2004

THE DEPOSITORY TRUST COMPANY

Annual Financial Statements

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To DTC Participants:

We are pleased to provide you with a copy of the audited financial statements of DTC.

Jill M. Considine
Chairman & Chief Executive Officer
The Depository Trust & Clearing Corporation

Report of Independent Auditors

PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017

To the Board of Directors and Shareholders of
The Depository Trust Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of The Depository Trust Company and its subsidiaries at December 31, 2004 and 2003, 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 18, 2005

Consolidated Balance Sheets

December 31,	2004	2003
	(IN THOUSANDS)	
Assets		
Cash and cash equivalents	**$1,703,840**	$1,941,328
Accounts receivable	**145,941**	128,045
Fixed assets, less accumulated depreciation and amortization of $248,131,000 and $284,185,000 at December 31, 2004 and 2003, respectively	**149,158**	131,731
Deferred income taxes	**82,075**	75,817
Other assets	**233,074**	232,899
Total assets	**$2,314,088**	$2,509,820
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and other liabilities	**$211,423**	$259,620
Payable to participants	**793,095**	1,002,441
Long-term debt and other borrowings	**320,981**	288,430
Participants' fund cash deposits	**863,589**	854,329
Total liabilities	**2,189,088**	2,404,820
Commitments and contingent liabilities (Note 10)		
Shareholders' equity:		
Preferred stock, Series A, $100 par value — 750,000 shares authorized, issued and outstanding	**75,000**	75,000
Common stock, $100 par value — 18,500 shares authorized, issued and outstanding	**1,850**	1,850
Paid in capital	**950**	950
Retained earnings	**47,200**	27,200
Total shareholders' equity	**125,000**	105,000
Total liabilities and shareholders' equity	**$2,314,088**	$2,509,820

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

Consolidated Statements of Income and Retained Earnings

	(IN THOUSANDS)	
For the Year Ended December 31,	**2004**	2003
Revenues:		
Trading services	**$173,228**	$155,684
Custody services	**175,836**	166,648
Network services	**80,878**	68,938
Other services	**34,650**	34,146
Interest income	**36,434**	32,229
Total revenues	**501,026**	457,645
Discounts and other refunds to participants	**(54,347)**	(51,601)
Net revenues	**446,679**	406,044
Expenses:		
Employee compensation and related benefits	**233,069**	234,970
Information technology	**67,647**	61,245
Professional and other services	**40,532**	40,249
Occupancy	**43,752**	40,212
Interest expense	**21,029**	20,393
Other general and administrative	**7,786**	10,620
Reimbursement from affiliate	**(2,732)**	(1,686)
Total expenses	**411,083**	406,003
Income before income taxes	**35,596**	41
Provision (benefit) for income taxes	**14,921**	(522)
Net income	**20,675**	563
Retained earnings, beginning of year	**27,200**	27,200
Dividends on preferred stock	**(675)**	(563)
Retained earnings, end of year	**$47,200**	$27,200

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

Consolidated Statements of Cash Flows

(IN THOUSANDS)		
For the Year Ended December 31,	**2004**	2003
Cash flows from operating activities:		
Net income	**$20,675**	$563
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets	**33,739**	35,850
Loss on fixed asset disposals	**1,942**	1,438
Changes in operating assets and liabilities:		
Increase in accounts receivable	**(17,896)**	(6,651)
(Increase) decrease in deferred income taxes	**(6,258)**	5,568
Increase in other assets	**(175)**	(1,458)
(Decrease) increase in accounts payable and other liabilities	**(48,197)**	11,949
Decrease in payable to participants	**(209,346)**	(109,608)
Increase in participants' fund cash deposits	**9,260**	27,034
Net cash used in operating activities	**(216,256)**	(35,315)
Cash flows from investing activities - purchases of fixed assets	**(53,108)**	(27,557)
Cash flows from financing activities:		
Proceeds from sale-leaseback transaction	**—**	61,600
Notes payable issuance	**22,500**	—
Capitalized leases	**19,538**	3,838
Principal payments on debt and capital lease obligations	**(9,487)**	(15,884)
Dividends declared on preferred stock	**(675)**	(563)
Net cash provided by financing activities	**31,876**	48,991
Net decrease in cash and cash equivalents	**(237,488)**	(13,881)
Cash and cash equivalents, beginning of year	**1,941,328**	1,955,209
Cash and cash equivalents, end of year	**$1,703,840**	$1,941,328
Supplemental disclosure:		
Income taxes paid, net of refunds	**$21,079**	$525
Interest paid	**$22,247**	$18,726

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

Notes to Consolidated Financial Statements December 31, 2004

NOTE 1 BUSINESS AND OWNERSHIP

The Depository Trust Company (DTC) is a limited purpose trust company providing central securities depository and related services to members of the securities, banking and other financial industries (participants).

DTC is a consolidated subsidiary of The Depository Trust & Clearing Corporation (DTCC). The other principal operating subsidiaries of DTCC are National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), Emerging Markets Clearing Corporation (EMCC), DTCC Deriv/SERV LLC and Global Asset Solutions LLC.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements include the accounts of DTC and its wholly-owned subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

Cash equivalents: DTC invests funds in overnight reverse repurchase agreements and money market accounts which are considered cash equivalents. Reverse repurchase agreements provide for DTC's delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreements. Independent custodians designated by DTC take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled $1,098,522,000 and $1,740,974,000 at December 31, 2004 and 2003, respectively. At December 31, 2004, the counterparties to these agreements were three major financial institutions that are also participants.

Accounts Receivable: Accounts receivable consist of the following at December 31, 2004 and 2003:

(Dollars in thousands)	**2004**	2003
Due from participants for services	**$39,896**	$40,221
Cash dividends, interest and related receivables	**97,572**	78,629
Other	**8,473**	9,195
Total	**$145,941**	$128,045

Cash dividends, interest and related receivables are presented net of an allowance for possible losses of $500,000 at December 31, 2004 and 2003. Other receivables are presented net of an allowance for possible losses of $273,000 and $252,000 at December 31, 2004 and 2003, respectively. Stock dividends receivable are not recorded in the consolidated financial statements.

Fixed assets: Fixed assets consist of the following at December 31, 2004 and 2003:

(Dollars in thousands)	2004	2003
Leasehold improvements	$170,297	$162,420
Furniture and equipment	133,490	190,637
Software	64,141	58,130
Leased property under capital leases	16,529	4,729
Building and improvements	11,483	—
Land	1,349	—
Total cost	397,289	415,916
Less accumulated depreciation and amortization	248,131	284,185
Net book value	$149,158	$131,731

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

DTC capitalized software developed for internal use or purchased totaling $6,011,000 and $8,272,000 in 2004 and 2003, respectively. The amortization of capitalized software costs was $8,995,000 in 2004 and $11,874,000 in 2003.

During 2004, fixed asset disposals resulted in a charge of $1,942,000 and the removal of $71,735,000 and $69,793,000, respectively, from the related cost and accumulated depreciation and amortization accounts. The comparable amounts in 2003 were $1,438,000, $2,643,000 and $1,205,000, respectively.

Income taxes: Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amount and tax basis 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: DTC returns as a discount to its participants each year all revenues in excess of the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as determined by the Board of Directors. Such discounts amounted to $38,658,000 in 2004 and $40,112,000 in 2003. Further, there is 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 $4,230,000 in 2004 and $2,417,000 in 2003.

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 also reflected in Payable to Participants. At December 31, 2004 and 2003, short positions amounted to $28,225,000 and $18,665,000, respectively.

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

Expense allocations: Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries based upon their use of such goods or services as determined by applicable allocation factors.

Financial instruments: Management believes that the carrying value of all financial instruments approximates market value based upon current rates of return on investments and borrowing rates available to companies with similar credit ratings.

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.

NOTE 3 PARTICIPANTS' FUND

DTC's participants are required to maintain deposits related to their activities in the depository. The deposits are available to secure participants' obligations and certain liabilities of DTC, should they occur. The deposits, which are all in cash, totaled $863,589,000 at December 31, 2004, including excess deposits of $247,299,000. At December 31, 2003, there were excess deposits of $248,886,000.

DTC invests available participants' fund cash deposits in overnight reverse repurchase agreements. The earnings on these investments are passed through to participants and are included in interest income and discounts and other refunds to participants. In 2004 and 2003, such earnings totaled $11,459,000 and $9,072,000, respectively.

NOTE 4 TRANSACTIONS WITH RELATED PARTIES

DTC has an agreement with DTCC whereby DTCC disburses substantially all funds required to sustain the operations of DTC. The related expenses are allocated to DTC based upon an estimate of DTC's use of such goods or services. Further, the agreement provides that DTCC performs certain other services for DTC including administrative, audit, finance and legal services which are billed at 110% of cost. The fee representing the amount over actual cost was $4,728,000 in 2004 and $5,081,000 in 2003. At December 31, 2004 and 2003, the net payable to DTCC included in accounts payable and another liabilities totaled approximately $128,519,000 and $170,195,000, respectively.

Service revenues included $8,361,000 in 2004 and $6,772,000 in 2003 of charges to NSCC related to certain NSCC participants which they sponsor at DTC. Amounts receivable from NSCC at December 31, 2004 and 2003 were $12,000 and $10,000, respectively.

DTCC has an agreement with Omgeo LLC (Omgeo), a joint venture with Thomson Financial, 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. Such charges relating to DTC were $2,732,000 in 2004 and $1,686,000 in 2003.

DTC has entered into a netting contract and limited cross-guaranty agreement with NSCC which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized. DTC has also entered into a multilateral netting contract and limited cross-guaranty agreement with NSCC, FICC, EMCC and The Options Clearing Corporation (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.

NOTE 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 through a participant or other financial institution. Cash dividends, interest, reorganization and redemption payables of $725,596,000 at December 31, 2004 and $942,228,000 at December 31, 2003 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 on the consolidated financial statements.

NOTE 6 PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

All eligible employees of DTC participate in DTCC's trusteed, noncontributory defined benefit pension plan. In addition, DTC participates in DTCC's noncontributory supplement executive retirement and benefit restoration plans which provide for certain benefits to eligible executives of DTC upon retirement. Further, DTC participates in DTCC's life insurance program which provides payment of death benefits to beneficiaries of eligible retired employees and DTCC's health insurance program which provides benefits to eligible retired employees. In 2004, costs for these plans aggregated $43,765,000.

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 from 6.00% to 5.75%, partially offset by an increase in the fair value of the plan assets due to the actual rate of return on plan assets exceeding the expected return on plan assets in 2004. As a result, in accordance with Statement of Financial Accounting Standards No. 87, DTCC recognized an additional minimum pension liability of $1,929,000 which was charged to accumulated other comprehensive loss.

DTC's share of the periodic and accumulated other comprehensive charges totaled $27,247,000 based primarily upon the proportion of DTC's salary costs to aggregate salary costs for DTCC and its wholly-owned subsidiaries. Such amount is included in employee compensation and related benefits. The equivalent amount for 2003 was $25,315,000.

Disclosures of pension and other post-retirement benefit obligations, expense components and actuarial assumptions for the DTCC plans are included in DTCC's consolidated financial statements.

NOTE 7 INCOME TAXES

DTC files a consolidated federal income tax return with DTCC and separate state and local returns. The provision (benefit) for income taxes for the years ended December 31, 2004 and 2003 consist of the following:

(Dollars in thousands)	2004	2003
Current income taxes (benefit):		
Federal	$13,538	($3,616)
State and local	7,641	(2,474)
Deferred income taxes (benefit):		
Federal	(4,199)	3,524
State and local	(2,059)	2,044
Provision (benefit) for income taxes	$14,921	($522)

DTC's effective tax rate is higher than the 35% Federal statutory rate primarily due to state and local taxes. Since DTC is filing a consolidated Federal income tax return with DTCC, the current taxes for 2004 represent an amount payable to DTCC, net of estimated payments made by DTC in 2004.

The major temporary differences that give rise to the deferred tax assets (liabilities) at December 31, 2004 and 2003 are as follows:

(Dollars in thousands)	2004	2003
Employee benefit related	$63,927	$56,002
Rent	11,729	13,833
Depreciation and amortization	9,303	7,110
Shutdown costs	2,573	234
Capitalization of software developed for internal use	(2,947)	(2,513)
Other	(2,510)	1,151
Net deferred income tax assets	$82,075	$75,817

NOTE 8 LONG-TERM DEBT AND LINES OF CREDIT

Long-term debt at December 31, 2004 and 2003 consists of the following:

(Dollars in thousands)	2004	2003
Industrial Development Agency bonds	$205,302	$205,302
Sale-leaseback obligation	60,625	60,625
Notes payable	36,000	19,500
Capital lease obligations	19,054	3,003
Total	$320,981	$288,430

As of December 31, 2004 and 2003, 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 2004 and $15,381,000 in 2003.

In March 2003, the Company entered into a sale-leaseback transaction covering certain assets aggregating $61,600,000 with an initial payment at closing. The Company treated this transaction as a financing arrangement under generally accepted accounting principles and no gain or loss was recognized. Accordingly, DTC will continue to depreciate the assets for accounting purposes using its normal depreciation policy. Payments under this arrangement are due in installments from 2004 to 2011. Payments over the next five years are $7,815,000, $7,815,000, $8,100,000, $9,140,000, and $16,182,000, respectively. The implicit interest rate on the obligation is 4.6%.

Notes payable at December 31, 2004 consist of an unsecured borrowing totaling $13,500,000 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 note totaled $1,136,000 in 2004 and $1,445,000 in 2003. Notes payable also include unsecured borrowings totaling $22,500,000 from an insurance company on November 22, 2004, 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 $120,000 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, 2004, future minimum payments including interest, which are due through 2009, totaled $20,669,000.

At December 31, 2004, DTC maintained a committed line of credit of $1,500,000,000 with 16 major banks, that are primarily participants, to support settlement. During 2004, there were no borrowings under this credit facility. In addition, to support processing of principal and income payments, DTC maintains a $50,000,000 committed line of credit. During 2004, there were occasional overnight borrowings under this credit line to fund principal and income payments at an average rate of 1.73%. DTC also maintains a $50,000,000 shared credit line with NSCC and DTCC to support potential short-term operating cash requirements. In June 2004, DTC borrowed $14,000,000 under this credit line to temporarily finance the acquisition of real estate at an average rate of 1.84%. The temporary borrowing was repaid when permanent long-term financing was completed in November.

NOTE 9 SHAREHOLDERS' EQUITY

(Dollars in thousands)	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings
Balance at December 31, 2002	$75,000	$1,850	$950	$27,200
Net income 2003	—	—	—	563
Dividends on preferred stock	—	—	—	(563)
Balance at December 31, 2003	75,000	1,850	950	27,200
Net income 2004	—	—	—	20,675
Dividends on preferred stock	—	—	—	(675)
Balance at December 31, 2004	**$75,000**	**$1,850**	**$950**	**$47,200**

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

DTC leases office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2004. Rent expense under these leases was $36,501,000 in 2004 and $38,890,000 in 2003.

At December 31, 2004, future minimum rental payments under all noncancelable operating leases follows:

(Dollars in thousands)	
2005	$34,532
2006	31,439
2007	30,039
2008	23,054
2009	18,823
Thereafter	64,707
Total minimum rental payments	$202,594

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

NOTE 11 OTHER MATTERS

In connection with the acquisition of real estate (see Note 8), DTC incurred certain relocation and severance expenses totaling $9,179,000 that are included in employee compensation and related benefits expense. In addition, the company entered into an agreement to surrender space on certain floors of leased premises at another location prior to the expiration of the remaining lease term. Accordingly, a provision of $4,600,000 was recorded to reflect the net cost of surrendering the space, including the impairment in the carrying value of leasehold improvements.

The Depository Trust Company
A subsidiary of The Depository Trust & Clearing Corporation

DTCC®

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