Deriv/SERV

In two years, DTCC Deriv/SERV has staked its claim as the industry's leading provider of automated services for over-the-counter (OTC) derivatives globally.

Trading in the OTC derivatives markets — particularly in credit default swaps (CDS) — continues to grow at a breathtaking rate. Today, the number of global participants in these markets is in the thousands and rising, with dealers, banks, investment managers, hedge funds, pension funds, insurance companies and others all active in the market. According to the International Swaps and Derivatives Association (ISDA), the total notional value of CDS outstanding exceeded $17.3 trillion in 2005 — a growth rate of 39% over 2004, remarkable for a market that hardly existed in 2000.

Penetrating the Market Deriv/SERV's customer base is the largest of any post-trade service provider in the OTC derivatives marketplace. By early 2006, all of the largest global derivatives dealers and more than 250 buy-side firms were customers. In 2005 alone, the number of buy-side firms signed on to the system grew more than fivefold.

In a clear signal of DTCC's commitment to contain customer costs while delivering efficiencies, Deriv/SERV is offered to the buy-side at no cost, while sell-side dealers are charged at cost.

Broadening OTC Derivatives Services

DTCC's ultimate vision is to provide "one-stop" servicing for OTC derivatives across asset classes and covering all post-trade processes. Deriv/SERV has already been an important driver in helping increase automated processing rates, while lowering the risk and cost of

> OUR VISION IS TO OFFER 'ONE-STOP' SERVICING FOR OTC DERIVATIVES, FROM AFFIRMATION OF THE TRADE AT THE TRADER'S DESK, TO CONFIRMATION AND MATCHING, PAYMENT PROCESSING, AND A TRADE INFORMATION WAREHOUSE AND 'DOWNSTREAM' PROCESSING INFRASTRUCTURE.

Robert J. Burns
Vice President
BlackRock Inc.

Karen Newton
Director, Global Head of OTC Derivative Operations
Credit Suisse

Stuart D. J. McClymont
Director, Global Head of
OTC Derivative Operations
Market Initiatives
Deutsche Bank

labor-intensive, paper-based processing of these instruments. According to major market participants, automated confirmation of credit derivatives trades has grown to more than 60% in early 2006 from about 15% in 2004.

Initially built to automate CDS matching and confirmation, DTCC expanded Deriv/SERV in 2004 to support CDS indices and swaps on Asia-Pacific corporate credits, sovereign credits, and global equity OTC derivatives, and rolled out payment-processing services.

In 2005, DTCC set a blistering pace for Deriv/SERV development, including:

- Broadening product coverage to support interest rate swaps and swaptions, equity swaps and variance swaps.
- Launching a second-generation payment processing service, employing a central payments database to bring greater automation and risk management controls.
- Enhancing Deriv/SERV's assignment processing features.
- Reengineering on-line break resolution tools to accommodate streamlined workflows.
- Releasing the Deriv/SERV Master Confirmation Agreement, which alleviates the need for customers to execute bilateral agreements with each of their trading partners before using Deriv/SERV.

Also in 2005, DTCC enhanced the payment capabilities of Deriv/SERV to accommodate real-time messaging between DTCC and customers. This move speeds the submission and processing of payments for CDS and other OTC derivatives, providing greater accuracy and straight-through processing. In the fourth quarter of 2005, DTCC matched and bilaterally netted a record 1.2 million payments, reflecting a threefold increase from the same period in 2004, when 400,000 payments were processed.

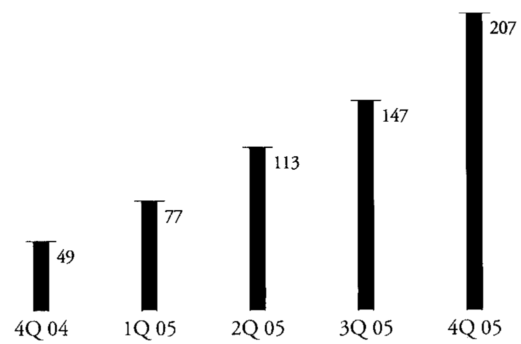
On the dealer side, all customers are now making full use of Deriv/SERV's features for credit derivatives, which now support more than 20 product types and all life-cycle events, such as assignments, amendments and partial terminations.

Creating STP Through Partnerships

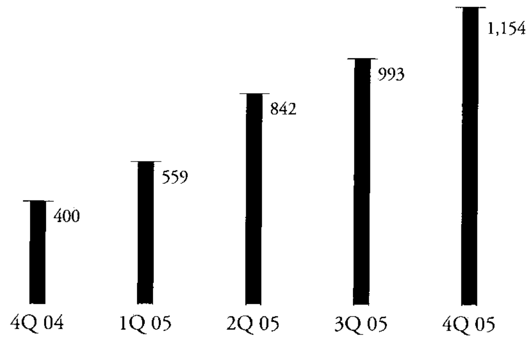
In 2005, DTCC built links with several trading platforms and other service providers, including Communicator, MarketAxess, Thunderhead, TradeWeb and T-Zero. These links streamline

According to major market participants, more than 60% of credit derivatives traded globally are ELECTRONICALLY CONFIRMED through Deriv/SERV, up from 15% in 2004.

Deriv/SERV Customers



Deriv/SERV Total Payments Processed
(in thousands)



A CENTRAL TRADE INFORMATION WAREHOUSE WILL BRING INCREASED ACCURACY, COST REDUCTION AND REDUCED RISK TO THE **POST-TRADE PROCESSING** OF OTC DERIVATIVES.

customers' technology solutions, bringing them fully automated, end-to-end processing capabilities.

Furthering DTCC's goal of being a front-to-back-end solutions provider, DTCC teamed with leading inter-dealer brokers (IDBs), announcing plans to launch a single-screen affirmation platform. Planned for 2006, the service will create a centralized hub for dealers to review and affirm broker-executed credit derivatives transactions. Dealers also will have the option of automatically submitting electronically verified transactions to Deriv/SERV, resulting in legal confirmation within seconds of trade affirmation.

DTCC will operate this service in pilot mode for the founding IDBs — GFI Group, ICAP and Tullett Prebon — for one year, after which the service will be opened to other IDBs.

LOOKING AHEAD At the forefront of DTCC's Deriv/SERV expansion is the creation of a central trade information warehouse that will bring increased accuracy, cost reduction and reduced risk to the post-trade processing of OTC derivatives. Beginning with credit derivatives, this global infrastructure solution, which is being developed in close collaboration with leading dealers and buy-side firms, will eventually accommodate interest rates, equities and other OTC derivatives.

The solution will comprise a comprehensive database containing the most up-to-date or "golden copy" of each trade, and a processing component that will standardize and automate "downstream" processing over a contract's life cycle. The first release, planned for 2006, will maintain the current state of each contract and calculate and bilaterally net cash flows.

In 2006, DTCC also will focus on further increasing the number of users for all Deriv/SERV services and continue to add new product types, such as credit derivatives tranches.

TOWER BRIDGE

Perhaps the most famous drawbridge in the world, London's Tower Bridge probably wouldn't have been built the way it was except for one reason: regulatory requirements. Concerned about maintaining maritime trade, Parliament required any new structure to be a drawbridge to ensure that large ships could get up the river. As a result, the bridge was constructed with a 200-foot central span split into two halves, or bascules, that can be raised in less than a minute. The towers on the bridge allow foot traffic to continue via the bridge's upper corridor, 112 feet above the water. Reflecting its construction in Victorian times — the 1880s — all the metal on the bridge is painted blue, the favorite color of Queen Victoria.

Steam engines originally powered the raising and lowering of the drawbridge. Today they're controlled by electronics. But river traffic, by regulatory decree, still takes priority over road traffic, so the drawbridge is raised at least 500 times a year.

AT DTCC, we understand the value of infrastructure systems that not only bridge many parts of the securities industry but are also designed to help our customers comply with regulatory requirements. In the mutual fund industry alone, for example, DTCC has upgraded and enhanced its technology to give fund companies solutions to newly mandated requirements and industry standards for investor discounts, or sales charges, and short-term redemption fees. We've also helped the fund industry increase shareholder account transparency.

MUTUAL FUND SERVICES

Only two weeks into 2005, Fund/SERV® — the industry standard for automating the purchase, registration, redemption and settlement of mutual fund transactions and linking funds with their multiple distributors — hit the one-million-transactions-a-day mark. There was no fanfare, no interruptions to the system. Just business as usual. It was a fitting moment for this powerful fund-industry engine — which celebrates its 20th anniversary in 2006.

Reaching this target speaks to the resiliency and growing usage of DTCC's Mutual Fund Services overall, as year-end statistics were significantly higher than in 2004.

Overall Fund/SERV transactions for the year rose 14%, to nearly 118 million in 2005, from about 104 million in 2004. The value of those transactions also increased to $1.7 trillion from $1.5 trillion, primarily due to growing volume in Defined Contribution Clearance & Settlement transactions.

On a daily basis, the average number of Fund/SERV transactions in 2005 climbed to 467,000, compared to nearly 412,000 in the prior period.

At the same time, Fund/SERV costs plunged to 11 cents from 17.5 cents per transaction, a 37% reduction.

ONLY TWO WEEKS INTO 2005, FUND/SERV HIT THE **ONE-MILLION**-TRANSACTIONS-A-DAY MARK. REACHING THIS MILESTONE SPEAKS TO THE RESILIENCY AND GROWING USAGE OF OUR FAMILY OF MUTUAL FUND SERVICES.

The strength of Networking was also evident in 2005. The number of sub-accounts flowing through the service, which provides accurate and synchronized customer records and statements to both fund companies and distributor firms, was more than 72 million at year-end, an 11% increase from the 65 million sub-accounts supported in the prior year.

And Networking fees were restructured from a per-account charge to a usage-based charge of 1/4 of a cent per transaction. Customers will benefit from the fact that these fees are now based on the number of transactions or activity records processed — including dividends, positions, broker and fund conversions, account maintenance and share aging.

Fund/*SPEED*℠, DTCC's Web-based portal for funds, firms and independent financial planners also saw a significant uptick in users, and in the volumes of account inquiries processed.

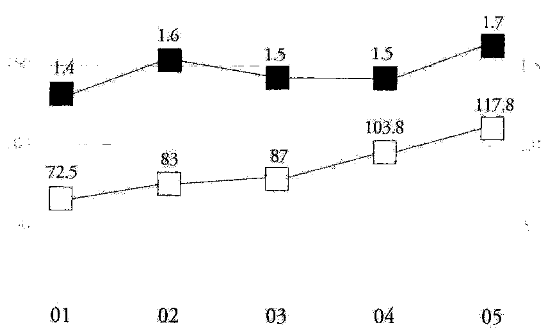
Compliance Issues Gain New Service Advocates While breaking new records in our core mutual fund services this past year, DTCC has also sought to address a number of changing regulatory and industry-led requirements, most notably increased transparency to support breakpoint calculations — sales discounts based on the level of investments in front-end funds — and regulatory provisions on "early redemption" fees, intended to discourage market timing and short-term trading.

In 2005, the organization introduced new functionality to Fund/SERV, Networking, PCWeb Direct and the Security Issue database within Mutual Fund Profile Service (Profile) to facilitate expanded breakpoint-information exchange. Because Profile is an established service, centralized, standardized and open to all users, the Joint NASD/Industry Task Force on Breakpoints singled it out as one of the most effective sources for distributors and fund companies to provide breakpoint data to investors.

DTCC has also partnered with the National Association of Securities Dealers (NASD) on a powerful online tool that permits investors and broker/dealers to retrieve information, from its Web site, through a link to the database. Information available includes breakpoint schedules and linkage rules that identify who within a family may be included in breakpoint calculations.

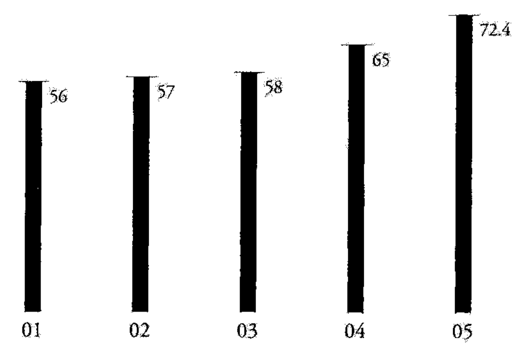
DTCC is also moving forward with a Standardized Data Reporting (SDR) capability, which will increase transparency of accounts held in an omnibus environment. The project will support the industry as it draws closer to an October 2006 compliance date for Rule 22c-2 of the Securities and Exchange Commission, which

Fund/SERV
($ in trillions)



Value (in trillions of dollars)
Volume (in millions)

Networking Sub-Accounts
(in millions)



requires intermediaries to provide fund companies, upon request, with certain shareholder identity and trading information, to better track market timing and monitor whether redemption fees are being properly assessed. Once developed and launched, SDR will become a standard conduit for fund companies to request this information and receive it quickly.

Progress on Alternative Investments, Managed Accounts A top business story in 2005 was the growth of hedge funds, as an increasing number of institutional investors joined the ranks of individuals, endowments and charitable organizations that pumped money into alternative investment products. One trillion dollars currently in assets reflects a soaring upsurge in alternative investments, compared to approximately $400 million in 2000.

However, much of the communication related to this activity is still manually processed, posing risk and adding cost to the support of these products.

Encouraged by hedge funds and other alternative investment companies, DTCC formed an advisory committee to create a technology solution for this industry segment.

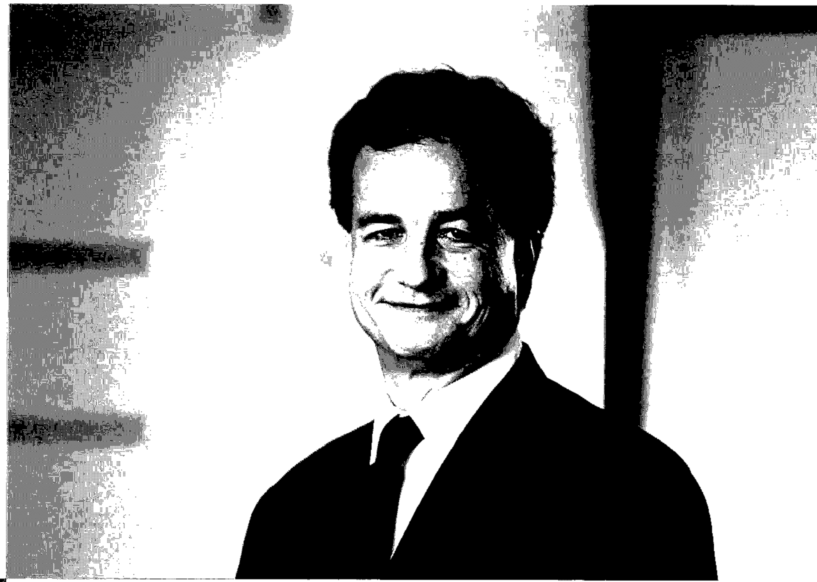
Drawing from DTCC's success in automating the financial markets' transactional and information-exchange requirements, the new service will automate new account processing; purchases; redemption and tender offers; and commission payments for hedge funds, funds of hedge funds, managed futures, commodity pools and real estate investment trusts. With industry commitment and regulatory approval, DTCC expects to introduce the new service in 2006 to institutions in the U.S. and global markets.

Managed accounts have experienced a similar increase in investor interest, with assets under management growing to $678 billion at year-end, almost 18% higher than 2004, and the number of accounts totaling 2.17 million, up 12% over the same period. Managed accounts are portfolios of investments tailored to meet the specific financial goals of individuals and provide tax efficiencies; they are offered by financial consultants and managed by independent money managers.

Working with industry members and The Money Management Institute trade organization, DTCC will leverage elements of its existing infrastructure for fund transactions to create a processing model that will help propel the industry toward its full growth potential. The organization recently announced the formation of an advisory committee to collaborate on finalizing the model for an automated, standardized and centralized hub to establish and maintain managed accounts. Through a standardized solution, DTCC will set the stage for operational efficiencies that will lower costs, improve scalability and expand business relationships among investment managers and sponsor firms.

Nino Palermo
Vice President
American Funds Distributors, Inc.

Mark G. Lopez
Managing Director, Strategic Planning
LPL Financial Services



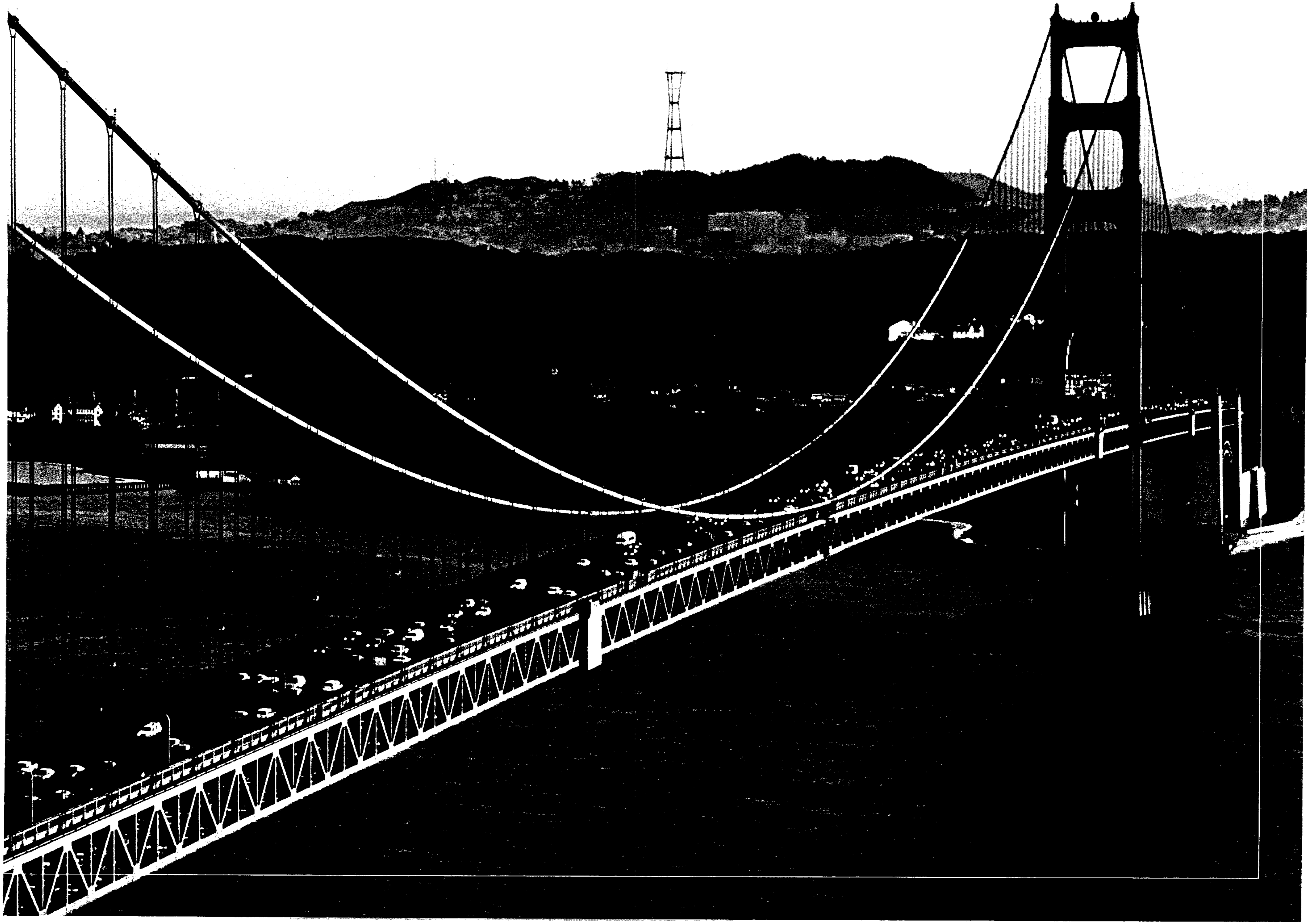
Eric Tepper
Managing Director
Bear Stearns Asset Management Inc.

Golden Gate Bridge

The longest suspension bridge in the world when it was completed in 1937, the Golden Gate Bridge today is often regarded as the most beautiful of all the world's great bridges. Built largely with private financing, the 4,200-foot long bridge at last gave San Francisco a direct route to the north, opening Marin County to development and eliminating the need for long and often dangerous ferry rides across the choppy harbor waters.

Constructing the bridge's massive, 746-feet high towers, which lift the roadway more than 200 feet above oceangoing shipping, required the development of special safety features. The blinding fogs and blazing sun made work especially dangerous. To overcome this, engineers developed the forerunner to today's construction hard hat, as well as glare-free goggles. Perhaps the most critical of the safety features was the netting stretched around the towers. With the netting in place, workers felt secure enough to work more quickly, and the nets ultimately saved 19 workers from certain death.

IN MUCH THE SAME WAY, DTCC's infrastructure systems for the securities industry, which handle millions of transactions each day, are constructed and operated to ensure ongoing safety and reliability. Already an established industry leader in business continuity planning, DTCC survived the attack of 9/11 largely unscathed and in the days that followed completed in excess of $1.8 trillion in outstanding securities transactions. Since then, we have completed deploying a business resiliency strategy designed to handle all critical functions through our multiple redundant operating and data centers thousands of miles apart. Our goal is to sustain all of our critical functions that are essential to sustaining the safety and soundness of U.S. financial markets.



INSURANCE

Driven by federal mandates such as Sarbanes-Oxley and the USA PATRIOT Act, as well as state-regulated best practices for sales of life insurance and annuities, carriers and distributors face mounting pressure to implement cost-effective solutions for compliance, corporate governance and risk mitigation.

DTCC's Insurance Services business has been working to address the needs of this industry segment. The number of carriers and distributor participants grew to 275, up 9% over 2004.

SOLID UNDERPINNINGS: CORE SERVICES GROW Growing industry reliance on compliance automation was reflected in increased customer usage of DTCC Insurance Services' products, many of which have a compliance component. For example, Insurance Services' Financial Activity Reporting service, which helps firms comply with regulatory anti-money laundering and "market timing" requirements, posted a 49% increase in records processed in 2005, reaching almost 23 million transactions versus 15.4 million in 2004.

Other Insurance Services' solutions also experienced strong customer demand. One is Positions & Valuations, a key tool that gives broker/dealers a snapshot of customers' holdings at any given carrier that can be integrated into an overall view of customers' portfolios for suitability and other purposes. This service processed

Leonard Schmitt
Executive Director, Operational Administration
Annuity & Insurance Services, Individual Investor Group
Morgan Stanley

Ronald P. Fiske, Jr.
Managing Director,
Product Management & Development
Pershing LLC
A subsidiary of The Bank of New York Company, Inc.

almost 2.3 billion transactions in 2005, an increase of 29% over the previous year's 1.8 billion transactions.

Licensing & Appointments also saw robust growth. This service — which facilitates the authorization of firms' account executives to sell and manage insurance products — jumped 24% in volume last year, to 5.4 million transactions, compared to 4.4 million in 2004.

Still another compliance service that achieved solid growth in 2005 is Applications & Subsequent Premiums, which enables distributors to better track customer activity at the onset of a sale by collecting pertinent customer and product information through automated order entry. This service grew 7% over 2004.

EXPANDING REACH AND CAPABILITIES Insurance carriers and distributors also turned to technology to meet other critical needs. Here, too, DTCC Insurance Services played a leadership role.

Drawing on DTCC's experience with its Automated Customer Account Transfer System (ACATS), which for 20 years has automated the transfer of customer accounts from one financial institution to another, Insurance Services leveraged this capability for the insurance market in the form of a new service — ACATS/IPS.

Targeted at insurance carriers, broker/dealers and banks, ACATS/IPS facilitates the transfer of annuities in an account when customers move from one brokerage firm to another. The service was introduced in August and already has 14 carriers and distributors benefiting from it.

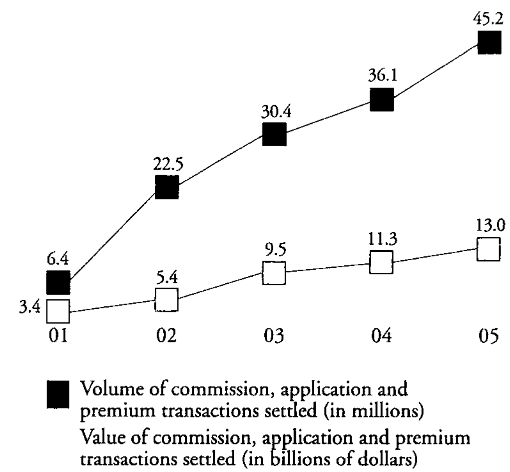
The industry also continued its drive to automate and standardize the entire life insurance value chain — from "submission to commission." To help meet this goal, Insurance Services introduced Insur*Express*® — an automated, end-to-end solution for streamlining the sale, processing, and servicing of life insurance and annuity products. Three insurance carriers and three broker-dealers are currently piloting Insur*Express*. DTCC expects to add additional carriers and service providers in 2006 and extend the service to include permanent, non-term insurance products, as well as annuities.

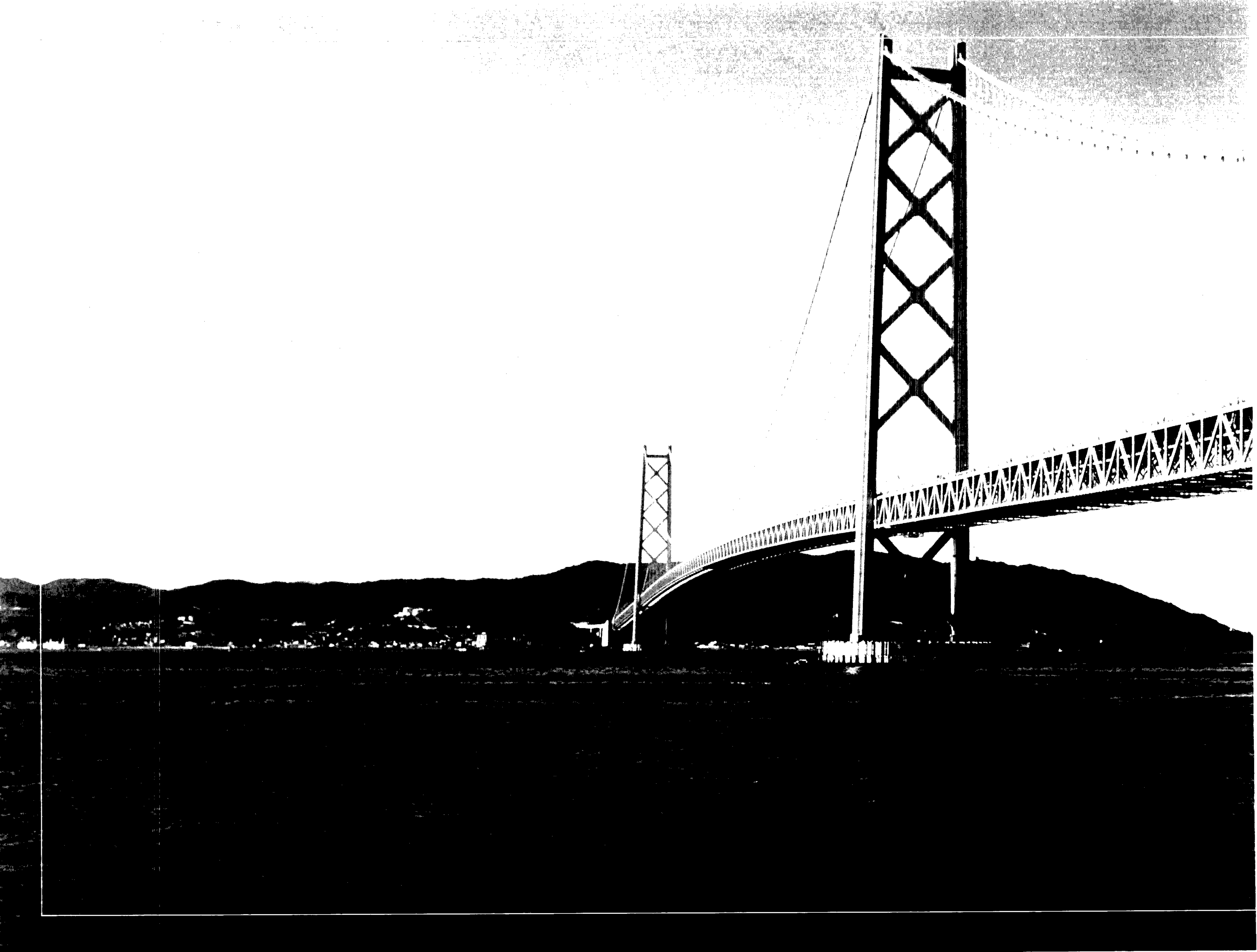
CONNECTING COMMUNITIES: BUILDING CONSENSUS THROUGH COLLABORATION

Working together with customers, business partners, and the industry at large to increase automation continued to be a strategic imperative for Insurance Services in 2005 and into 2006.

A highlight of DTCC's efforts was an advocacy paper issued last year by the Securities Industry Association Insurance Panel. Embracing a series of initiatives backed by DTCC, as well as the National Association for Variable Annuities and the Association for Cooperative Operations and Research Development, the paper serves as a roadmap for the industry in furthering the adoption of standards-based technology solutions to advance straight-through processing for the insurance industry.

INSURANCE





AKASHI KAIKYO BRIDGE

Picture a highway, six lanes wide and nearly two and a half miles long, suspended on cords of steel hundreds of feet in the air over a roiling sea. It may sound implausible, but such a highway exists. It's the main segment of the world's longest spanning suspension bridge, the Akashi Kaikyo, which crosses the busy shipping lanes of Japan's inland sea. Ten years in the making, the bridge opened in 1998 to connect the port city of Kobe with a nearby island, and is a major link in a larger highway route joining Japan's main island of Honshu with the southern island of Shikoku.

Designed to withstand major earthquakes, the not-yet-completed bridge weathered the devastating Kobe earthquake of 1995 with little trouble. Meanwhile, counterbalancing weights in the 975-foot high towers serve to overcome ferocious wind gusts, providing stability by swinging in the opposite direction of the wind. Other innovations included new foundation building methods in the powerful tidal currents, where about 1,400 ships per day steam under the bridge's 212-foot-high center span.

DTCC'S post-trade financial services infrastructure has much in common with the Akashi Kaikyo, the world's largest suspension bridge. Both have the size to carry huge volumes of traffic, the resiliency to withstand powerful shocks, the ability to interconnect with other systems, and the technology to help mitigate risk. On peak days, DTCC clears and settles more than 30 million equity, corporate and municipal fund transactions from marketplaces and trading markets. DTCC's depository provides custody and asset servicing for almost two and a half million securities issues from the United States and 100 other countries and territories.

Board of Directors

DTCC's Board is made up of 19 directors who also serve as directors of the company's operating subsidiaries. Fifteen are from participants including international broker/dealers, correspondent and clearing banks, mutual fund companies and investment banks. Two directors are designated by DTCC's preferred shareholders: NASD and the New York Stock Exchange. The remaining two are the chairman and chief operating officer of DTCC itself. Individuals are nominated for election as directors based on their ability to represent participants of each of DTCC's operating subsidiaries, and Board committees are specifically structured to help achieve this objective. In addition, to ensure broad industry representation and expertise on key industry subjects, non-Board members serve on a number of DTCC Board committees as full voting members.

Stephen P. Casper
President &
Chief Executive Officer
Fischer Francis Trees & Watts, Inc.

Jill M. Considine
Chairman &
Chief Executive Officer
DTCC

Michael C. Bodson
Managing Director &
Global Head of Operations
Morgan Stanley

Timothy J. Theriault
President, Worldwide
Operations & Technology
Northern Trust Company

Diane L. Schueneman
Senior Vice President
Merrill Lynch & Co., Inc.

Douglas H. Shulman
President
Markets, Services
& Information
NASD

Donald F. Donahue
Chief Operating Officer
DTCC

Norman Eaker
Principal
Operations Division
Edward Jones

Ronald A. Purpora
Chief Executive Officer
ICAP North America,
Securities Division

ART CERTOSIMO
Executive Vice President
The Bank of New York

J. CHARLES CARDONA
Vice Chairman
The Dreyfus Corporation

RANDOLPH L. COWEN
Chief Information Officer
and Head of Operations
Goldman Sachs

GERALD A. BEESON
Senior Managing Director &
Chief Financial Officer
Citadel Investment Group, LLC

FRANK J. BISIGNANO
Currently, Chief
Administrative Officer
JPMorgan Chase

ALAN D. GREENE
Executive Vice President
State Street Corporation

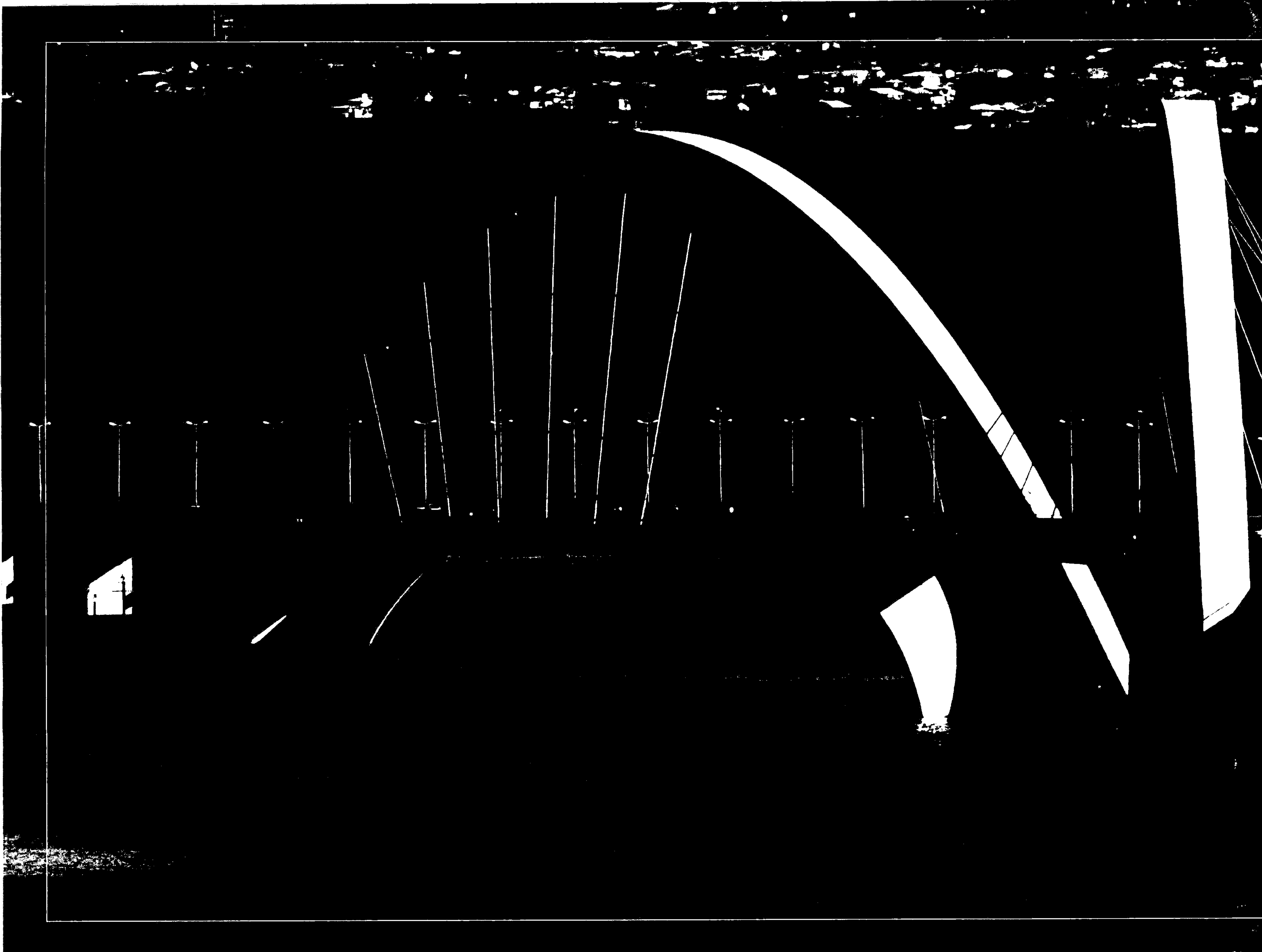
CATHERINE R. KINNEY
President &
Co-Chief Operating Officer
NYSE Group, Inc.

PAUL F. COSTELLO
President, Business Services Group
Wachovia Securities, LLC

JONATHAN E. BEYMAN
Global Head of Operations
and Technology
Lehman Brothers

Not pictured:

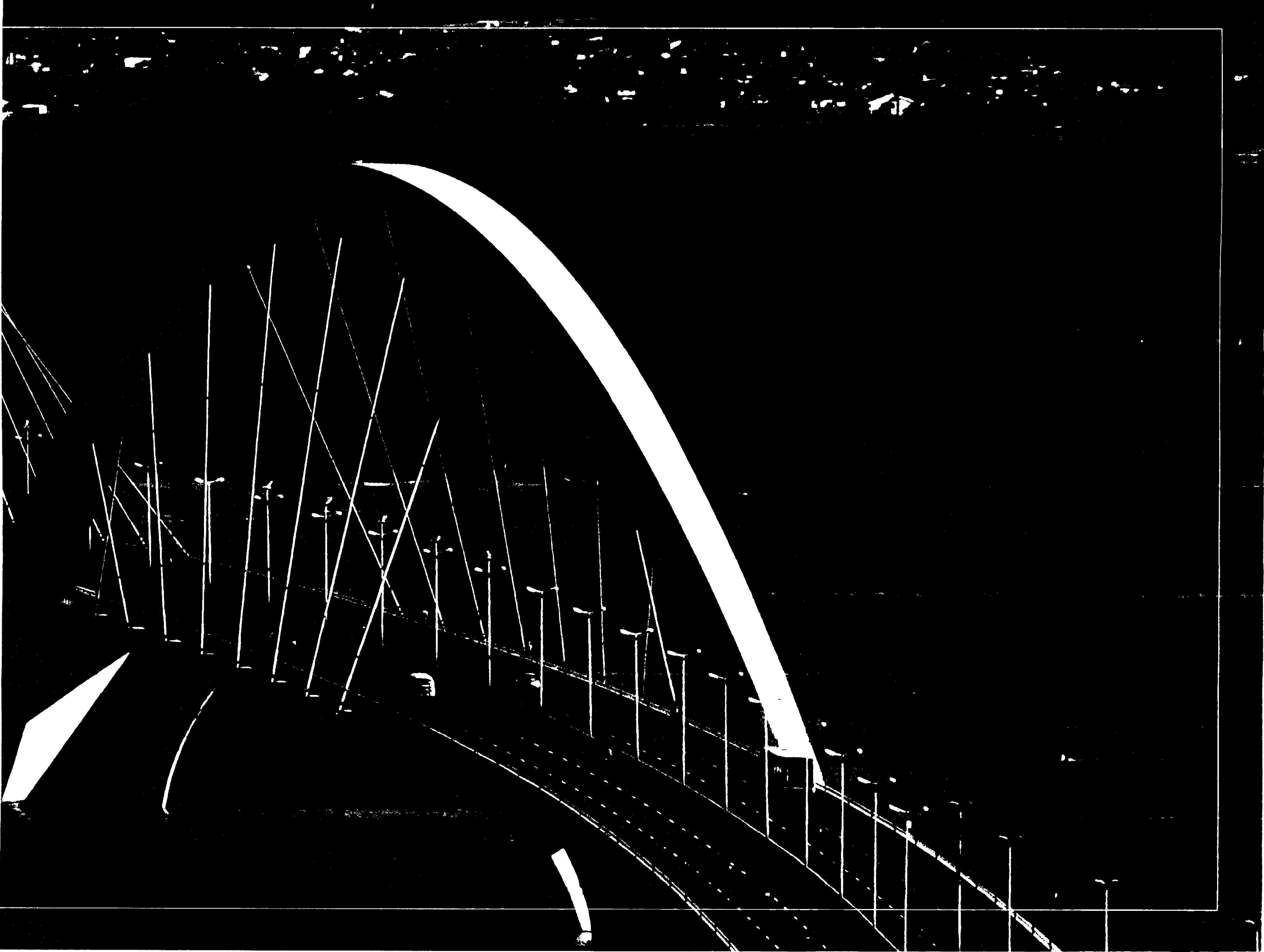
HEIDI G. MILLER
Executive Vice President and
Chief Executive Officer,
Treasury and Securities
Services
JPMorgan Chase



President Juscelino Kubitschek Bridge

Carved out of the Amazon wilderness only 50 years ago, Brasilia today is not only Brazil's capital but also a planned city of grand boulevards and broad vistas. Designed for half a million residents, it now supports more than two million and continues to grow. Among the city's major expansion projects is the President Juscelino Kubitschek Bridge, named after the man who first envisioned Brasilia. Completed in 2002 to ease congestion and carry traffic across Lake Paranoa, the bridge curves across the water to provide better sightlines and is partly suspended from three graceful arches meant to frame the sunset. Incorporating the latest innovations in bridge design, stays are attached to the arches to help support the girders, while pillars distribute the weight across the lake bottom. Hundreds of pedestrians now cross the bridge daily just to take in the grand view of Brasilia.

IN MANY WAYS, DTCC is just like the Juscelino Kubitschek Bridge. Our subsidiaries were created in order to bring about an infrastructure that could see far enough in the distance to solve the major paperwork jams slowing down the markets and impeding the raising of capital. Since our founding over three decades ago, we have pioneered modern techniques to speed the processing of securities trades and reduce risk. The reliability and resiliency of our infrastructure network reflect sound engineering, while our leadership has helped the industry to look ahead and plan for continued growth and expansion.



Consolidated Balance Sheets

December 31,	2005	2004
(in thousands, except share data)		
Assets		
Cash and cash equivalents	$ 6,178,388	$ 4,617,158
Investments in marketable securities	156,091	191,703
Accounts receivable	159,206	205,189
Participants' funds	12,146,095	10,653,286
Fixed assets, less accumulated depreciation and amortization of $356,481,000 and $338,060,000 at December 31, 2005 and 2004, respectively	191,705	209,553
Deferred income taxes, net	103,473	94,643
Other assets	429,244	400,801
Total assets	$19,364,202	$16,372,333
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and other liabilities	$ 505,716	$ 466,740
Payable to participants	2,301,706	1,095,564
Long-term debt and other borrowings	331,577	347,317
Participants' funds:		
Cash deposits	3,808,297	3,559,116
Other deposits	12,146,095	10,653,286
Total liabilities	19,093,391	16,122,023
Minority interests (Note 1)	75,000	75,330
Commitments and contingent liabilities (Note 10)		
Shareholders' equity:		
Preferred stock:		
Series A, $.50 par value – 10,000 shares authorized, issued and outstanding	300	300
Series B, $.50 par value – 10,000 shares authorized, issued and outstanding	300	300
Common stock, $100 par value – 23,655 shares authorized, issued and outstanding	2,366	2,366
Paid in capital	11,649	11,649
Retained earnings:		
Appropriated	112,782	102,657
Unappropriated	91,811	85,018
Treasury stock	(3,327)	(3,327)
Total	215,881	198,963
Accumulated other comprehensive (loss) income, net of tax:		
Minimum pension liability adjustment	(20,261)	(24,168)
DTCC's share of Omgeo LLC's net unrealized loss on derivative instruments	—	(219)
DTCC's share of Omgeo LLC's foreign currency translation adjustment	191	404
Accumulated other comprehensive net loss	(20,070)	(23,983)
Total shareholders' equity	195,811	174,980
Total liabilities and shareholders' equity	$19,364,202	$16,372,333

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

For the Year Ended December 31,	2005	2004
(in thousands)		
Revenues:		
Trading services	$ 719,091	$ 618,429
Custody services	183,640	175,836
Network services	84,641	80,878
Other services	64,472	60,874
Interest income	185,453	87,720
Equity in net income of Omgeo LLC	41,885	33,255
Total revenues	1,279,182	1,056,992
Discounts and other refunds to participants	(527,953)	(219,043)
Net revenues	751,229	837,949
Expenses:		
Employee compensation and related benefits	420,192	405,316
Information technology	141,680	203,631
Professional and other services	77,826	95,320
Occupancy	72,611	68,793
Interest expense	23,167	22,010
Other general and administrative	17,471	18,456
Reimbursement from affiliates	(31,831)	(33,550)
Total expenses	721,116	779,976
Income before income taxes and minority interests	30,113	57,973
Provision for income taxes	11,560	23,223
Income before minority interests	18,553	34,750
Minority interests – preferred stock dividend	(1,635)	(675)
Net income	16,918	34,075
Other comprehensive income (loss), net of tax:		
Minimum pension liability adjustment	3,907	(1,268)
DTCC's share of Omgeo LLC's net unrealized gain on derivative instruments	219	840
DTCC's share of Omgeo LLC's foreign currency translation adjustment	(213)	240
Other comprehensive net income (loss)	3,913	(188)
Comprehensive income	$ 20,831	$ 33,887

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31,	2005	2004
(in thousands)		
Cash flows from operating activities:		
Net income	$ 16,918	$ 34,075
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
DTCC's share of Omgeo LLC's earnings	(41,885)	(31,592)
Depreciation and amortization of fixed assets	53,481	53,705
Loss on fixed assets disposals	11,811	4,257
Net (discount accreted) premium amortized on investments owned	(1,188)	809
Deferred income taxes accrued	(11,334)	(10,465)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	45,983	(49,002)
Increase in other assets	(24,589)	(13,167)
Increase in accounts payable and other liabilities	45,387	40,926
Increase (decrease) in payable to participants	1,206,142	(163,090)
Increase in participants' fund cash deposits	249,181	65,024
Net cash provided by (used in) operating activities	1,549,907	(68,520)
Cash flows from investing activities:		
Maturities of investments in marketable securities	195,000	112,000
Purchases of investments in marketable securities	(158,200)	(159,768)
Purchases of fixed assets	(47,444)	(88,265)
Distributions received from Omgeo LLC	38,250	36,250
Net cash provided by (used in) investing activities	27,606	(99,783)
Cash flows from financing activities:		
Proceeds from notes payable issuance	—	30,000
Principal payments on debt and capital lease obligations	(17,116)	(12,244)
Capitalized leases	1,376	22,411
Repurchase of minority interest (Note 1)	(330)	—
Net cash (used in) provided by financing activities	(16,070)	40,167
Effect of foreign exchange rate changes on cash	(213)	240
Net increase (decrease) in cash and cash equivalents	1,561,230	(127,896)
Cash and cash equivalents, beginning of year	4,617,158	4,745,054
Cash and cash equivalents, end of year	$6,178,388	$4,617,158
Supplemental disclosures:		
Income taxes paid, net of refunds	$21,688	$26,355
Interest paid	$15,512	$23,283

The accompanying notes are an integral part of these consolidated financial statements.

1 BUSINESS AND OWNERSHIP

The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports five principal subsidiaries, The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC and Global Asset Solutions LLC.

The persons elected to serve on the Board of Directors of DTCC also serve as directors on the Boards of each of its subsidiaries.

DTC provides central securities depository and related services to members of the securities, banking and other financial industries. NSCC provides various services to members of the financial community, consisting principally of securities trade comparison, clearance, settlement and risk management services. FICC, which consists of the Government Securities (GSD) and Mortgage-Backed Securities (MBSD) divisions, provides various services to members of the government and mortgage-backed securities markets, consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification. DTCC Deriv/SERV LLC provides an automated post-trade matching service for participants in the over-the-counter derivatives market. Global Asset Solutions LLC provides sophisticated technology services that help financial institutions manage the rapid growth, high risk and mounting costs of corporate action transactions. DTC, NSCC, and FICC are registered clearing agencies with the SEC. DTC is also a member of the Federal Reserve System and a limited-purpose trust company under New York State banking law. The members of DTCC's subsidiaries are collectively referred to as participants.

Emerging Markets Clearing Corporation (EMCC), a former consolidated subsidiary of DTCC, provided automated trade comparison, settlement and risk management services for emerging markets debt to members of the securities industry. At EMCC's October 27, 2004 Board meeting, the Board authorized the dissolution of EMCC and its deregistration as a clearing agency. EMCC discontinued operations in March 2005 and was liquidated by December when it made final cash distributions to its remaining shareholders.

Omgeo LLC (Omgeo), a joint venture with Thomson Corporation, uses the institutional trade-processing infrastructures of DTCC and Thomson to provide for seamless global trade management and a securities industry solution for straight-through processing.

On October 20, 2000, DTC issued 750,000 shares of Series A preferred stock at the par value of $100 per share, increasing its capital by $75 million under a plan adopted by the Board of Directors. Pursuant to this plan, which does not reduce the funds available in the event of a participant's failure to settle, each participant was required to purchase shares of the preferred stock. Dividends are paid quarterly based on the earnings of those funds. The participants' ownership in DTC is recorded as minority interests on the consolidated balance sheets. In addition, EMCC had 330 shares of Class B common stock issued and outstanding which were held by certain EMCC participants and also reflected as minority interests on the consolidated balance sheets. Under the terms of an agreement between EMCC and its former Class B shareholders, EMCC repurchased the shares at $1,000 per share in August, 2005.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements include the accounts of DTCC and its subsidiaries (the Companies). Intercompany accounts are eliminated in consolidation.

The carrying value of DTCC's investment in Omgeo included in other assets totaling $36,993,000 and $33,353,000 at December 31, 2005 and 2004, respectively, represents 50% of Omgeo's net worth adjusted for the difference in the book value of the assets contributed by the partners. DTCC's share of Omgeo's net income, adjusted for the impact of the amortization of the above difference through April 2004, is included in revenue.

Omgeo's total revenue and net income in 2005 are $249,829,000 and $83,769,000, respectively. The comparable amounts in 2004 were $225,098,000 and $62,929,000, respectively. In addition, DTCC recognized its share of Omgeo's net unrealized gain on derivative instruments totaling $219,000 in 2005 and $840,000 in 2004 included in other comprehensive net income. Omgeo has elected to be treated in a manner similar to a partnership for federal and state income tax purposes. As a result of this election, Omgeo's federal and state taxable income is allocated proportionately to DTCC and Thomson.

Cash Equivalents: The Companies invest funds in overnight reverse repurchase agreements, commercial paper and money market accounts, which are considered cash equivalents. Reverse repurchase agreements provide for the Companies' delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreements. Custodians designated by the Companies that are participants take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled $4,912,085,000 and $3,861,919,000 at December 31, 2005 and 2004, respectively. At December 31, 2005, the counterparties to these agreements were seven major financial institutions that are also participants.

Overnight investments made in commercial paper totaling $20,467,000 and $24,630,000 are included in cash equivalents at December 31, 2005 and 2004, respectively. At December 31, 2005, the issuer of the commercial paper was a major U.S. bank holding company that is also a participant.

Money market accounts with participants are used to sweep any remaining funds available. Overnight investments made in money market accounts totaling $1,214,788,000 and $703,435,000, including $112,010,000 and $112,671,000 representing deposits received from participants to facilitate their compliance with customer protection rules of the SEC, are also included in cash equivalents at December 31, 2005 and 2004, respectively.

Investments in Marketable Securities: These investments, which include U.S. Treasury securities and investment grade corporate notes, are recorded at amortized cost and are considered to be held-to-maturity securities. The contractual maturities, carrying value and market value of these securities at December 31, 2005 and 2004, are as follows:

	Carrying Value			Market Value		
(Dollars in thousands)	U.S. Treasury Securities	Corporate Notes	Total	U.S. Treasury Securities	Corporate Notes	Total
2005						
Due in one year or less	$150,092	$1,007	$151,099	$149,636	$1,002	$150,638
Due in one to two years	3,983	1,009	4,992	3,968	1,002	4,970
Total	$154,075	$2,016	$156,091	$153,604	$2,004	$155,608
2004						
Due in one year or less	$174,871	$ —	$174,871	$174,426	$ —	$174,426
Due in one to two years	15,798	1,034	16,832	15,737	1,027	16,764
Total	$190,669	$1,034	$191,703	$190,163	$1,027	$191,190

Accounts Receivable: Accounts receivable consist of the following at December 31, 2005 and 2004:

(Dollars in thousands)	2005	2004
Due from the Companies' participants for services	$ 52,324	$ 70,921
Cash dividends, interest and related receivables	87,832	100,025
Other	19,050	34,243
Total	$159,206	$205,189

Cash dividends, interest and related receivables are presented net of an allowance for possible losses of $500,000 at December 31, 2005 and 2004. Other receivables are presented net of an allowance for possible losses of $285,000 and $273,000 at December 31, 2005 and 2004, respectively. Stock dividends receivable are not recorded in the consolidated financial statements.

Fixed Assets: Fixed assets consist of the following at December 31, 2005 and 2004:

(Dollars in thousands)	2005	2004
Leasehold improvements	$145,152	$182,927
Furniture and equipment	201,991	191,993
Software	150,457	125,555
Leased property under capital leases	21,178	19,802
Buildings and improvements	26,808	24,736
Land	2,600	2,600
Total cost	548,186	547,613
Less accumulated depreciation and amortization	356,481	338,060
Net book value	$191,705	$209,553

Leasehold improvements are amortized using the straight-line method over their useful lives or the remaining term of the related lease, whichever is shorter. Furniture and equipment are depreciated over estimated useful lives ranging from three to eight years, principally using accelerated methods. Software is amortized using the straight-line method over an estimated useful life of three years. Buildings and improvements are primarily amortized over 39 years using the straight-line method.

DTCC capitalized software that was developed for internal use or purchased totaling $27,393,000 and $19,872,000 in 2005 and 2004, respectively. The amortization of capitalized software costs was $18,591,000 in 2005 and $18,078,000 in 2004.

During 2005, fixed asset disposals resulted in a charge of $11,811,000 and the removal of $46,871,000 and $35,060,000, respectively, from the related cost and accumulated depreciation and amortization accounts. The comparable amounts in 2004 were $4,257,000, $77,625,000 and $73,368,000, respectively.

Income Taxes: Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established.

Discounts and Other Refunds to Participants: The Companies provide discounts on their billing to participants based on the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as approved by their Boards of Directors. Such discounts amounted to $389,305,000 in 2005 and $162,171,000 in 2004. DTC also has a policy to provide participants a monthly refund of net income earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such monthly refunds totaled $12,565,000 in 2005 and $4,230,000 in 2004.

Securities on Deposit: Securities held in custody by DTC for participants are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to participants. Short positions occasionally exist in participants' securities balances. Such short positions are valued and collateralized daily by participants' cash, aggregating 130% of the short position. DTC's obligation to return such amounts to participants is reflected in payable to participants. At December 31, 2005 and 2004, short positions amounted to $18,253,000 and $28,225,000, respectively.

Financial Instruments: Management believes that the carrying value of all financial instruments which are short-term in nature approximates current market value. Due to the fixed term nature of long-term debt, if the company was to seek the same financing at December 31, 2005, the fixed rates assigned to these loans would be current borrowing rates available to companies with similar credit ratings.

Revenue Recognition: Revenue is recognized as services are rendered. Activities are captured daily and billed on a monthly basis.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain reclassifications of 2004 amounts have been made in the accompanying consolidated financial statements to conform to the 2005 presentation.

3 Participants' Funds

The Companies' rules require most participants to maintain deposits related to their respective activities based on calculated requirements, which were $12,130,155,000 and $10,605,837,000, at December 31, 2005 and 2004, respectively. The deposits are available to secure participants' obligations and certain liabilities of the Companies, should they occur. All deposits of cash and securities are recorded on the consolidated balance sheet. A summary of the total deposits held at December 31, 2005 and 2004, including $5,093,999,000 and $4,711,245,000, respectively, in excess of the calculated requirements follows:

(Dollars in thousands)	2005	2004
Cash	$ 3,808,297	$ 3,559,116
U.S. Treasury and Agency securities, at market	12,146,095	10,653,286
Letters of credit issued by authorized banks	1,269,762	1,104,680
Total	$17,224,154	$15,317,082

The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. Certain earnings on these investments are passed through to the applicable participants and are included in interest income and discounts and other refunds to participants. Such earnings totaled $126,083,000 and $52,642,000 in 2005 and 2004, respectively.

4 Transactions with Related Parties

SIAC: Under the terms of an agreement with NSCC, the Securities Industry Automation Corporation (SIAC), an entity owned by the New York Stock Exchange, Inc. (NYSE) and the National Association of Securities Dealers, Inc. (NASD), who are shareholders of DTCC, provides computer facilities, personnel and services in support of the Companies' operations. SIAC charges for these services based on its direct and overhead costs arising from providing such services. Charges under this agreement included in information technology expenses totaled $27,734,000 in 2005 and $51,314,000 in 2004. Beginning in 2004, NSCC and SIAC agreed to migrate certain systems applications to DTCC. The insourcing of these applications was completed on October 29, 2004. As a result, in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," an accrual of $32,751,000 was recorded to recognize contractual obligations for real estate, severance pay, fixed asset abandonment, overhead and related expenses under the terms of the agreement. In addition, certain Voluntary Early Retirement Option costs totaling $10,451,000 were incurred in 2004. These charges are also included in information technology expenses. During 2005, charges of $11,076,000 related to this agreement were paid. Beginning in 2005, FICC and SIAC agreed to migrate the systems applications utilized by FICC to DTCC. The insourcing of these applications was completed on October 15, 2005. As a result, an accrual of $4,866,000 included in information technology expenses was recorded to recognize contractual obligations for real estate, fixed asset abandonment, overhead and related expenses under the terms of the agreement. At December 31, 2005 and 2004, amounts payable to SIAC associated with these agreements included in accounts payable and other liabilities were $27,868,000 and $35,763,000, respectively.

NYSE and NASD: NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 2005 and 2004, no amounts were due to NYSE or NASD.

Omgeo: DTCC has an agreement with Omgeo to provide various support services and office facilities. In addition, DTCC has an agreement with Omgeo, whereby if Omgeo reduces or terminates certain services it receives from DTCC or its affiliates, Omgeo will pay certain extraction costs as specified in the agreement. Charges under these agreements totaled $31,341,000 in 2005 and $33,173,000 in 2004 and are included in reimbursement from affiliates. Amounts receivable from Omgeo at December 31, 2005 and 2004 were $2,897,000 and $2,847,000, respectively.

The Options Clearing Corporation: DTCC has an agreement with The Options Clearing Corporation (OCC) to provide office facilities and support services. Charges under this agreement totaled $490,000 in 2005 and $377,000 in 2004 and are included in reimbursement from affiliates.

5 Payable to Participants

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities, which it distributes to its participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed unless claimed by the owners of the securities. Cash dividends, interest, reorganization and redemption payables of $1,878,537,000 at December 31, 2005 and $725,596,000 at December 31, 2004 are included in payable to participants. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws. Stock dividends payable and unclaimed are not reported in the consolidated financial statements.

Payable to participants also includes settlement accounts payable of $227,236,000 at December 31, 2005 and $264,203,000 at December 31, 2004, which primarily represent deposits received from NSCC participants to facilitate their compliance with customer protection rules of the SEC.

The remainder of the balance included in payable to participants primarily represents unpaid discounts.

6 Pension and Other Post-Retirement Benefits

DTCC has a non-contributory defined benefit pension plan covering substantially all full-time employees of the Companies. The pension plan is qualified under section 401(a) of the Internal Revenue Code. Pension benefits under the plan are determined on the basis of an employee's length of service and earnings. The funding policy is to make contributions to the plan that meet or exceed the minimum funding standards under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended. DTCC also maintains a 401(h) account to fund the retiree medical plans.

Retirement benefits are also provided under supplemental non-qualified pension plans for eligible officers of the Companies. The cost of non-qualified defined benefits is determined based on substantially the same actuarial methods and economic assumptions as those for the qualified pension plan. The Companies maintain certain assets in trust for non-qualified retirement benefit obligations. DTCC also provides health care and life insurance benefits to eligible retired employees.

On December 31, 2005, DTCC recorded a credit of $6,411,000 on a pre-tax basis offset by a deferred tax liability of $2,504,000 resulting in a net credit of $3,907,000 to other comprehensive income due to the net reduction of its additional minimum pension liability thereby increasing shareholders' equity. The reduction in the additional minimum pension liability resulted primarily from an increase in the fair value of plan assets reflecting the actual rate of return exceeding the expected return in 2005.

On December 31, 2004, the accumulated benefit obligation related to DTCC's pension plans exceeded the fair value of the pension plan assets (such excess is referred to as an unfunded accumulated benefit obligation). This difference is attributed to an increase in the accumulated benefit obligation resulting from a reduction in the interest rate used to discount the projected benefit obligation to its present settlement amount, partially offset by an increase in the fair value of the plan assets reflecting the actual rate of return exceeding the expected return in 2004. As a result, DTCC recognized an additional minimum pension liability of $1,929,000 on a pre-tax basis offset by a deferred tax asset of $661,000 resulting in a net charge of $1,268,000 to other comprehensive loss thereby reducing shareholders' equity. The charge to shareholders' equity represents an amount not yet recognized as pension expense.

The measurement date used for all plans was December 31, 2005. The funded status and related components of the plans follow:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	2005	2004	2005	2004
Benefit obligation at end of year:				
Qualified plan	$504,661	$443,779	$ —	$ —
Other plans	76,741	69,045	91,586	80,317
	581,402	512,824	91,586	80,317
Fair value of plan assets at end of year	379,079	340,925	5,077	3,800
Funded status	($202,323)	($171,899)	($86,509)	($76,517)
Net accrued benefit cost recognized at year-end	($ 43,835)	($ 25,899)	($56,651)	($49,549)
Amount recognized in the consolidated balance sheet consists of:				
Accrued benefit cost	($ 91,937)	($ 79,288)	($56,651)	($49,549)
Intangible asset	14,220	13,096	—	—
Accumulated other comprehensive loss	33,882	40,293	—	—
Net accrued benefit cost recognized at year-end	($ 43,835)	($ 25,899)	($56,651)	($49,549)

	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
The accumulated benefit obligation for all defined benefit plans was $471,015,070 at December 31, 2005.				
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.50%	5.75%	5.50%	5.75%
Rate of compensation increase	4.25	4.25	—	—
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Expected long-term rate of return on plan assets	8.00	8.50	8.00	8.50
Rate of compensation increase	4.25	4.25	—	—
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year			10.00%	10.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			5.00%	5.00%
Year that the rate reaches the ultimate trend rate			2013	2010

DTCC's actual pension plan weighted-average asset allocations at December 31, 2005 and 2004, by asset category are as follows:

	Plan assets at December 31,	
	2005	2004
Equity securities	64%	63%
Debt securities	36%	37%
Total	100%	100%

To develop the expected long-term rate of return on assets assumption, DTCC considered the historical returns and the future expectations for returns in each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8.0% long-term rate of return on assets assumption. The actual historical rate of return achieved by these assets exceeded the 8.0% assumption.

Based on DTCC's target asset allocation guidelines, 60% of the plan assets are to be invested in equity securities and 40% in fixed income securities (including guaranteed investment contracts).

The components of pension and other benefits expenses follow:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	2005	2004	2005	2004
Net benefit cost	$38,626	$34,154	$10,084	$9,700
Additional loss recognized due to settlements	39	—	—	—
Total benefit cost	$38,665	$34,154	$10,084	$9,700
Employer contribution	$20,000	$35,600	$ 2,983	$3,199
Benefits paid, net of employee contributions	$13,573	$16,782	$ 1,970	$2,056

Settlements relate to the early retirement of executives who elected lump sum and periodic payments.

DTCC expects to contribute $25.0 million to its pension plan and $3.3 million to its retiree medical plan during 2006.

The following estimated future payments which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

		Other Benefits	
(Dollars in thousands)	Pension	Employer Benefit Payments	Medicare Subsidy Receipts
2006	$ 26,979	$ 3,002	$ 47
2007	15,364	3,419	49
2008	22,289	3,698	50
2009	20,295	4,101	50
2010	25,039	4,490	50
2011–2015	176,415	30,453	220

7 INCOME TAXES

DTCC and its subsidiaries file a consolidated federal income tax return and combined New York State and New York City income tax returns with the exception of DTC, which files separate state and local returns. The provision for income taxes for the years ended December 31, 2005 and 2004, consists of the following:

(Dollars in thousands)	2005	2004
Current income taxes:		
Federal	$19,380	$23,269
State and local	3,514	10,419
Deferred income tax benefit:		
Federal	(9,245)	(8,103)
State and local	(2,089)	(2,362)
Provision for income taxes	$11,560	$23,223

The effective tax rate is greater than the 35% federal statutory rate primarily due to state and local taxes, partially offset by permanent differences.

The major temporary differences that give rise to the deferred tax assets (liabilities) at December 31, 2005 and 2004, are as follows:

(Dollars in thousands)	2005	2004
Employee benefits	$ 91,954	$82,585
Rent	9,689	11,860
Depreciation and amortization	13,444	10,187
Lease abandonment costs	6,224	2,572
Capitalized software developed for internal use	(11,703)	(8,786)
Other	(6,135)	(3,775)
Net deferred income tax asset	$103,473	$94,643

8 LONG-TERM DEBT AND LINES OF CREDIT

Long-term debt at December 31, 2005 and 2004 consists of the following:

(Dollars in thousands)	2005	2004
Industrial Development Agency bonds	$205,302	$205,302
Sale-leaseback obligation	58,232	62,400
Notes payable	50,446	57,100
Capital lease obligations	17,597	22,515
Total	$331,577	$347,317

As of December 31, 2005 and 2004, DTC had a payable to the New York City Industrial Development Agency (IDA) that was offset by an equivalent investment in IDA bonds included in other assets. Interest expense related to the IDA payable was $15,398,000 in both 2005 and 2004.

In March 2003, DTC and NSCC entered into a sale-leaseback transaction covering certain assets aggregating $63,400,000 with an initial payment at closing. This transaction was treated as a financing arrangement and no gain or loss was recognized. Accordingly, DTC and NSCC will continue to depreciate the assets using their normal depreciation policy. Payments under this arrangement are due in installments from 2004 to 2011. Payments over the next five years are, $8,065,000, $8,364,000, $9,451,000, $16,792,000 and $2,923,000, respectively. The implicit interest rate on the obligation is 4.6%.

Notes payable at December 31, 2005 include an unsecured borrowing totaling $10,125,000 with a domestic bank that is also a participant, at a fixed rate of 6.85%. Principal and interest payments are due quarterly each year through 2007. Interest expense related to the borrowing totaled $820,000 in 2005 and $1,136,000 in 2004. Notes payable also include secured borrowings totaling $11,900,000 from two insurance companies at a fixed rate of 4.62%. The notes are secured by property, plant and equipment. Principal and interest payments are due semi-annually on March 15 and September 15 of each year through 2012. Interest expense related to these notes totaled $586,000 in 2005 and $664,000 in 2004. In addition, notes payable include unsecured borrowings totaling $28,421,000 from an insurance company to finance the acquisition of real estate, at a fixed rate of 5.03%. Principal payments are due annually on December 15 of each year through 2023, beginning in 2005. Interest payments are due semi-annually on June 15 and December 15 of each year, through the same period. Interest expense related to these notes totaled $1,556,000 in 2005 and $160,000 in 2004.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2005, future minimum payments including interest, which are due through 2009, totaled $19,169,000. Payments over the next four years are $6,766,000, $6,148,000, $3,988,000 and $2,267,000, respectively.

At December 31, 2005, DTC maintained a committed line of credit of $1,500,000,000 with 21 major banks, that are primarily participants, to support settlement. In addition, to support processing of principal and income payments, DTC maintains a $50,000,000 committed line of credit with a participant. DTC also maintains a $10,000,000 credit line with a participant to support potential short-term operating cash requirements.

At December 31, 2005, NSCC maintained a committed line of credit of $2,600,000,000 with 21 major banks, that are primarily participants, to provide for potential liquidity needs.

Further, a $50,000,000 shared credit line between DTCC, DTC and NSCC is maintained with a participant to support potential short-term operating cash requirements.

During 2005, there were no borrowings under any of these credit facilities.

9 Shareholders' Equity

	Preferred Stock				Retained Earnings			Accumulated Other Comprehensive Income (Loss)			
(Dollars in thousands)	Series A	Series B	Common Stock	Paid in Capital	Appropriated	Unappropriated	Treasury Stock	Minimum Pension Liability Adjustment	DTCC's Share of Omgeo's Net Unrealized Gain (Loss) on Derivative Instruments	Foreign Currency Translation Adjustment	Total Shareholders' Equity
Balance at December 31, 2003	$300	$300	$2,366	$11,649	$ 72,930	$80,670	($3,327)	($22,900)	($1,059)	$ 164	$141,093
Net income 2004	—	—	—	—	29,727	4,348	—	—	—	—	34,075
Minimum pension liability adjustment (net of tax benefit of $661)	—	—	—	—	—	—	—	(1,268)	—	—	(1,268)
DTCC's share of Omgeo's net unrealized gain on derivative instruments	—	—	—	—	—	—	—	—	840	—	840
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	240	240
Balance at December 31, 2004	300	300	2,366	11,649	102,657	85,018	(3,327)	(24,168)	(219)	404	174,980
Net income 2005	—	—	—	—	10,125	6,793	—	—	—	—	16,918
Minimum pension liability adjustment (net of taxes of $2,504)	—	—	—	—	—	—	—	3,907	—	—	3,907
DTCC's share of Omgeo's net unrealized gain on derivative instruments	—	—	—	—	—	—	—	—	219	—	219
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	(213)	(213)
Balance at December 31, 2005	$300	$300	$2,366	$11,649	$112,782	$91,811	($3,327)	($20,261)	$ —	$ 191	$195,811

Appropriated retained earnings represent an amount that is available for the satisfaction of losses arising out of the clearance and settlement of transactions, should they arise (see Note 10). Such amount of retained earnings is excluded from the calculation of book value per share for purposes of capital stock transactions of DTCC.

Treasury Stock, representing NSCC's former common share ownership in DTCC, was repurchased by DTCC in March 2004 at the historical value and no gain or loss was recognized.

As of December 31, 2005 and 2004, the NYSE owned 27% of the outstanding common stock of DTCC, and the NASD and American Stock Exchange LLC (AMEX) each owned 4%. Their ownership interests are largely the result of their purchases of shares that were not previously subscribed by participants. Beginning in 2006, DTCC's common shares will be reallocated among all DTCC participants based primarily on the proportion of their activity levels, resulting in a significant reduction in ownership by the NYSE, NASD and AMEX.

10 Commitments and Contingent Liabilities

NSCC's CNS system interposes NSCC between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of the later of midnight of T+1, or midnight of the day they are reported to the membership as compared/recorded. The failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the responsible participants through the settlement process. At the close of business on December 31, 2005, open positions due to NSCC approximated $3,423,028,000 ($4,346,655,000 at December 31, 2004), and open positions due by NSCC to participants approximated $2,445,326,000 ($3,328,295,000 at December 31, 2004) for unsettled positions and $977,702,000 ($1,018,360,000 at December 31, 2004) for securities borrowed through NSCC's Stock Borrow Program. At December 31, 2005, NSCC has an obligation to complete pending transactions totaling $49.9 billion.

The GSD's netting system interposes FICC between netting GSD participants for eligible trades that have been netted. The guarantee of net settlement positions by FICC results in potential liability to FICC. Guaranteed positions that have not yet settled are margined and marked-to-market daily. Margin deposits are held by FICC and marks are debited from and credited to the responsible participants through the funds-only settlement process. At December 31, 2005 the gross amount of guaranteed positions due from netting GSD participants to FICC, which are scheduled to settle on or before January 3, 2006, approximated $445,415,299,000 and the amount scheduled to settle after January 3, 2006 approximated $380,772,748,000. There is an equal amount due from FICC to certain other GSD participants after consideration of deliveries pending to FICC. The equivalent amounts at December 31, 2004 were $489,288,853,000 and $291,246,702,000, respectively.

During 1995, the Securities Industry Protection Corporation (SIPC) appointed a trustee to liquidate the business of Adler Coleman Clearing Corporation (ACCC), a former NSCC participant. After liquidating all of the ACCC positions, NSCC held proceeds pursuant to an agreement with SIPC. In October 2002, NSCC transferred $15,000,000 to the SIPC trustee to satisfy a written demand by the trustee. In December 2005, a final stipulation was executed and NSCC transferred its remaining balance of $3,507,000, including accrued interest, to the trustee to settle the estate. No further loss provision was required as the aggregate amount of $18,507,000 accrued by NSCC in prior years was sufficient. NSCC is not expected to have any future liabilities with respect to ACCC.

The Companies lease office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2005. Rent expense under these leases was $40,856,000 in 2005 and $53,611,000 in 2004. At December 31, 2005, future minimum rental payments under all non-cancelable leases follow:

(Dollars in thousands)	Amount
2006	$ 37,551
2007	35,843
2008	27,753
2009	21,992
2010	21,123
Thereafter	52,146
Total minimum rental payments	$196,408

The Companies are involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on DTCC's consolidated financial position.

11 Off Balance-Sheet Risk and Concentrations of Credit Risk

In the normal course of business, because NSCC and FICC guarantee certain obligations of their participants under specified circumstances (see Note 10), these subsidiaries could be exposed to credit risk. Exposure to credit risk is mitigated by requiring participants to meet established financial standards for membership, verifying compliance with other financial standards, monitoring financial status and trading activity, requiring participants to meet daily mark-to-market obligations and by requiring participants to provide participant fund deposits in the form of cash, marketable securities or acceptable letters of credit (see Note 3).

If a participant fails to fulfill its settlement obligations to NSCC and/or FICC and these subsidiaries cease to act on behalf of the participant, that participant's guaranteed security receive and deliver obligations would be liquidated and that defaulting participant's margin and mark-to-market deposits, including participants fund deposits, would be applied to satisfy any outstanding obligation and/or loss. NSCC and FICC have a multilateral netting contract and limited cross-guaranty agreement with DTC and OCC, under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that they have excess resources of the defaulting participant. NSCC and OCC also have an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant's failure. Further, DTC and NSCC have a netting contract and limited cross-guaranty agreement which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized. Finally, if a deficiency still remains, NSCC and FICC would then assess the balance of the deficiency in accordance with their rules.

As discussed in Note 1, NSCC and FICC provide various services to members of the financial community. As such, these subsidiaries have a significant group concentration of credit risk, since their participants may be impacted by economic conditions affecting the securities industry. As described above, such risk is mitigated in a number of ways.

12 Other Matters

In a continuing effort to relocate staff to other business locations, the company entered into an agreement to surrender leased office space at another one of its facilities prior to the expiration of the remaining lease term. Accordingly, a provision of $12,937,000 was recorded to reflect the net cost of surrendering the space, including the impairment in the carrying value of leasehold improvements. In 2004, there was a similar provision totaling $6,852,000. Further, DTCC incurred related relocation and severance expenses totaling $10,902,000 that are included in employee compensation and related benefits. In 2004, there was a similar provision of $13,909,000.

Report of Independent Auditors

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017

To the Board of Directors and Shareholders of
The Depository Trust & Clearing Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and cash flows present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 16, 2006

Senior Management DTCC

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Chief Executive Officer,
DTCC

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Chief Operating Officer,
DTCC
President, DTC and NSCC

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Managing Director &
Chief Information Officer

Kevin P. Carey
Managing Director &
Chief Administrative Officer

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and Distribution Services

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Chief Executive Officer &
President, FICC

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Bridges featured:

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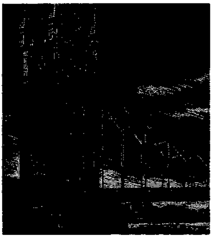
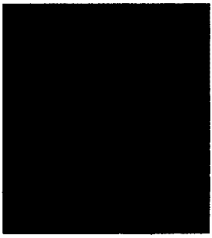
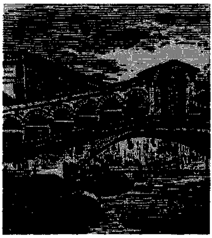
* Photography by Henry and Quentin Jacobsen (www.quentin-jacobsen.com)

HERE'S AN ISSUE OR SERVICE WHERE DTCC CAN HELP US:

1. Streamline, automate and centralize a service.

2. Link trading parties to help grow our revenue.

3. Use DTCC's secure, networked community of trading parties to deliver third-party vendor software solutions.

4. Other ideas

or e-mail sendusyourideas@dtcc.com

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Chairman And Chief Executive Officer
The Depository Trust & Clearing Corporation
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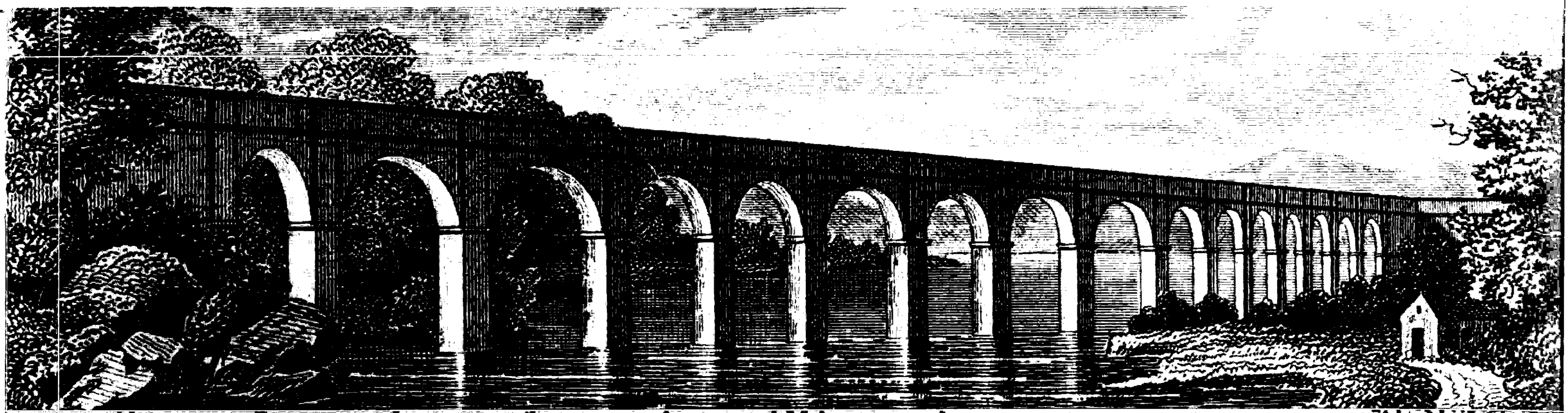
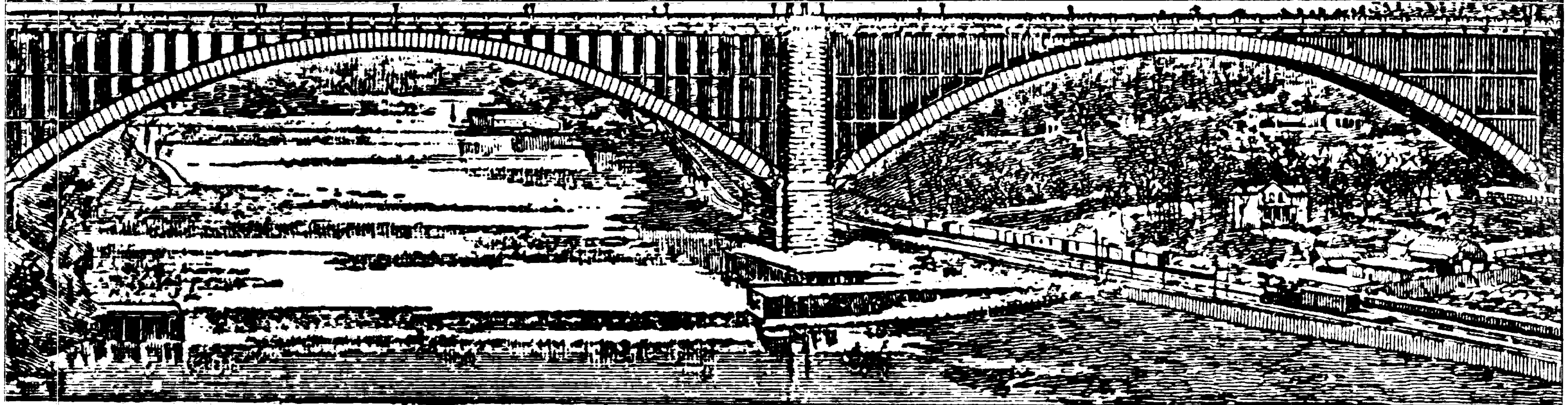
DTCC: The Logical Solutions Provider

Our goal is not only to help customers meet their current challenges, increase operating efficiency and lower costs, but also to develop new services that will support their efforts to grow new revenue sources and reach new trading parties.

If there's a way for us to help our customers, we're anxious to do so.

Please send us your ideas.
We look forward to hearing from you.



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