COURT REVERSE OR MODIFY AN ARBITRATION AWARD IS VERY LIMITED.

C. THE ABILITY OF THE PARTIES TO OBTAIN DOCUMENTS, WITNESS STATEMENTS AND OTHER DISCOVERY IS GENERALLY MORE LIMITED IN ARBITRATION THAN IN COURT PROCEEDINGS.

D. THE ARBITRATORS DO NOT HAVE TO EXPLAIN THE REASON(S) FOR THEIR AWARD. UNLESS, IN AN ELIGIBLE CASE, A JOINT REQUEST FOR AN EXPLAINED DECISION HAS BEEN SUBMITTED BY ALL PARTIES TO THE PANEL AT LEAST 20 DAYS PRIOR TO THE FIRST SCHEDULED HEARING DATE.

E. THE PANEL OF ARBITRATORS WILL TYPICALLY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY.

F. THE RULES OF SOME ARBITRATION FORUMS MAY IMPOSE TIME LIMITS FOR BRINGING A CLAIM IN ARBITRATION. IN SOME CASES, A CLAIM THAT IS INELIGIBLE FOR ARBITRATION MAY BE BROUGHT IN COURT.

G. THE RULES OF THE ARBITRATION FORUM IN WHICH THE CLAIM IS FILED, AND ANY AMENDMENTS THERETO, SHALL BE INCORPORATED INTO THIS AGREEMENT.

NO PERSON SHALL BRING A PUTATIVE OR CERTIFIED CLASS ACTION TO ARBITRATION, NOR SEEK TO ENFORCE ANY PRE-DISPUTE ARBITRATION AGREEMENT AGAINST ANY PERSON WHO HAS INITIATED IN COURT A PUTATIVE CLASS ACTION; OR WHO IS A MEMBER OF A PUTATIVE CLASS WHO HAS NOT OPTED OUT OF THE CLASS WITH RESPECT TO ANY CLAIMS ENCOMPASSED BY THE PUTATIVE CLASS ACTION UNTIL: (I) THE CLASS CERTIFICATION IS DENIED; OR (II) THE CLASS IS DECERTIFIED; OR (III) THE CUSTOMER IS EXCLUDED FROM THE CLASS BY THE COURT. SUCH FORBEARANCE TO ENFORCE AN AGREEMENT TO ARBITRATE SHALL NOT CONSTITUTE A WAIVER OF ANY RIGHTS UNDER THIS AGREEMENT EXCEPT TO THE EXTENT STATED HEREIN.

YOU AGREE THAT ALL CONTROVERSIES ARISING BETWEEN YOU AND FIRST EMPIRE AND ITS OFFICERS OR EMPLOYEES, WHETHER ARISING PRIOR TO, ON, OR SUBSEQUENT TO THE DATE HEREOF, SHALL BE DETERMINED BY ARBITRATION.

ANY ARBITRATIONS UNDER THIS AGREEMENT SHALL BE HELD AT THE FACILITIES AND BEFORE AN ARBITRATION PANEL APPOINTED BY THE FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA). THE AWARD OF THE ARBITRATORS, OR THE MAJORITY OF THEM, SHALL BE FINAL, AND JUDGMENT UPON THE AWARD RENDERED MAY BE ENTERED IN ANY COURT, STATE OR FEDERAL, HAVING JURISDICTION.

This agreement contains a predispute arbitration clause, which is outlined on page two (paragraphs 2-12) of this agreement.

Agreed to and accepted by:

Corporation or Organization: ____________________________

_____________________________________________________

By:__________________________________________________

_____________________________________________________

Printed Name/Title: ________________________________

_____________________________________________________

Date: ____________________________________________
Pershing LLC (Pershing), a BNY Mellon company, has been a leading global provider of financial business solutions for 75 years and serves many of the world’s most respected financial organizations. We remain committed to the safekeeping, servicing, segregation and reporting of our global client assets.

THE PROTECTION OF CLIENT ASSETS REMAINS AT THE CENTER OF OUR FOCUS

**FINANCIAL STRENGTH—DECEMBER 31, 2013**

Pershing’s core financial strength provides the foremost measure of protection for our global client assets. Our parent company, BNY Mellon, is a leading provider of financial services for institutions, corporations and high-net-worth individuals. Pershing’s financial strength does not protect against loss due to market fluctuation.

**Pershing, a BNY Mellon company**
- Over $1 trillion in global client assets
- Net capital of over $1.5 billion—well above the minimum requirement

**BNY Mellon**
- $27.6 trillion in assets under custody and/or administration
- $1.6 trillion in assets under management
- Total shareholders’ equity: $37.5 billion
- Market capitalization: $39.9 billion
EVALUATION AND SEGREGATION OF ASSETS
As required, Pershing segregates clients’ fully paid-for assets from our own to ensure the return of client assets in the unlikely event of the financial failure of Pershing. Pershing also takes the following measures to protect client assets:
› Annual audit by a major independent audit firm and the audit team at our parent company, BNY Mellon
› Annual Service Organizations report (as required) by a major independent audit firm provides additional evaluation of the design and operating effectiveness of Pershing’s internal controls related to:
   – Account transfers
   – Billing
   – Clearance and settlement
   – Confirmations and cash management functions
   – Corporate actions
   – Foreign exchange and prime brokerage controls
   – Interest
   – Margin monitoring
   – Order and trade processing
   – Physical custody
   – Pricing
   – Statements
› Maintenance of enough liquid assets, net of any liabilities, to ensure the return of clients’ fully paid-for assets in the event of Pershing’s failure and liquidation
› Quarterly vault inspection and securities verification to confirm custody of fully paid-for client assets

SECURITIES INVESTOR PROTECTION CORPORATION (SIPC®) COVERAGE
Pershing is a member of the SIPC, which protects securities customers of its members up to $500,000 (including $250,000 for claims for cash). Explanatory brochure available upon request or at sipc.org.

EXCESS OF SIPC COVERAGE THROUGH UNDERWRITERS AT LLOYD’S
In addition to SIPC protection, Pershing provides coverage in excess of SIPC limits from certain underwriters in Lloyd’s insurance market. The excess of SIPC insurance program is valid through February 10, 2015 for Pershing LLC accounts. It provides the following protection for Pershing LLC’s global client assets:
› An aggregate loss limit of $1 billion for eligible securities—over all client accounts
› A per-client loss limit of $1.9 million for cash awaiting reinvestment—within the aggregate loss limit of $1 billion

SIPC and the excess of SIPC insurance policy do not protect against loss due to market fluctuation.

An excess of SIPC claim would only arise if Pershing failed financially and client assets for covered accounts—as defined by SIPC—cannot be located due to theft, misplacement, destruction, burglary, robbery, embezzlement, abstraction, failure to obtain or maintain possession or control of client securities, or to maintain the special reserve bank account required by applicable rules.

Lloyd’s currently holds A+ ratings from Fitch Ratings and Standard & Poor’s® (S&P®), and an A rating from A.M. Best. These ratings are based on the financial strength of the company and are subject to change by the rating agencies at any time.¹ For more information about Lloyd’s, please see www.lloyds.com.

¹ Ratings as of November 2013.

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Notice of Privacy Policies

We value our relationships with our customers and are dedicated to providing them with exceptional products and services. As part of our dedication to servicing their financial needs, First Empire Securities, Inc. (“FES”) is committed to protecting the confidentiality of nonpublic personal information about our customers. This privacy notice is to inform our customers about the types of information that is obtained from customers, how that information is used, and the measures taken to protect that information.

Information Obtained From Customers

In order to establish an account with a customer, FES requests the customer to provide certain personal nonpublic information, including: address, telephone number, Social Security number/Tax ID, income/net worth, employment, marital status, investment history and objectives, and other personal information that will assist us in recommending suitable investments.

How Information is Protected

FES restricts access to nonpublic personal information to those employees who need to know that information to provide products or services to our customers. We maintain physical, electronic and procedural safeguards that comply with federal and state regulations to guard such information.

Disclosure

We do not disclose any nonpublic personal information about our customers or former customers to anyone except as permitted by law. Nonpublic personal information as outlined above will only be disclosed for such purposes as conducting and auditing our business, administering the business of affiliated organization, responding to requests from government authorities or regulatory bodies, or as authorized or requested by our customers. Such disclosures include, but are not limited to:

- Affiliates – We may provide information to affiliated companies to enable them to provide business services and offer products and services they provide.
- Agents – We may provide information to enable agents to offer and provide our products and services to our customers.
- Clearing Broker – We may provide information to our clearing broker to enable them to process and clear transactions in financial products.
- Government Authorities and Regulatory Bodies – We may provide information upon request from governmental authorities or regulatory bodies for the purpose of preventing fraud, auditing our business, or other reason for which the entity is legally permitted to request information.

We do not share, trade, sell, exchange or disclose nonpublic personal information except as stated above or to otherwise conduct a securities business. It is our policy not to disclose any nonpublic personal information to non-affiliates other than service providers and third parties that aid in fulfilling the services requested by our clients.

About This Privacy Notice

The examples contained herein are provided as illustrations and are not a comprehensive account of the rights of any party under applicable federal or state laws. The policies stated herein will remain in effect even after an account is closed, to the extent that the information is retained. We may from time to time amend this policy and will inform you of any changes as required by law. For additional information, contact First Empire Headquarters via mail. Please send the letter to the attention of the Privacy Notice Information.
Business Continuity Planning

First Empire Securities, Inc., LPC Services, Inc., Balance Sheet Management and Consulting Services, Inc., First Empire CD Management, Inc., First Empire Asset Management, Inc., and its affiliates, parent companies and subsidiaries have developed a Business Continuity Plan on how we will respond to events that significantly disrupt our business. Since the timing and impact of disasters and disruptions is unpredictable, we will have to be flexible in responding to actual events as they occur. With that in mind, we are providing you with this information on our business continuity plan.

Contacting Us - If after a significant business disruption you cannot contact us as you usually do at 631.979.0097, 800.645.5424, or 888.620.5736 you should call our alternative number 800.551.2971 or go to our web site at www.1empire.com. If you cannot access us through either of those means, you should contact your custodian directly. If Pershing is your custodian, you may contact them at 201.413.3635 or 213.624.6100 ext. 500 for instructions on how it may provide prompt access to funds, securities, account information and/or to enter orders or accept your account instructions.

Our Business Continuity Plan - We plan to quickly recover and resume business operations after a significant business disruption and respond by safeguarding our employees and property, making a financial and operational assessment, protecting the firm's books and records, and allowing our customers to transact business. In short, our business continuity plan is designed to permit our firm to resume operations as quickly as possible, given the scope and severity of the significant business disruption.

Our business continuity plan addresses: data back up and recovery; all mission critical systems; financial and operational assessments; alternative communications with customers, employees, and regulators; alternate physical location of employees; critical supplier, contractor, bank and counter-party impact; regulatory reporting; and assuring our customers prompt access to their funds and securities if we are unable to continue our business.

Our clearing firm, Pershing LLC, backs up our important broker-dealer records in a geographically separate area. While every emergency situation poses unique problems based on external factors, such as time of day and the severity of the disruption, we have been advised by our clearing firm that its objective is to restore its own operations and be able to complete existing transactions and accept new transactions and payments within four hours. Your orders and requests for funds and securities could be delayed during this period.

Varying Disruptions - Significant business disruptions can vary in their scope, such as only our firm, a single building housing our firm, the business district where our firm is located, the city where we are located, or the whole region. Within each of these areas, the severity of the disruption can also vary from minimal to severe. In a disruption to only our firm or a building housing our firm, we will transfer our operations to a local site when needed and expect to recover and resume business within 24 to 48 hours. In a disruption affecting our business district, city, or region, we will transfer our operations to a site outside of the affected area, and recover and resume business within 24 to 48 hours. In either situation, we plan to continue in business, transfer operations to our clearing firm if necessary, and notify you through our web site www.1empire.com or our customer emergency number, 800.551.2971 how to contact us. If the significant business disruption is so severe that it prevents us from remaining in business, we will assure our customer's prompt access to their funds and securities.
March 2014

Dear Valued Client:

First Empire Securities, Inc. is a registered broker-dealer that is subject to laws and regulations designed to combat money laundering activity and terrorist financing, including the “U.S. Patriot Act.” First Empire Securities, Inc. has implemented procedures that are reasonably designed to comply with these regulations. Our program includes, but is not limited to, designating an AML compliance officer, checking OFAC lists, a customer identification program component, as well as an independent audit function that is reasonably designed to comply with these regulations.

If you have any questions, you may contact me directly at 631-979-0097.

Sincerely,

Gina-Marie Accolla, CCO

Gina-Marie Accolla
Chief Compliance Officer

If you would like to be removed from our contact list, please call Customer Service at 800-645-5424. The information contained in this document has been obtained from sources we believe to be reliable. However, we do not guarantee it is accurate or complete. This information is subject to change without notice. This document is not and should not be construed as an offer to buy or sell any security or securities. First Empire Securities, Inc. is a member of FINRA and SIPC.