OTC Derivatives Services – Deriv/SERV

For DTCC's customers in the vastly growing global over-the-counter (OTC) derivatives market, improving efficiency, managing risk and reducing operational costs are still paramount. The total notional value outstanding of credit derivatives alone more than doubled to $26 trillion in mid-2006 from $12.4 trillion in mid-2005, according to the International Swaps and Derivatives Association, with streams of new investors and products regularly entering the market.

Working with Customers to Strengthen Global Infrastructure To address the industry's growth challenges, global derivatives dealers and regulators held a series of meetings in 2006 on ways to strengthen the market's infrastructure worldwide. DTCC partnered with these market participants to address and improve operational practices and expand the use of automated processing services such as DTCC Deriv/SERV. By June 2006, DTCC helped reduce the backlog of unconfirmed trades in the credit derivatives market by 80%.

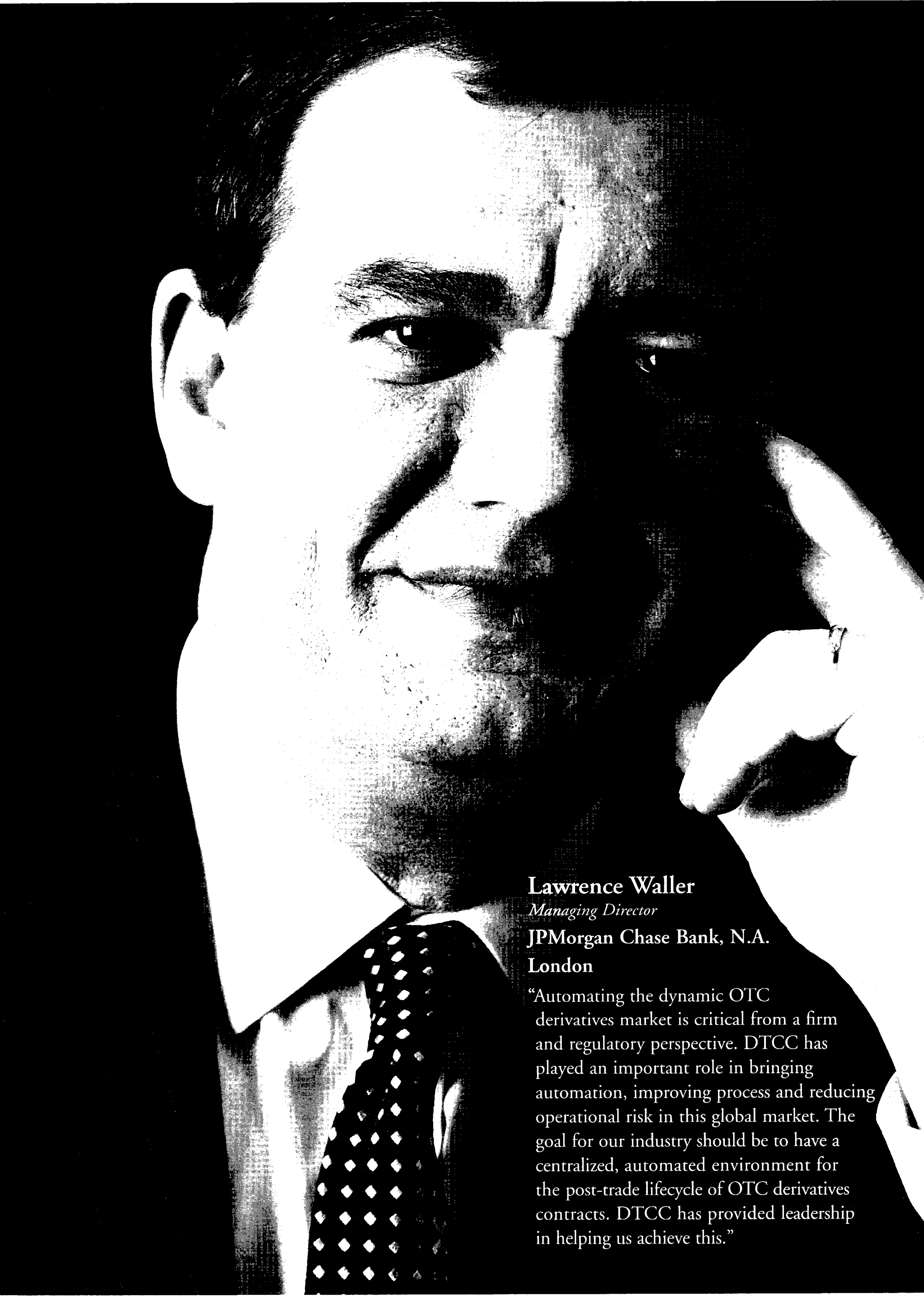
In a September 2006 *Financial Times* editorial, global regulators made the following observation about the state of the market, "While the work of clearing the backlog of unconfirmed credit derivatives trades is well under way, the group has more work to do in improving the post-trade processing system more broadly." The piece also called for the industry to pursue "borderless solutions" in today's more integrated global market.

Since launching its matching and confirmation service in late 2003, Deriv/SERV has amassed the largest community of users for automated processing in this market. In 2006, its global client base tripled to more than 753, including dealers, investment managers and hedge funds in 30 countries.

Deriv/SERV today electronically confirms in excess of 80% of the credit derivatives traded worldwide, up from 15% in 2004. Total transactions processed for the year rose to 2.6 million as of December 2006 from 945,000 the prior year, a 178% increase. The number of credit default swap (CDS) payments matched and bilaterally netted on Deriv/SERV doubled to nearly 7 million payments from 3.5 million in 2005.

Bringing Greater Certainty with Trade Information Warehouse While Deriv/SERV's automated processing services helped resolve industry concerns about accurately and efficiently confirming OTC derivatives trades, the market still needed a way to comprehensively manage each OTC derivatives contract throughout its lifecycle, which can extend for years. With DTCC's launch of the Trade Information Warehouse in November, the industry now has a centralized global repository in place to fill that need. The warehouse also provides a support infrastructure that will automate and standardize post-trade processes such as payment calculations and settlement, notional adjustments and contract term changes in a secure, efficient, paperless environment.

The Trade Information Warehouse leverages Deriv/SERV's matching and confirmation service by using confirmed transaction details as input for the warehouse's centralized repository. The warehouse is modeled on the automated central asset servicing that central securities depositories provide for the cash market. DTCC



Lawrence Waller
Managing Director
JPMorgan Chase Bank, N.A.
London

"Automating the dynamic OTC derivatives market is critical from a firm and regulatory perspective. DTCC has played an important role in bringing automation, improving process and reducing operational risk in this global market. The goal for our industry should be to have a centralized, automated environment for the post-trade lifecycle of OTC derivatives contracts. DTCC has provided leadership in helping us achieve this."

worked closely with senior industry representatives and its global client base to bring this large-scale, global initiative from concept to market in under a year.

DTCC is collaborating with an initial group of dealers to backload into the warehouse trade details on contracts that existed prior to the launch. It is expected that backloading among major dealers will be completed in 2007 and will, at the same time, have been expanded to other market participants.

The warehouse initially supports credit derivatives, and will be extended to other OTC derivatives products including interest rates, equities, FX and commodities – depending on market demand and industry interest. The platform was also built with a flexible, open architecture, allowing other service providers to connect to the warehouse.

Expanding Customer Access through Partnership and Collaboration DTCC continues to collaborate and forge alliances with complementary service providers to expand the reach of the Deriv/SERV platform. For example, through DTCC's strategic partnership with CLS Bank International, pending regulatory and legal approval, the Trade Information Warehouse will support central payment calculations and provide for central settlement of payments between trade counterparties.

In 2006, DTCC extended its collaborations to include such service providers as Interwoven, Omgeo, SWIFT, and Thunderhead, complementing connectivity Deriv/SERV has with other providers, including Coretexa, MarketAxess, Markit, T-Zero, and Thomson TradeWeb.

Gladys Faccini
Senior Relationship Manager
Deriv/SERV

David Cho
Application Architect
Deriv/SERV

Mark S. Ellis
Manager
Client Services
Deriv/SERV

Deriv/SERV has the largest community of users in the OTC derivatives market, with 753 **global dealers,** investment managers and hedge funds in 30 countries.

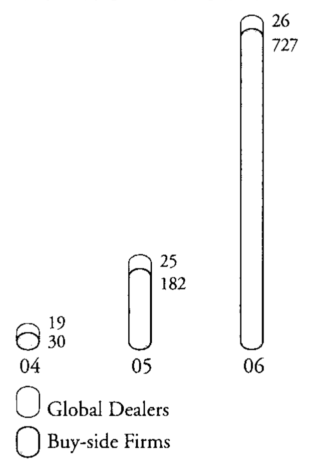
Providing A Fully Integrated, Comprehensive Global Processing Solution Today, Deriv/SERV is widely recognized by the industry as the global standard for automating OTC credit derivatives post-trade processing. Customers are increasingly looking to DTCC to expand Deriv/SERV to support a wider range of instruments, such as equity and interest rate derivatives, under a single platform. In 2006, DTCC added CDS index tranches and interest rate life cycle events to the products supported on Deriv/SERV's processing platform.

DTCC expects to have more than 60 products on the service in the first half of 2007 by including such instruments as Japan share and index swaps, Asia ex. Japan (AEJ) share and index variance swaps, and non-deliverable swaps.

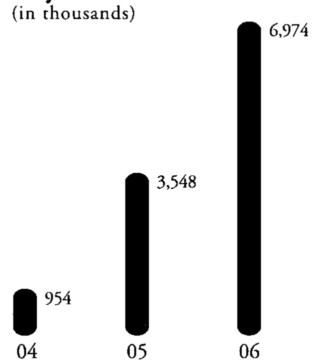
To effectively support this growing global market, DTCC is expanding its on-the-ground support for customers in Europe and Asia. DTCC has a full complement of services to cover client needs including relationship management, software development and day-to-day customer support. DTCC looks forward to working with market participants around the globe to constantly automate and expand the support infrastructure for OTC derivatives worldwide.

DTCC's derivative services are offered through DTCC Deriv/SERV LLC, a wholly owned subsidiary of DTCC.

Deriv/SERV Customers



Deriv/SERV Total Payments Processed
(in thousands)



Customer Centric

"DTCC really does put their customers first and that means everything. They listen. They get the job done every day. They're skilled at shaping solutions for existing and new customers based on a broad understanding of issues affecting the industry. For instance, their new Managed Accounts Service that will bring near STP processing to these transactions is right on target."

Wealth Management Services

For the mutual fund industry and DTCC, 2006 was a year that exceeded expectations. With investor confidence rising for the third year in a row, U.S. assets topped $10 trillion. And DTCC's Fund/SERV® marked its 20th anniversary by processing more than one million purchases, exchanges, redemptions and registrations in a day – not once, but twice – and ending the year by successfully completing 143 million transactions for more than 1,000 customers.

Comparing 2006 to 2005, yearly transaction volumes were up 21% from 118 million, with a daily average of 569,000, from the 467,000 recorded in 2005. On a full-year basis, the value of transactions increased 24% in 2006 to $2.1 trillion from $1.7 trillion.

Before Fund/SERV was launched in 1986, the industry faced serious operational problems. With volumes surging, funds, broker/dealers and other distribution firms were frequently caught in a web of manual and outdated processing methods and separate communications links that were difficult and costly to maintain. Fund/SERV automated and centralized orders; provided one link through which every fund and firm could connect to each other; mitigated risk for customers through a central money settlement system; and reduced transaction costs significantly.

Expanding Capabilities to Meet Growing Customer Needs Almost since its introduction, Fund/SERV has been recognized as the industry standard for its ability to support growth by processing steadily increasing volumes from a growing array of fund investments.

When first introduced, the service was processing a scant 15 orders a day – from six customers – and in 1988 it cost 50 cents per transaction. Ten years later, daily orders were up to nearly 75,000 for 541 customers, at a cost of 35 cents. By 2005, a thousand-plus funds and firms were paying just 17.5 cents; and on January 2, 2006, DTCC further dropped the fee to 11 cents.

Major enhancements to Fund/SERV over the past decade have supported the changing requirements of customers, including real-time processing and an expanding number of fund types that are regularly added to the system.

Collective investment trusts and stable value funds transactions have jumped more than 48% in 2006 to 647,000 transactions from 436,000 previously. Offshore transactions at the end of 2006 also rose by 16% to 424,000 from 365,000. With rising interest from offshore funds – those domiciled outside the U.S. for sale to non-U.S. residents – DTCC is exploring new membership categories that will expand the processing efficiencies of Fund/SERV to more of these global providers.

DTCC's Defined Contribution Clearance & Settlement (DCC&S) service also uses the features of Fund/SERV to support defined contribution and other retirement programs, including 401(k) and 403(b) plans. Transactions from DCC&S customers continue to grow, and in 2006 they represented 28% of Fund/SERV's total volume.

Reconciling Account Information Networking makes it possible for funds and distributors to exchange account-level information, balance their records with the same information, and

Fund/SERV has been recognized as the industry standard for processing steadily increasing volumes of fund investment transactions – $2.1 trillion in 2006.

provide their customers with monthly statements that accurately reflect their fund-investment activities. In 2006, the total number of accounts supported by Networking increased more than 14%, reaching 82.6 million accounts compared to 72.4 million in 2005. Accounts from the independent broker/dealer community also grew substantially, rising 31% to 13.8 million over the 10.5 million recorded in 2005.

The fee for Networking also was lowered on January 2, 2007, to 15 cents for every 100 records from 25 cents.

Staying Ahead of Regulatory Requirements DTCC has also worked with customers and industry groups to meet emerging compliance requirements.

By leveraging Networking with an enhancement called Networking for Standardized Data Reporting, funds can use existing functionality to request and obtain from firms account-activity information that will make it easier for them to track and limit short-term trading and market-timing of funds. Funds can then impose redemption fees, if applicable. DTCC is also working with customers of its Insurance Services area to adapt this enhancement so that insurance carriers can obtain similar information on annuity activity.

Redefining Services for Future Needs By launching a redesign of its Mutual Fund Profile Service in 2006, DTCC moved closer to providing the fund community with an automated, centralized repository for a broad range of information contained in a fund prospectus and to expanding the service's role as a primary industry source for rules-based processing.

James R. Kiernan
Senior Relationship Manager
Mutual Funds

Keisha M. Bell
Product Manager
Mutual Funds

Vivek Pabby
Managing Director
Application Development
Information Services

Neeraj Sahai
Senior Managing Director
Global Business Head
Securities & Fund Services
Citi

"DTCC's new service that centralizes the processing of managed accounts is about growing this industry segment and helping investors reach their investment goals. Citi is looking to leverage its position as sponsor and outsourcer to help the industry deliver the full potential of managed accounts, while eliminating industry inefficiencies that seize the manager's focus at the expense of customization and premier client services."

Collaborating with the Investment Company Institute (ICI) and a committee of customers, DTCC's new Profile Service will allow fund companies to quickly and easily enter, update and maintain information on their individual securities, such as investment objectives, fee schedules, and breakpoint schedules and linkage rules. Distributors will have at their fingertips current information about the rules governing funds, which will allow them to better help their customers make informed investment decisions.

Delivering Other Automated Efficiencies Our Commission Settlement service streamlines and simplifies commission payments between funds and firms. In 2006, the number of payments increased 8% to 980 million from 911 million the previous year.

Customers also expanded their usage of ACATS-Fund/SERV and Transfer of Retirement Assets – two key services that transfer fund shares between firms, as well as the value of IRA fund shares between funds. As a further example of how DTCC responds to new needs, the organization plans to begin discussions with its customers and the ICI on expanding ACATS-Fund/SERV's capabilities to automate the transfer of retail and retirement fund accounts from fund companies to firms.

Bringing Much-Needed Efficiency to Managed Accounts Managed accounts are growing at an explosive pace – assets rose by 25% in 2006 to $856 billion from $680 billion. With growth forecasts projecting $1.5 trillion by 2011, current inefficiences are squeezing margins and straining the industry's ability to realize its potential for continued growth.

DTCC launched its Managed Accounts Service in 2006 to bring much-needed cost efficiency, risk reduction and centralized communications to the process of opening and maintaining managed accounts. The service simplifies an unwieldy and costly account set up process, automatically linking investment managers, sponsoring broker/dealers and service providers through a single, centralized, automated platform.

DTCC forged an alliance with Citigroup's Smith Barney Consulting Group and its service provider, Global Transaction Services, as charter participants. Since that announcement, more than 60 firms have expressed interest in linking to the platform, and participant testing of the service has begun.

For investment managers who may have been deterred by the complexities and costs of retail managed accounts operations, DTCC's Managed Accounts Service provides a gateway to connect with more sponsors and the capacity to offer sophisticated new managed accounts products.

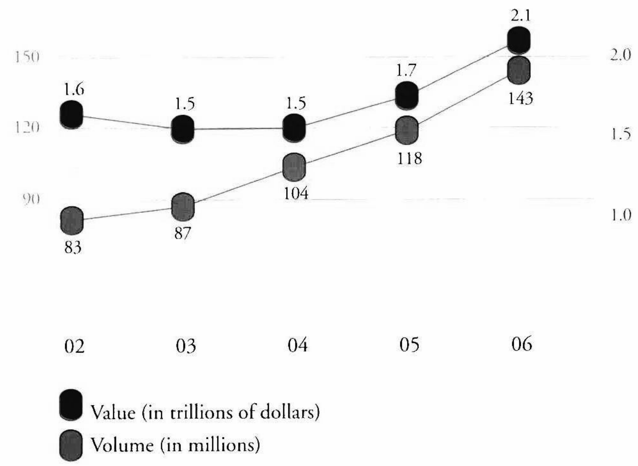
DTCC's Managed Accounts Service is offered by DTCC Solutions LLC, a subsidiary of DTCC.

Automation Supports Global Growth in Alternative Investments Driven by the desire to increase returns on their investors' growing wealth, major asset managers are turning to alternative investment products. Assets in hedge funds reached $1.4 trillion in 2006 – a 15% jump in one year – and institutional demand for hedge funds is forecast to triple by 2010.

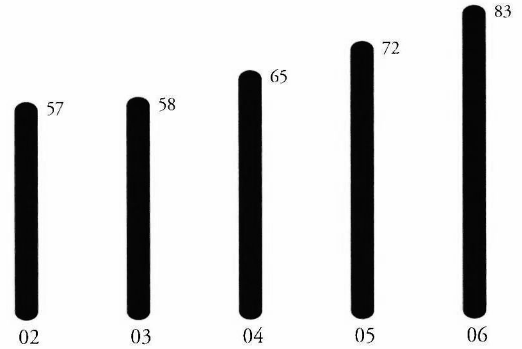
Working closely with an advisory committee of customers throughout 2006, DTCC has made significant progress toward creating an Alternative Investment Products (AIP) Service to automate and streamline trade order, reporting and settlement of these complex products.

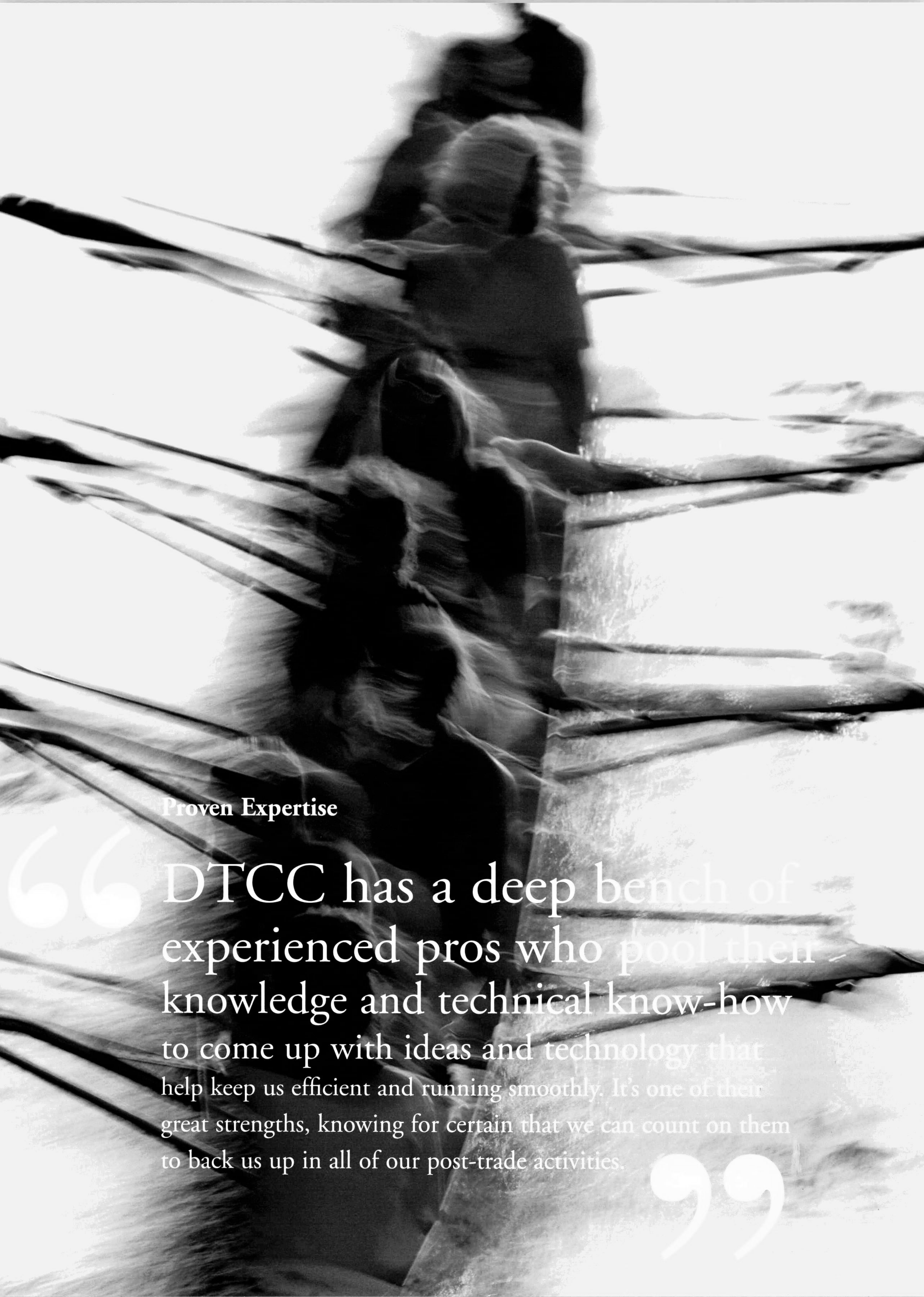
Global capabilities are also a priority, so the service is being designed to accommodate global hedge fund providers and settlement reporting in multiple currencies. A pilot group of hedge funds, fund administrators and broker/dealer firms is testing the new service, and DTCC expects this progress will continue toward a full launch of the service later in 2007, subject to regulatory approval. DTCC's AIP service will be an offering of National Securities Clearing Corporation, a subsidiary of DTCC.

Fund/SERV



Networking Sub-Accounts
(in millions)





Proven Expertise

"DTCC has a deep bench of experienced pros who pool their knowledge and technical know-how to come up with ideas and technology that help keep us efficient and running smoothly. It's one of their great strengths, knowing for certain that we can count on them to back us up in all of our post-trade activities."

Insurance Services

DTCC's Insurance Services continues to help expand the market for annuities and life insurance by linking insurance carriers and their distributors, providing greater connectivity across the industry, and enabling them to sell, process and service insurance products through its automated, centralized services.

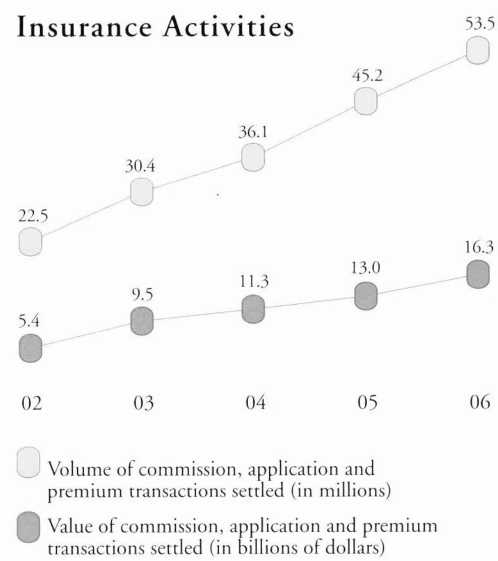
Boosting Customer Connectivity and Trading Relationships In 2006, the number of carriers and distributors using Insurance Services grew to 307 from 275, up 12% over 2005, and the number of trading relationships between carriers and distributors rose to 7,011, up 43% from 4,903 last year. Customer usage of all Insurance Services products continued to grow in 2006 as well, demonstrating the industry's increasing reliance on automation to boost sales and revenues and help companies meet regulatory and compliance issues on both the federal and state levels.

Use of Insurance Services' Financial Activity Reporting (FAR), which helps companies comply with anti-money laundering and other regulatory provisions, increased by 30%, reaching almost 30 million transaction records compared to 23 million in 2005. Annuity application transactions rose by 32% to 317,000 transactions from 240,000 in 2005, and Commission transactions increased by 18% to more than 53 million from 44.7 million. Transactions for Positions, which enables carriers to provide distributors with annuity and life insurance contract details on a daily, weekly, monthly or any other periodic basis, grew to more than 2.7 billion from 2.3 billion, an increase of 18%.

Another core product, Licensing and Appointments, which automates the two-way flow of information to process license and appointment information between insurance carriers and distributors, increased by 18% in 2006 to more than 6.4 million transactions compared to 5.4 million transactions the prior year.

Insurance Services' newest product, ACATS/IPS – which facilitates the transfer of annuity assets within an investment portfolio when customers move from one brokerage firm to another – saw its adoption rate grow to 14 broker/dealers and 12 insurance carriers, up from the six broker/dealers and four insurance carriers it served since its launch in 2005. This makes it one of Insurance Services' most successful new product launches ever.

Insurance Activities



Left:
Oscar A. Raposo
Vice President
Finance

Right:
Steven Carey
Vice President
Internal Security

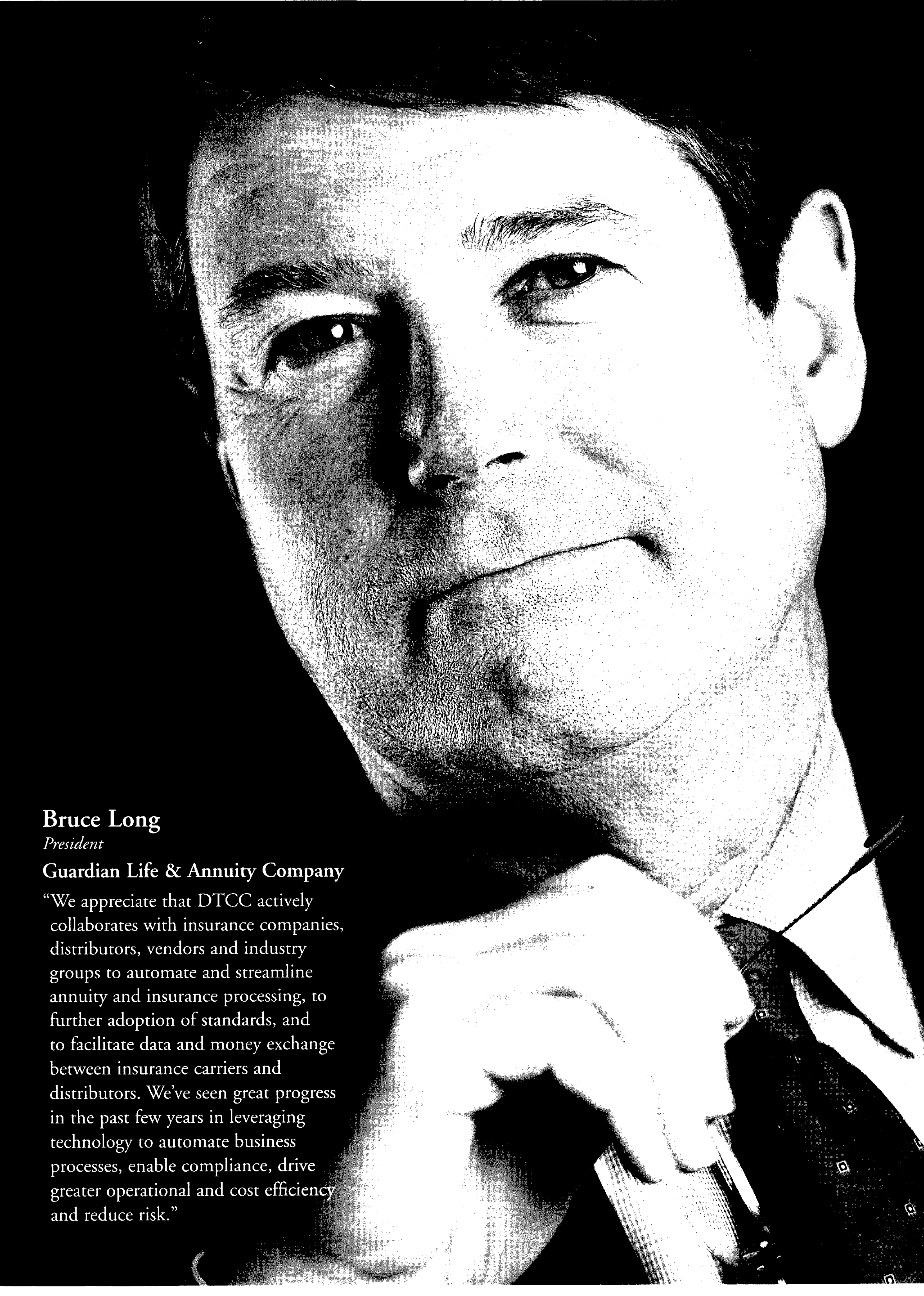
Susan E. Nugent
Director
Business Development
Insurance Services

Helping Clients Meet the Retirement Needs of a Generation A rule filing submitted by DTCC's clearing subsidiary to the Securities and Exchange Commission last year paved the way for broker/dealers to leverage Insurance Services to achieve straight-through processing of non-insurance retirement and other benefit programs. These wrap-like programs are similar to annuities in that they allow for retirement investing based on the bundling of multiple investment options, typically mutual funds. The rule filing, which became effective December 13, 2006, allows broker/dealers to offer their own retirement programs to plan sponsors through distributing intermediaries.

Broker/dealers will be able to tap into significant services that will streamline and automate their business. Commissions, for example, will automate compensation payments and provide same-day money settlement. Positions will provide broker/dealers with a snapshot of a customer's holdings at any given carrier, enabling them to answer and identify investment gaps in their retirement portfolios. And Financial Activity Reporting will help them track daily investment activity and meet compliance requirements.

Establishing Industry Standards Insurance Services continues to bring standardization and automation to the insurance industry by working with customers and the industry at large. In 2006, Insurance Services entered into an agreement with The Association for Cooperative Operation and Research Development (ACORD), the industry's leading standards organization, to use its XML messaging standards in future service offerings, including Fund Transfers and Attachments. It is also working with the National Association for Variable Annuities (NAVA) to promote straight-through processing for new annuity business and, with NAVA and the Securities Industry and Financial Markets Association (SIFMA), on efforts to continue to automate and mainstream retirement income products.

DTCC's Insurance Services helps to **expand the market** for annuities and life insurance by linking insurance carriers and their distributors.



Bruce Long
President
Guardian Life & Annuity Company

"We appreciate that DTCC actively collaborates with insurance companies, distributors, vendors and industry groups to automate and streamline annuity and insurance processing, to further adoption of standards, and to facilitate data and money exchange between insurance carriers and distributors. We've seen great progress in the past few years in leveraging technology to automate business processes, enable compliance, drive greater operational and cost efficiency and reduce risk."

Board of Directors

DTCC's Board is made up of 18 directors. Fourteen 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 the president and chief executive officer of DTCC itself. Individuals are nominated for election as directors based on their ability to represent DTCC's diverse base of participants, 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.

Donald F. Donahue
President and Chief Executive Officer
The Depository Trust &
Clearing Corporation

Jill M. Considine
Chairman
The Depository Trust &
Clearing Corporation

Art Certosimo
Executive Vice President
Bank of New York

Gerard LaRocca
Managing Director,
Chief Administrative Officer
of the Americas
Barclays Capital

J. Charles Cardona
Vice Chairman
The Dreyfus Corporation

Gerald A. Beeson
Senior Managing Director and
Chief Financial Officer
Citadel Investment Group, LLC

Ellen Alemany
Chief Executive Officer -
Global Transaction Services
Citi

Norman Eaker
Principal
Edward Jones

Diane L. Schueneman
Senior Vice President,
Head of Global Infrastructure Solutions
Merrill Lynch & Co., Inc.

David A. Weisbrod
Senior Vice President
JPMorgan Chase & Company

Norman Malo
President and Chief Executive Officer
National Financial Services LLC
Fidelity Investments

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

Timothy J. Theriault
President of Corporate and
Institutional Services
Northern Trust Corporation

Catherine R. Kinney
President and
Co-Chief Operating Officer
NYSE Group Inc.

Randolph L. Cowen
Chief Information Officer
Goldman Sachs

Ronald A. Purpora
President
ICAP Securities USA LLC

Douglas H. Shulman
Vice Chairman
NASD

NOT PICTURED

Robert Kaplan
Executive Vice President
State Street Global Services

The Latest Services from DTCC

Clearance and Settlement

ACATS (Automated Customer Account Transfer Service)

Automates and standardizes the transfer of a customer's account from one brokerage firm, insurance company, mutual fund or bank to another, ensuring a seamless, prompt and accurate transition of customer assets. Now ACATS is being expanded to support the Account Information Transmission Service (AIT), which will facilitate a standard method of passing conversion data between clearing firms. Using National Securities Clearing Corporation as the common "hub" will provide a secure method for clearing firms to exchange customer data among themselves.

Prime Broker Netting

Supports U.S. Treasury trade matching and netting between prime and executing brokers to reduce both risk and trade-for-trade settlement costs. Enhancements to the Real-Time Trade Matching system will provide prime brokers the flexibility, based on their risk preferences, to "match only" or "match and net" trades by customer and product type.

EPN Pool Substitution

Simplifies and speeds up the substitution of mortgage pool allocations by allowing for simultaneous cancellation and replacement of pools through a single Electronic Pool Notification message. Also serves as a necessary building block in creating a central counterparty for the mortgage-backed securities market.

Institutional Delivery Netting Service

A collaborative effort by DTCC and Omgeo, the Institutional Delivery Netting service streamlines the clearing and settling of institutional equity trades by putting the dealer side of the institutional deliveries into NSCC's Continuous Net Settlement system, reducing the number of settlements and associated costs. Phase 2, targeted for 2008, will build on this to combine multiple deliveries intended for the same custodian client into a single transaction, reducing the investment manager's costs.

Asset Services

AccuBasis

Enables security issuers, transfer agents, broker/dealers, mutual funds and other financial service professionals to help their customers obtain quickly – via the Internet – highly accurate, critically needed cost-basis information.

Global Corporate Actions

Global Corporate Actions Validation Service

Supports the financial service industry's obligation to keep its customers informed of corporate actions, and helps investors take advantage of their increasingly global asset base by substantially raising the speed, accuracy and efficiency with which corporate action announcement information is captured, verified and disseminated worldwide.

Service	Broker/ Dealers	Banks	Mutual Funds	Insurance Carriers	Hedge Funds
ACATS (Automated Customer Account Transfer Service)	○	○	○	○	
Prime Broker Netting	○				
EPN Pool Substitution	○	○	○	○	○
Institutional Delivery Netting Service	○	○			
AccuBasis	○	○	○		
Global Corporate Actions Validation Service	○	○	○		○

Wealth Management Services

Mutual Fund Profile Service (MFPS)

A fully redesigned database for 2007 gives fund companies a streamlined way to enter and maintain a wide range of information on each of their funds – including investment objectives, fee and breakpoint schedules – enabling broker/dealers and other fund distributors to serve their customers with more targeted and personalized investment strategies.

Networking for Standardized Data Reporting

New modifications to our Networking service will enable fund companies and their distribution partners to exchange information regarding trading activity, allowing them to enforce their market timing and short-term trading restrictions.

Managed Accounts Service

Newly launched service helps the financial services industry cope with rising investor demand for managed accounts by centralizing and streamlining the processing of these accounts among program sponsors, investment managers and service providers.

Alternative Investment Product Service

Reduces costs and streamlines service by automating and standardizing the workflow process among alternative investment providers – hedge funds, commodity funds and funds of funds, for example – and their distribution networks.

OTC Derivatives Markets

Deriv/SERV

Drives down operational risk for participants in the world's rapidly growing over-the-counter (OTC) derivatives markets by providing automated matching and confirmation of OTC derivatives contracts, including credit, equity and interest rate derivatives.

AffirmXpress

Newly launched service gives traders and front-office staff an easy-to-use platform to affirm OTC credit derivative trades with multiple inter-dealer brokers and thus speed the trades to completion.

Trade Information Warehouse

This fast-growing, comprehensive electronic trade database has emerged as the world's central support structure for automating and standardizing OTC derivative post-trade processes such as payments, notional adjustments and contract term changes over the life of each contract. As a borderless database, it also maintains the "official legal record" for all global contracts eligible for DTCC's Deriv/SERV confirmation service.

Insurance Services

Funds Transfer Service

Ready for launch in fall 2007, this new service will automate and standardize broker-initiated fund transfers within variable annuity products and enable tracking of those transfers.

Attachments

Will support the electronic transfer of images, signature, and other documents through a safe and secure network. Scheduled for launch in late 2007, it will allow distributors and insurance carriers to share information electronically rather than having to send it via messenger, overnight delivery service or the postal service.

	Broker/ Dealers	Banks	Mutual Funds	Insurance Carriers	Hedge Funds
Mutual Fund Profile Service (MFPS)	○	○	○	○	
Networking for Standardized Data Reporting	○	○	○	○	
Managed Accounts Service	○	○	○		
Alternative Investment Product Service	○	○	○		○
Deriv/SERV	○	○	○	○	○
AffirmXpress	○	○			
Trade Information Warehouse	○	○	○	○	○
Funds Transfer Service	○	○		○	
Attachments	○	○		○	

Consolidated Balance Sheets

December 31,	2006	2005
(in thousands, except share data)		
Assets		
Cash and cash equivalents	$ 6,778,146	$ 6,178,388
Investments in marketable securities	132,484	156,091
Accounts receivable	223,638	159,206
Participants' funds	14,280,008	12,146,095
Fixed assets, less accumulated depreciation and amortization of $408,431,000 and $356,481,000 at December 31, 2006 and 2005, respectively	214,529	191,705
Deferred income taxes, net	148,410	103,473
Other assets	430,417	429,244
Total assets	$22,207,632	$19,364,202
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and other liabilities	$ 617,010	$ 505,716
Payable to participants	2,614,759	2,301,706
Long-term debt and other borrowings	317,067	331,577
Participants' funds:		
Cash deposits	4,042,710	3,808,297
Other deposits	14,280,008	12,146,095
Total liabilities	21,871,554	19,093,391
Minority interests (Note 1)	125,000	75,000
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	12,671	11,649
Retained earnings:		
Appropriated	112,782	112,782
Unappropriated	164,340	91,811
Treasury stock	(42)	(3,327)
Total	292,717	215,881
Accumulated other comprehensive (loss) income, net of tax:		
Defined benefit pension and other plans (Note 6)	(82,252)	(20,261)
DTCC's share of Omgeo LLC's foreign currency translation adjustment	613	191
Accumulated other comprehensive net loss	(81,639)	(20,070)
Total shareholders' equity	211,078	195,811
Total liabilities and shareholders' equity	$22,207,632	$19,364,202

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

Consolidated Statements of Income

For the Year Ended December 31,	2006	2005
(in thousands)		
Revenues:		
Trading services	$ 668,516	$ 719,091
Custody services	210,027	183,640
Network services	41,130	84,641
Other services	68,457	64,472
Interest income	326,870	185,453
Equity in net income of Omgeo LLC	48,963	41,885
Total revenues	1,363,963	1,279,182
Discounts and other refunds to participants	(580,545)	(527,953)
Net revenues	783,418	751,229
Expenses:		
Employee compensation and related benefits	417,072	420,192
Information technology	94,997	141,680
Professional and other services	82,197	77,826
Occupancy	62,319	72,611
Interest expense	22,413	23,167
Other general and administrative	18,970	17,471
Reimbursement from affiliates	(34,014)	(31,831)
Total expenses	663,954	721,116
Income before income taxes and minority interests	119,464	30,113
Provision for income taxes	44,367	11,560
Income before minority interests	75,097	18,553
Minority interests – preferred stock dividend	(2,568)	(1,635)
Net income	72,529	16,918
Other comprehensive income (loss), net of tax:		
Defined benefit pension and other plans	14,316	3,907
DTCC's share of Omgeo LLC's foreign currency translation adjustment	422	(213)
DTCC's share of Omgeo LLC's net unrealized gain on derivative instruments	—	219
Other comprehensive net income	14,738	3,913
Comprehensive income	$ 87,267	$ 20,831

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

Consolidated Statements of Cash Flows

For the Year Ended December 31,	2006	2005
(in thousands)		
Cash flows from operating activities:		
Net income	$ 72,529	$ 16,918
Adjustments to reconcile net income to net cash provided by operating activities:		
DTCC's share of Omgeo LLC's earnings, net of distributions	(3,463)	(3,635)
Depreciation and amortization of fixed assets	53,242	53,481
Loss on fixed assets disposals	2,475	11,811
Net discount accreted on investments owned	(1,938)	(1,188)
Deferred income taxes accrued	(9,610)	(11,334)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(64,432)	45,983
Decrease (increase) in other assets	2,290	(24,589)
Increase in accounts payable and other liabilities	13,976	45,387
Increase in payable to participants	313,053	1,206,142
Increase in participants' fund cash deposits	234,413	249,181
Net cash provided by operating activities	612,535	1,588,157
Cash flows from investing activities:		
Maturities of investments in marketable securities	152,000	195,000
Purchases of investments in marketable securities	(126,455)	(158,200)
Purchases of fixed assets	(78,541)	(47,444)
Net cash used in investing activities	(52,996)	(10,644)
Cash flows from financing activities:		
Issuance of preferred stock in The Depository Trust Company (Note 1)	50,000	—
Principal payments on debt and capital lease obligations	(20,467)	(17,116)
Capitalized leases	5,957	1,376
Repurchase of minority interest (Note 1)	—	(330)
Proceeds from sale of treasury stock (Note 9)	4,307	—
Net cash provided by (used in) financing activities	39,797	(16,070)
Effect of foreign exchange rate changes on cash	422	(213)
Net increase in cash and cash equivalents	599,758	1,561,230
Cash and cash equivalents, beginning of year	6,178,388	4,617,158
Cash and cash equivalents, end of year	$6,778,146	$6,178,388
Supplemental disclosures:		
Income taxes paid, net of refunds	$ 64,457	$ 21,688
Interest paid	$ 22,465	$ 15,512

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

Notes to Consolidated Financial Statements

December 31, 2006

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 DTCC 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, netting, clearance, settlement and risk management services. FICC, which consists of the Government Securities (GSD) and Mortgage-Backed Securities 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. DTCC 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 U.S. Securities and Exchange Commission (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 2005 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. On December 29, 2006, DTC issued an additional 500,000 shares of Series A preferred stock at the par value of $100 per share, thereby increasing the amount of its preferred stock to $125 million. 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 reflected 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 that were 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

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 $40,879,000 and $36,993,000 at December 31, 2006 and 2005, respectively, represents 50% of Omgeo's net worth.

Omgeo's total revenue and net income in 2006 are $282,286,000 and $97,926,000, respectively. The comparable amounts in 2005 were $249,829,000 and $83,769,000, respectively. 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 $4,749,630,000 and $4,912,085,000 at December 31, 2006 and 2005, respectively. At December 31, 2006, the counterparties to these agreements were ten major financial institutions that are also participants.

Overnight investments made in commercial paper totaling $73,737,000 and $51,783,000 are included in cash equivalents at December 31, 2006 and 2005, respectively. At December 31, 2006, 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 $1,946,089,000 and $1,214,788,000, including $108,793,000 and $112,010,000 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, 2006 and 2005, 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, 2006 and 2005, are as follows:

	Carrying Value			Market Value		
(Dollars in thousands)	U.S. Treasury Securities	Corporate Notes	Total	U.S. Treasury Securities	Corporate Notes	Total
2006						
Due in one year or less	$131,481	$1,003	$132,484	$131,411	$ 999	$132,410
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

Accounts Receivable: Accounts receivable consist of the following at December 31, 2006 and 2005:

(Dollars in thousands)	2006	2005
Due from the Companies' participants for services	$ 48,817	$ 52,324
Cash dividends, interest and related receivables	148,465	87,832
Other	26,356	19,050
Total	$223,638	$159,206

Stock dividends receivable are not recorded in the consolidated financial statements.

Fixed Assets: Fixed assets consist of the following at December 31, 2006 and 2005:

(Dollars in thousands)	2006	2005
Leasehold improvements	$145,667	$140,125
Furniture and equipment	210,047	201,991
Software	200,443	150,457
Leased property under capital leases	27,135	21,178
Buildings and improvements	35,447	31,835
Land	4,221	2,600
Total cost	622,960	548,186
Less accumulated depreciation and amortization	408,431	356,481
Net book value	$214,529	$191,705

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 costs related to software that was developed for internal use or purchased totaling $49,986,000 and $27,393,000 in 2006 and 2005, respectively. The amortization of capitalized software costs was $20,378,000 in 2006 and $18,591,000 in 2005.

During 2006, fixed asset disposals resulted in a charge of $2,475,000 and the removal of $3,767,000 and $1,292,000, respectively, from the related cost and accumulated depreciation and amortization accounts. The comparable amounts in 2005 were $11,811,000, $46,871,000 and $35,060,000, 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 $317,902,000 in 2006 and $389,305,000 in 2005. DTC also has a policy to provide participants a monthly refund of interest earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such monthly refunds totaled $24,904,000 in 2006 and $12,565,000 in 2005.

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, 2006 and 2005, short positions amounted to $5,922,000 and $18,253,000, 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, 2006, 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.

3 Participants' Funds

The Companies' rules require participants to maintain deposits related to their respective activities based on calculated requirements, which were $14,006,296,000 and $12,130,155,000, at December 31, 2006 and 2005, 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, 2006 and 2005, including $5,292,058,000 and $5,093,999,000, respectively, in excess of the calculated requirements follows:

(Dollars in thousands)	2006	2005
Cash	$ 4,042,710	$ 3,808,297
U.S. Treasury and Agency securities, at market	14,280,008	12,146,095
Letters of credit issued by authorized banks	975,636	1,269,762
Total	$19,298,354	$17,224,154

The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. The 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 $237,739,000 and $126,083,000 in 2006 and 2005, respectively.

4 Transactions with Related Parties

SIAC: Under the terms of a prior agreement with NSCC, the Securities Industry Automation Corporation (SIAC), an entity owned by the NYSE Group and the American Stock Exchange (AMEX), had provided computer facilities, personnel and services in support of the Companies' operations. SIAC charged for these services based on its direct and overhead costs arising from providing such services. There were no charges under this agreement in 2006. Charges under this agreement included in information technology expenses totaled $27,734,000 in 2005.

Beginning in 2004, NSCC and SIAC agreed to the migration of certain systems applications to DTCC. The insourcing of these applications was completed on October 29, 2004. 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 in 2004 to recognize estimated obligations for real estate, severance pay, fixed asset abandonment, overhead and related expenses. During 2005, $11,076,000 related to this agreement was paid and there was a net increase of $802,000 in the accrual. 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 in 2005 to recognize estimated obligations for real estate, fixed asset abandonment, overhead and related expenses. During 2005, accruals for normal services increased the balance to $5,391,000. At December 31, 2005, amounts payable to SIAC associated with these agreements included in accounts payable and other liabilities were $27,868,000. During the first quarter of 2006, an additional $4,875,000 was paid. In July 2006, NSCC and FICC reached a final settlement with SIAC and paid $19,462,000 to satisfy all remaining obligations relating to their insourcing agreements. Accordingly, the remaining accrual balance of $3,531,000 was reversed and is included as a reduction of information technology expenses.

NYSE and NASD: NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 2006 and 2005, 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 $33,468,000 in 2006 and $31,341,000 in 2005 and are included in reimbursement from affiliates. Amounts receivable from Omgeo at December 31, 2006 and 2005 were $1,315,000 and $2,897,000, 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 $546,000 in 2006 and $490,000 in 2005 and are included in reimbursement from affiliates. Amounts receivable from OCC at December 31, 2006 and 2005 were $143,000 and $355,000, respectively.

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 $2,184,543,000 at December 31, 2006 and $1,878,537,000 at December 31, 2005 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 $227,563,000 at December 31, 2006 and $227,236,000 at December 31, 2005, 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.

In September 2006, the Financial Accounting Standards Board issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," which requires companies to recognize a net asset or liability to report the funded status of their defined benefit pension and other postretirement benefit plans. In connection with the early adoption of this standard in 2006, DTCC recorded a charge of $121,718,000 on a pre-tax basis offset by a deferred tax asset of $45,411,000 resulting in a net charge of $76,307,000 to accumulated other comprehensive loss thereby reducing shareholders' equity. The charge to shareholders' equity represents an amount not yet recognized as pension expense.

In addition, DTCC recorded a credit of $24,400,000 on a pre-tax basis offset by a deferred tax liability of $10,084,000 resulting in a net credit of $14,316,000 to other comprehensive income due to the net reduction in the additional minimum pension liability thereby increasing shareholders' equity. The reduction in the additional minimum pension liability resulted primarily from an increase in the interest rate used to discount the projected benefit obligation to its present settlement amount, and an increase in the fair value of plan assets reflecting the actual rate of return exceeding the expected return in 2006.

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.

The following illustrates the adjustments to the balance sheet to record the funded status as of December 31, 2006:

(Dollars in thousands)	Pre-FAS 158 Without AML Adjustment	AML Adjustment	Pre-FAS 158 With AML Adjustment	FAS 158 Impact Due To Adoption	Post FAS 158
Accrued benefit liability	($173,686)	$ 36,575	($137,111)	($119,673)	($256,784)
Intangible asset	14,220	(12,175)	2,045	(2,045)	—
Deferred tax asset (liability)	13,620	(10,084)	3,536	45,411	48,947
AOCI – defined benefit pension and other plans, net of tax	20,261	(14,316)	5,945	76,307	82,252
AOCI – defined benefit pension and other plans, pre-tax	$ 33,881	($ 24,400)	$ 9,481	$121,718	$131,199

(Dollars in thousands)	Pension Benefits 2006	Pension Benefits 2005	Other Benefits 2006	Other Benefits 2005
The estimated transition obligation, actuarial loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are as follows:				
Transition obligation	$ —		$ 524	
Actuarial loss	4,523		1,296	
Prior service cost	1,822		306	
Benefit obligation at end of year:				
Qualified plan	$510,833	$504,661	$ —	$ —
Other plans	93,549	76,741	99,855	91,586
Total benefit obligation at end of year	604,382	581,402	99,855	91,586
Fair value of plan assets at end of year	440,256	379,079	7,197	5,077
Funded status	($164,126)	($202,323)	($92,658)	($86,509)
Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss:				
Prior service cost	($ 12,337)	$ —	($ 905)	$ —
Accumulated loss	(91,807)	—	(23,004)	—
Transition obligation	—	—	(3,146)	—
Accumulated other comprehensive loss	(104,144)	(33,881)	(27,055)	—
Intangible asset	—	(14,220)	—	—
Cumulative net periodic benefit cost in excess of employer contributions	(59,982)	(43,835)	(65,603)	(56,651)
Net amount recognized at year-end	($164,126)	($ 91,936)	($92,658)	($56,651)
Change in accumulated other comprehensive loss due to application of FAS 158:				
Additional minimum liability (before FAS 158)	($ 11,526)	($ 48,101)	$ —	$ —
Intangible asset offset (before FAS 158)	2,045	14,220	—	—
Accumulated other comprehensive loss (before FAS 158)	($ 9,481)	($ 33,881)	$ —	$ —
Net increase in accumulated other comprehensive loss due to FAS 158	$ 94,663	$ —	$27,055	$ —
The accumulated benefit obligation for all defined benefit plans was $499,809,314 at December 31, 2006.				
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.93%	5.50%	5.93%	5.50%
Rate of compensation increase	4.25	4.25	—	—

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:				
Discount rate	5.50%	5.75%	5.50%	5.75%
Expected long-term rate of return on plan assets	8.00	8.00	8.00	8.00
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			9.00%	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	2013

To develop the expected long-term rate of return on assets assumption, DTCC considered the historical returns and the future expectations for returns for 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, 57% to 63% of the plan assets are to be invested in equity securities, 32% to 38% in fixed income securities (including guaranteed investment contracts) and up to 5% in alternative investments.

DTCC's actual pension plan weighted-average asset allocations at December 31, 2006 and 2005, by asset category are as follows:

	Plan assets at December 31,	
	2006	2005
Equity securities	62%	64%
Debt securities	34%	36%
Alternative investments	4%	—
Total	100%	100%

The following estimated future payments are expected to be paid/(received) in the years indicated:

		Other Benefits	
(Dollars in thousands)	Pension	Employer Benefit Payments	Medicare Subsidy Receipts
2007	$ 31,879	$ 3,292	($ 144)
2008	23,368	3,585	(46)
2009	20,831	3,983	(47)
2010	25,997	4,416	(47)
2011	28,016	5,064	(46)
2012–2016	200,346	33,026	(200)

The components of pension and other benefits expenses are as follows:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	2006	2005	2006	2005
Net benefit cost	$41,893	$38,590	$12,459	$10,082
Additional loss recognized due to settlements	66	39	—	—
Total benefit cost	$41,959	$38,629	$12,459	$10,082
Employer contribution	$25,000	$20,000	$ 3,748	$ 2,983
Benefits paid, net of employee contributions	$14,650	$13,573	$ 2,347	$ 1,970

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

DTCC expects to contribute $25 million to its pension plan and $3 million to its retiree medical plan during 2007.

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, 2006 and 2005, consists of the following:

(Dollars in thousands)	2006	2005
Current income taxes:		
Federal	$38,013	$19,380
State and local	15,964	3,514
Deferred income tax benefit:		
Federal	(2,179)	(9,245)
State and local	(7,431)	(2,089)
Provision for income taxes	$44,367	$11,560

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 2006 provision for income taxes is further offset by the reversal of tax accruals established to provide for open tax examinations that were subsequently settled.

The major temporary differences that give rise to the deferred tax assets (liabilities) at December 31, 2006 and 2005 are as follows:

(Dollars in thousands)	2006	2005
Employee benefits	$149,954	$91,954
Rent	8,390	9,689
Depreciation and amortization	13,701	13,444
Lease abandonment costs	5,261	6,224
Capitalized software developed for internal use	(23,332)	(11,703)
Other	(5,564)	(6,135)
Net deferred income tax asset	$148,410	$103,473

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," which establishes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, effective for fiscal years beginning after December 15, 2006. The impact of applying this interpretation beginning in 2007 is not expected to have a material effect on the financial position of the Companies.

8 Long-Term Debt and Lines of Credit

Long-term debt at December 31, 2006 and 2005 consists of the following:

(Dollars in thousands)	2006	2005
Industrial Development Agency bonds	$205,302	$205,302
Sale-leaseback obligation	52,923	58,232
Notes payable	42,667	50,446
Capital lease obligations	16,175	17,597
Total	$317,067	$331,577

As of December 31, 2006 and 2005, 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 2006 and 2005. These bonds mature in 2012.

In March 2003, DTC and NSCC entered into a sale-leaseback transaction covering certain assets aggregating $63,400,000. This transaction was treated as a financing arrangement and the companies 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, $8,364,000, $9,445,000, $16,792,000, $2,923,000 and $6,562,000, respectively. The implicit interest rate on the obligation is 4.6%.

Notes payable at December 31, 2006, include an unsecured borrowing totaling $5,625,000 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 $508,000 in 2006 and $820,000 in 2005. Notes payable also include secured borrowings totaling $10,200,000 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 $509,000 in 2006 and $586,000 in 2005. In addition, notes payable include unsecured borrowings totaling $26,842,000 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. 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 $1,427,000 in 2006 and $1,509,000 in 2005.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2006, future minimum payments including interest, which are due through 2010, totaled $18,239,000. Payments over the next four years are $7,687,000, $5,929,000, $4,024,000 and $599,000, respectively.

At December 31, 2006, DTC maintained a committed line of credit of $1,400,000,000 with 22 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 credit lines totaling $250,000,000 with a participant to support settlement. Further, DTC maintains a $10,000,000 credit line with a participant to support potential short-term operating cash requirements. At December 31, 2006, NSCC maintained a committed line of credit of $3,100,000,000 with 22 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 2006, there was an overnight borrowing of $7,043,000 under the $50,000,000 committed credit line to fund principal and income payments at a rate of 5.01% and there were no borrowings under any of the other credit facilities.

9 Shareholders' Equity

								Accumulated Other Comprehensive Income (Loss), Net of Tax			
	Preferred Stock				Retained Earnings			Defined Benefit Pension and Other Plans	DTCC's Share of Omgeo's Net Unrealized Gain (Loss) on Derivative Instruments	Foreign Currency Translation Adjustment	Total Shareholders' Equity
(Dollars in thousands)	Series A	Series B	Common Stock	Paid in Capital	Appropriated	Unappropriated	Treasury Stock				
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
Defined benefit pension plans (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
Net income 2006	—	—	—	—	—	72,529	—	—	—	—	72,529
Defined benefit pension plans (net of taxes of $10,084)	—	—	—	—	—	—	—	14,316	—	—	14,316
Defined benefit pension and other plans (net of tax benefit of $45,411)	—	—	—	—	—	—	—	(76,307)	—	—	(76,307)
Sale of treasury stock	—	—	—	1,022	—	—	3,285	—	—	—	4,307
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	422	422
Balance at December 31, 2006	$300	$300	$2,366	$12,671	$112,782	$164,340	($ 42)	($82,252)	$ —	$ 613	$211,078

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.

As of December 31, 2005, the NYSE owned 27% of the outstanding common stock of DTCC and the NASD and AMEX each owned 4%. Their ownership interests were largely the result of shares that were not previously subscribed by participants. In March 2006, DTCC's common shares were reallocated among all DTCC participants based on the proportion of their activity levels, resulting in a significant reduction in ownership by the NYSE, NASD and AMEX.

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 a result of the reallocation of DTCC's common shares in March 2006, primarily all of the treasury shares were reissued at the adjusted book value resulting in a gain of $1,022,000 thereby increasing paid in capital.

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. Since all trades submitted to NSCC are matched, 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, 2006, open positions due to NSCC aggregated $3,749,160,000 ($3,423,028,000 at December 31, 2005). When a participant does not deliver securities due to NSCC on the settlement date, NSCC, in accordance with its SEC-approved rules, utilizes the Stock Borrow Program (SBP) to complete its delivery obligations to the extent that participants have made available for loan to the system shares of that issue. As of December 31, 2006, NSCC completed delivery of $1,105,727,000 in securities through the SBP ($977,702,000 at December 31, 2005), leaving $2,643,433,000 in open delivery obligations due to participants ($2,445,326,000 at December 31, 2005). NSCC's borrowing from the SBP does not relieve a participant's obligation to deliver the securities to NSCC. In addition, the settlement of trades is generally scheduled to occur 3 days after the trade date. As of December 31, 2006, trades totaling $59.9 billion were scheduled to settle over the next three settlement days.

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, 2006, the gross amount of guaranteed positions due from netting GSD participants to FICC, which are scheduled to settle on or before January 2, 2007, approximated $505,035,579,000 and the amount scheduled to settle after January 2, 2007 approximated $273,005,170,000. 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, 2005 were $445,415,299,000 and $380,772,748,000, 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 2006. Rent expense under these leases was $42,261,000 in 2006 and $40,856,000 in 2005. At December 31, 2006, future minimum rental payments under all non-cancelable leases are as follow:

(Dollars in thousands)	Amount
2007	$ 36,148
2008	29,290
2009	22,765
2010	20,738
2011	20,353
Thereafter	30,423
Total minimum rental payments	$159,717

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 are exposed to credit risk. All trading activities handled by DTC are settled through its end-of-day net settlement process. If a participant fails to fulfill its settlement obligation, DTC is also exposed to credit risk. Exposure to credit risk is mitigated by requiring participants to meet established financial standards for membership, verifying their compliance with other financial standards, monitoring their financial status and trading activity, requiring participants to meet daily mark-to-market obligations and requiring participants to provide participant fund deposits in the form of cash, marketable securities or acceptable letters of credit (see Note 3).

Collateralization controls and net debit caps are employed by DTC to protect participants against the inability of one or more participants to pay for their settlement obligations.

DTC's collateralization controls prevent the completion of transactions that would cause a participant's net debit to exceed the total available collateral in its account. This assures that a participant that fails to pay for its settlement obligation will have sufficient collateral in its account to liquidate in the event it were insolvent. DTC's net debit cap controls limit the net settlement debit that each participant can incur to an amount, based upon activity level, which is less than DTC's total liquidity. This helps ensure that DTC will have sufficient liquidity to complete settlement should any single participant fail to settle.

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 participant fund deposits, would be applied to satisfy any outstanding obligation and/or loss. NSCC, FICC and DTC have a multilateral netting contract and limited cross-guaranty agreement with 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, the companies would then assess the balance of the deficiency in accordance with their rules.

As discussed in Note 1, NSCC, FICC and DTC 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 and the debt-issuing countries. 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 one of its facilities prior to the expiration of the remaining lease term. A provision of $1,993,000 was recorded to reflect the net cost of surrendering the space, including the impairment in the carrying value of leasehold improvements. In 2005, there was a similar provision totaling $12,937,000. Further, DTCC incurred related relocation and severance expenses totaling $7,608,000 that are included in employee compensation and related benefits. In 2005, there was a similar provision of $10,902,000.

Report of Independent Auditors

PRICEWATERHOUSECOOPERS

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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, 2006 and 2005, 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.

As discussed in Note 6 to the consolidated financial statements, the Company changed the manner in which it accounts for its defined benefit pension and other postretirement plans in 2006.

PricewaterhouseCoopers LLP

February 15, 2007

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Ellen Fine Levine
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