

Consolidated Balance Sheets

December 31,	2004	2003
(in thousands, except share data)		
Assets		
Cash and cash equivalents	\$ 4,617,158	\$ 4,745,054
Investments in marketable securities	191,703	144,744
Accounts receivable	205,189	156,187
Participants' funds	10,653,286	10,114,465
Fixed assets, less accumulated depreciation and amortization of \$338,060 and \$357,723 at December 31, 2004 and 2003, respectively	209,553	179,250
Deferred income taxes	94,643	83,517
Other assets	400,801	391,452
Total assets	\$16,372,333	\$15,814,669
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and other liabilities	\$ 466,740	\$ 423,885
Payable to participants	1,095,564	1,258,654
Long-term debt and other borrowings	347,317	307,150
Participants' funds:		
Cash deposits	3,559,116	3,494,092
Other deposits	10,653,286	10,114,465
Total liabilities	16,122,023	15,598,246
Minority interests (Note 1)	75,330	75,330
Commitments and contingent liabilities (Note 10)		
Shareholders' equity:		
Preferred stock:		
Series A, \$.50 par value – 10,000 shares authorized, issued and outstanding	300	300
Series B, \$.50 par value – 10,000 shares authorized, issued and outstanding	300	300
Common stock, \$100 par value – 23,655 shares authorized, issued and outstanding	2,366	2,366
Paid in capital	11,649	11,649
Retained earnings:		
Appropriated	102,657	72,930
Unappropriated	85,018	80,670
Treasury stock	(3,327)	(3,327)
Total	198,963	164,888
Accumulated other comprehensive (loss) income, net of tax:		
Minimum pension liability adjustment	(24,168)	(22,900)
DTCC's share of Omgeo LLC's net unrealized loss on derivative instruments	(219)	(1,059)
DTCC's share of Omgeo LLC's foreign currency translation adjustment	404	164
Accumulated other comprehensive net loss	(23,983)	(23,795)
Total shareholders' equity	174,980	141,093
Total liabilities and shareholders' equity	\$16,372,333	\$15,814,669

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

Consolidated Statements of Income

For the Year Ended December 31,	2004	2003
(in thousands)		
Revenues:		
Trading services	\$ 618,429	\$ 548,521
Custody services	175,836	166,648
Network services	80,878	68,938
Other services	58,674	56,744
Interest income	87,720	76,479
Equity in net income of Omgeo LLC	33,255	29,798
Total revenues	1,054,792	947,128
Discounts and other refunds to participants	(219,043)	(251,889)
Net revenues	835,749	695,239
Expenses:		
Employee compensation and related benefits	405,316	373,540
Information technology	203,631	151,551
Professional and other services	95,320	91,137
Occupancy	68,793	60,372
Interest expense	22,010	21,302
Other general and administrative	16,256	17,683
Reimbursement from affiliates	(33,550)	(35,620)
Total expenses	777,776	679,965
Income before income taxes and minority interests	57,973	15,274
Provision for income taxes	23,223	3,164
Income before minority interests	34,750	12,110
Minority interests – preferred stock dividend	(675)	(563)
Net income	34,075	11,547
Other comprehensive (loss) income, net of tax:		
Minimum pension liability adjustment	(1,268)	(2,823)
DTCC's share of Omgeo LLC's net unrealized gain (loss) on derivative instruments	840	(1,059)
DTCC's share of Omgeo LLC's foreign currency translation adjustment	240	116
Other comprehensive net loss	(188)	(3,766)
Comprehensive income	\$ 33,887	\$ 7,781

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

Consolidated Statements of Cash Flows

For the Year Ended December 31,	2004	2003
(in thousands)		
Cash flows from operating activities:		
Net income	\$ 34,075	\$ 11,547
Adjustments to reconcile net income to net cash used in operating activities:		
DTCC's share of Omgeo LLC's earnings	(31,592)	(24,905)
Depreciation and amortization of fixed assets	53,705	52,522
Loss on fixed assets disposals	4,257	2,035
Net premium amortized on investments owned	809	1,769
Deferred income taxes (accrued) realized	(10,465)	9,601
Changes in operating assets and liabilities:		
Increase in accounts receivable	(49,002)	(5,806)
Increase in other assets	(13,167)	(29,796)
Increase in accounts payable and other liabilities	40,926	13,134
(Decrease) increase in payable to participants	(163,090)	14,850
Increase (decrease) in participants' fund cash deposits	65,024	(393,534)
Net cash used in operating activities	(68,520)	(348,583)
Cash flows from investing activities:		
Maturities of investments in marketable securities	112,000	107,000
Purchases of investments in marketable securities	(159,768)	(136,705)
Purchases of fixed assets	(88,265)	(46,968)
Distributions received from Omgeo LLC	36,250	30,000
Net cash used in investing activities	(99,783)	(46,673)
Cash flows from financing activities:		
Proceeds from sale-leaseback transaction	—	63,400
Proceeds from notes payable issuance	30,000	—
Principal payments on debt and capital lease obligations	(12,244)	(18,307)
Capitalized leases	22,411	3,662
Net cash provided by financing activities	40,167	48,755
Effect of foreign exchange rate changes on cash	240	116
Net decrease in cash and cash equivalents	(127,896)	(346,385)
Cash and cash equivalents, beginning of year	4,745,054	5,091,439
Cash and cash equivalents, end of year	\$4,617,158	\$4,745,054
Supplemental disclosures:		
Income taxes paid, net of refunds	\$ 26,355	\$ 5,862
Interest paid	\$ 23,283	\$ 19,608

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

Notes to Consolidated Financial Statements

December 31, 2004

1 Business and Ownership:

The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports six principal subsidiaries, The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), Emerging Markets Clearing Corporation (EMCC), DTCC Deriv/SERV LLC and Global Asset Solutions LLC. On December 31, 2002, the Securities and Exchange Commission (SEC) approved the merger of MBS Clearing Corporation (MBSCC) into Government Securities Clearing Corporation (GSCC) to form FICC, which commenced operations on January 1, 2003. FICC was formed to achieve greater efficiencies in the post-trade processing of fixed income securities. FICC consists of the Government Securities (GSD) and Mortgage-Backed Securities (MBSD) divisions.

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

DTC provides central securities depository and related services to members of the securities, banking and other financial industries. NSCC provides various services to members of the financial community, consisting principally of securities trade comparison, clearance, settlement and risk management services. FICC 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. EMCC provides automated trade comparison, settlement and risk management services for emerging markets debt to members of the securities industry. DTCC Deriv/SERV LLC provides an automated post-trade matching service for participants in the over-the-counter derivatives market. Global Asset Solutions LLC provides sophisticated technology services that help financial institutions manage the rapid growth, high risk and mounting costs of corporate action transactions. DTC, NSCC, FICC and EMCC are registered clearing agencies with the SEC. DTC is also a member of the Federal Reserve System and a limited-purpose trust company under New York State banking law. The members of DTCC's subsidiaries are collectively referred to as participants.

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

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

2 Summary of Significant Accounting Policies:

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

The carrying value of DTCC's investment in Omgeo included in other assets totaling \$33,353,000 and \$36,931,000 at December 31, 2004 and 2003, respectively, represents 50% of Omgeo's net worth adjusted for the difference in the book value of the assets contributed by the partners. DTCC's share of Omgeo's net income, adjusted for the impact of the amortization of the above difference, is included in revenue.

Omgeo's total revenue and net income in 2004 are \$225,098,000 and \$62,929,000, respectively. The comparable amounts in 2003 were \$207,323,000 and \$49,865,000, respectively. In addition, DTCC recognized its share of Omgeo's net unrealized gain (loss) on derivative instruments totaling \$840,000 in 2004 and (\$1,059,000) in 2003 included in other comprehensive net loss. 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.

At December 31, 2001, NSCC had ownership interests in GSCC, MBSCC and EMCC. Effective January 1, 2002, the shareholders of GSCC, MBSCC and EMCC exchanged their ownership interests in these respective corporations for common stock issued by DTCC. As a result of these exchanges, NSCC became a shareholder of DTCC, its parent, which for financial statement purposes was reflected as treasury stock, valued on a historical basis. In March 2004, DTCC repurchased its common shares from NSCC at the historical value and no gain or loss was recognized.

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. Independent custodians designated by the Companies take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$3,861,919,000 and \$4,414,937,000 at December 31, 2004 and 2003, respectively. At December 31, 2004, the counterparties to these agreements were five major financial institutions that are also participants.

Overnight investments made in commercial paper totaling \$24,630,000 and \$20,004,000 are also included in cash equivalents at December 31, 2004 and 2003, respectively. At December 31, 2004, 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.

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 are as follows:

(Dollars in thousands)	Carrying Value			Market Value		
	U.S. Treasury Securities	Corporate Notes	Total	U.S. Treasury Securities	Corporate Notes	Total
2004						
Due in one year or less	\$174,871	\$ —	\$174,871	\$174,426	\$ —	\$174,426
Due in one to two years	15,798	1,034	16,832	15,737	1,027	16,764
Total	\$190,669	\$1,034	\$191,703	\$190,163	\$1,027	\$191,190
2003						
Due in one year or less	\$111,693	\$1,013	\$112,706	\$111,707	\$1,020	\$112,727
Due in one to two years	32,038	—	32,038	32,077	—	32,077
Total	\$143,731	\$1,013	\$144,744	\$143,784	\$1,020	\$144,804

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

(Dollars in thousands)	2004	2003
Due from the Companies' participants for services	\$ 70,921	\$ 58,695
Cash dividends, interest and related receivables	97,572	78,629
Other	36,696	18,863
Total	\$205,189	\$156,187

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	\$182,927	\$171,320
Furniture and equipment	191,993	243,231
Software	125,555	106,090
Leased property under capital leases	19,802	7,072
Buildings and improvements	24,736	8,560
Land	2,600	700
Total cost	547,613	536,973
Less accumulated depreciation and amortization	338,060	357,723
Net book value	\$209,553	\$179,250

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

DTCC capitalized software developed for internal use or purchased totaling \$19,872,000 and \$18,860,000 in 2004 and 2003, respectively. The amortization of capitalized software costs was \$18,078,000 in 2004 and \$20,148,000 in 2003.

During 2004, fixed asset disposals resulted in a charge of \$4,257,000 and the removal of \$77,625,000 and \$73,368,000, respectively, from the related cost and accumulated depreciation and amortization accounts. The comparable amounts in 2003 were \$2,035,000, \$3,567,000 and \$1,532,000, 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 \$162,171,000 in 2004 and \$203,887,000 in 2003. DTC also has a policy to provide participants a monthly refund of net income earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such monthly refunds totaled \$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 reflected in payable to participants. At December 31, 2004 and 2003, short positions amounted to \$28,225,000 and \$18,665,000, respectively.

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

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

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

Reclassifications: Certain reclassifications of 2003 amounts have been made in the accompanying consolidated financial statements to conform to the 2004 presentation.

3 Participants' Funds:

The Companies' rules require most participants to maintain deposits related to their respective activities based on calculated requirements, which were \$10,605,837,000 and \$10,532,138,000, at December 31, 2004 and 2003, 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, 2004 and 2003, including \$4,711,245,000 and \$4,376,649,000, respectively, in excess of the calculated requirements follows:

(Dollars in thousands)	2004	2003
Cash	\$ 3,559,116	\$ 3,494,092
U.S. Treasury and Agency securities, at market	10,653,286	10,114,465
Letters of credit issued by authorized banks	1,104,680	1,300,230
Total	\$15,317,082	\$14,908,787

The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. Certain earnings on these investments are passed through to the applicable participants and are included in interest income and discounts and other refunds to participants. Such earnings totaled \$52,642,000 and \$45,585,000 in 2004 and 2003, respectively.

4 Transactions with Related Parties:

SIAC: Under the terms of an agreement with NSCC, the Securities Industry Automation Corporation (SIAC), an entity owned by the New York Stock Exchange, Inc. (NYSE) and the National Association of Securities Dealers, Inc. (NASD), provides computer facilities, personnel and services in support of the Companies' operations. NYSE and NASD are shareholders of DTCC. SIAC charges for these services based on its direct and overhead costs arising from providing such services. Charges under this agreement included in information technology expenses totaled \$51,314,000 in 2004 and \$57,334,000 in 2003. Beginning in 2004, NSCC and SIAC agreed to migrate certain systems applications to DTCC. The insourcing of these applications was completed by year-end. As a result, in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," an accrual of \$32,751,000 was recorded to recognize contractual obligations for real estate, severance pay, fixed asset abandonment, overhead and related expenses under the terms of the agreement. In addition, certain Voluntary Early Retirement Option costs totaling \$10,451,000 were incurred. These charges are also included in information technology expenses. At December 31, 2004 and 2003, amounts payable

to SIAC included in accounts payable and other liabilities were \$35,763,000 and \$745,000, respectively.

NYSE and NASD: NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 2004 and 2003, 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 \$33,173,000 in 2004 and \$35,082,000 in 2003 and are included in reimbursement from affiliates. Amounts receivable from Omgeo at December 31, 2004 and 2003 were \$2,847,000 and \$162,000, 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 \$377,000 in 2004 and \$538,000 in 2003 and are included in reimbursement from affiliates.

5 Payable to Participants:

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities, which it distributes to its participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed unless claimed by the owners of the securities. Cash dividends, interest, reorganization and redemption payables of \$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 in the consolidated financial statements.

Payable to participants also includes settlement accounts payable of \$264,203,000 at December 31, 2004 and \$203,441,000 at December 31, 2003, which primarily represent deposits received from NSCC participants to facilitate their compliance with customer protection rules of the SEC.

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. In 2003, DTCC established a 401(h) account to fund the retiree medical plans.

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

On December 31, 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 on a pre-tax basis offset by a deferred tax asset of \$661,000 resulting in a net charge of \$1,268,000 to other comprehensive loss thereby reducing shareholders' equity. The charge to shareholders' equity represents an amount not yet recognized as pension expense. The equivalent amounts for 2003 were \$4,225,000, \$1,402,000 and \$2,823,000, respectively.

The measurement date used for all plans was December 31, 2004.

The funded status and related components of the plans follow:

(Dollars in thousands)	Pension Benefits		Other Benefits	
	2004	2003	2004	2003
Benefit obligation at end of year:				
Qualified plan	\$443,779	\$392,311	\$ —	\$ —
Other plans	69,045	54,861	80,317	72,563
	512,824	447,172	80,317	72,563
Fair value of plan assets at end of year	340,925	280,967	3,800	2,311
Funded status	(\$171,899)	(\$166,205)	(\$76,517)	(\$70,252)
Net accrued benefit cost recognized at year-end	(\$ 25,899)	(\$ 31,932)	(\$49,549)	(\$42,959)
Amount recognized in the consolidated balance sheet consists of:				
Accrued benefit cost	(\$ 79,288)	(\$ 85,223)	(\$49,549)	(\$42,959)
Intangible asset	13,096	14,927	—	—
Accumulated other comprehensive loss	40,293	38,364	—	—
Net accrued benefit cost recognized at year-end	(\$ 25,899)	(\$ 31,932)	(\$49,549)	(\$42,959)
The accumulated benefit obligation for all defined benefit plans was \$420,212,799 at December 31, 2004.				
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Rate of compensation increase	4.25	4.25	—	—
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	6.00%	6.75%	6.00%	6.75%
Expected long-term rate of return on plan assets	8.50	8.50	8.50	8.50
Rate of compensation increase	4.25	4.25	—	—
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year			10.00%	11.00%
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			2010	2010

To develop the expected long-term rate of return on assets assumption, DTCC considered actual historical returns and the future expectations for returns in each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8.5% long-term rate of return on assets assumption. The actual historical rate of return achieved by these assets exceeded the 8.5% assumption.

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

The components of pension and other benefits expenses follow:

(Dollars in thousands)	Pension Benefits		Other Benefits	
	2004	2003	2004	2003
Net benefit cost	\$34,154	\$25,109	\$9,700	\$8,370
Additional loss recognized due to settlements	—	2,156	—	—
Total benefit cost	\$34,154	\$27,265	\$9,700	\$8,370
Employer contribution	\$35,600	\$35,600	\$3,199	\$3,645
Benefits paid, net of employee contributions	\$16,782	\$20,564	\$2,056	\$1,590

DTCC's actual pension plan weighted-average asset allocations at December 31, 2004 and 2003, by asset category are as follows:

	Plan assets at December 31,	
	2004	2003
Equity securities	63%	63%
Debt securities	37%	28%
Guaranteed investment contracts	—	9%
Total	100%	100%

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

DTCC expects to contribute \$20.0 million to its pension plan and \$2.9 million to its retiree medical plan during 2005.

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

(Dollars in thousands)	Pension	Other Benefits	
		Employer Benefit Payments	Medicare Subsidy Receipts
2005	\$ 15,757	\$ 2,810	\$ —
2006	22,500	3,059	44
2007	14,950	3,462	46
2008	21,586	3,731	46
2009	19,540	4,139	47
2010–2014	165,779	27,816	211

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, 2004 and 2003, consists of the following:

(Dollars in thousands)	2004	2003
Current income taxes (benefit):		
Federal	\$23,269	(\$2,611)
State and local	10,419	(3,826)
Deferred income taxes (benefit):		
Federal	(8,103)	7,291
State and local	(2,362)	2,310
Provision for income taxes	\$23,223	\$3,164

The 2004 effective tax rate is greater than the 35% federal statutory rate primarily due to state and local taxes, partially offset by permanent differences. The 2003 effective tax rate is lower than the 34% federal statutory rate primarily due to tax benefits related to net operating losses and permanent differences.

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 benefits	\$82,585	\$69,065
Rent	11,860	13,964
Depreciation and amortization	10,187	8,072
Lease abandonment costs	2,572	234
Capitalized software developed for internal use	(8,786)	(6,505)
Other	(3,775)	(1,313)
Net deferred income tax asset	\$94,643	\$83,517

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	62,400	62,400
Notes payable	57,100	34,800
Capital lease obligations	22,515	4,648
Total	\$347,317	\$307,150

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, DTC and NSCC entered into a sale-leaseback transaction covering certain assets aggregating \$63,400,000 with an initial payment at closing. This transaction was treated as a financing arrangement under generally accepted accounting principles and no gain or loss was recognized. Accordingly, DTC and NSCC will continue to depreciate the assets for accounting purposes using their normal depreciation policy. Payments under this arrangement are due in installments from 2004 to 2011. Payments over the next five years are \$8,065,000, \$8,065,000, \$8,365,000, \$9,562,000, and \$16,792,000, respectively. The implicit interest rate on the obligation is 4.6%.

Notes payable at December 31, 2004 include 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 borrowing totaled \$1,136,000 in 2004 and \$1,445,000 in 2003. Notes payable also include secured borrowings totaling \$13,600,000

from two insurance companies on September 15, 2002, 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, beginning in 2003. Interest expense related to these notes totaled \$664,000 in 2004 and \$743,000 in 2003. In addition, notes payable include unsecured borrowings totaling \$30,000,000 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 \$160,000 in 2004.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2004, future minimum payments including interest, which are due through 2009, totaled \$24,459,000. Payments over the next five years are \$6,587,000, \$6,060,000, \$5,823,000, \$3,740,000 and \$2,249,000, respectively.

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%.

At December 31, 2004, NSCC maintained a committed line of credit of \$2,050,000,000 with 16 major banks, that are primarily participants, to provide for potential liquidity needs. During 2004, there were no borrowings under this credit facility.

Further, a \$50,000,000 shared credit line between DTCC, DTC and NSCC is maintained to support potential short-term operating cash requirements. In June 2004, \$18,000,000 was borrowed 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. The Company was in compliance with the covenants under its credit facilities as of December 31, 2004 and 2003.

9 Shareholders' Equity:

(Dollars in thousands)	Preferred Stock		Common Stock	Paid in Capital	Retained Earnings		Treasury Stock	Accumulated Other Comprehensive Income (Loss)			Total Shareholders' Equity
	Series A	Series B			Appropriated	Unappropriated		Minimum Pension Liability Adjustment	DTCC's Share of Omgeo's Net Unrealized Gain (Loss) on Derivative Instruments	DTCC's Share of Omgeo's Foreign Currency Translation Adjustment	
Balance at December 31, 2002	\$300	\$300	\$2,366	\$11,649	\$ 69,819	\$72,234	(\$3,327)	(\$20,077)	\$ —	\$ 48	\$133,312
Net income 2003	—	—	—	—	3,111	8,436	—	—	—	—	11,547
Minimum pension liability adjustment (net of tax benefit of \$1,402)	—	—	—	—	—	—	—	(2,823)	—	—	(2,823)
DTCC's share of Omgeo's net unrealized loss on derivative instruments	—	—	—	—	—	—	—	—	(1,059)	—	(1,059)
DTCC's share of Omgeo's foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	116	116
Balance at December 31, 2003	300	300	2,366	11,649	72,930	80,670	(3,327)	(22,900)	(1,059)	164	141,093
Net income 2004	—	—	—	—	29,727	4,348	—	—	—	—	34,075
Minimum pension liability adjustment (net of tax benefit of \$661)	—	—	—	—	—	—	—	(1,268)	—	—	(1,268)
DTCC's share of Omgeo's net unrealized gain on derivative instruments	—	—	—	—	—	—	—	—	840	—	840
DTCC's share of Omgeo's foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	240	240
Balance at December 31, 2004	\$300	\$300	\$2,366	\$11,649	\$102,657	\$85,018	(\$3,327)	(\$24,168)	(\$ 219)	\$404	\$174,980

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.

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 midnight of the day they are reported to the membership as compared/recorded. The failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the responsible participants through the settlement process. At the close of business on December 31, 2004, open positions due to NSCC approximated \$4,346,655,000 (\$3,025,467,000 at December 31, 2003), and open positions due by NSCC to participants approximated \$3,328,295,000 (\$2,303,717,000 at December 31, 2003) for unsettled positions and \$1,018,360,000 (\$721,750,000 at December 31, 2003) for securities borrowed through NSCC's Stock Borrow Program. At December 31, 2004, NSCC has an obligation to complete pending transactions totaling \$44.0 billion.

The GSD's netting system interposes FICC between netting GSD participants for eligible trades that have been netted. The guarantee of net settlement positions by FICC results in potential liability to FICC. Guaranteed positions that have not yet settled are margined and marked-to-market daily. Margin deposits are held by FICC; marks are debited from and credited to the responsible participants through the funds-only settlement process. At December 31, 2004 the gross amount of guaranteed positions due from netting GSD participants to FICC, which are scheduled to settle on or before January 3, 2005 approximated \$489,288,853,000 and the amount scheduled to settle after January 3, 2005 approximated \$291,246,702,000. 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, 2003 were \$386,310,796,000 and \$254,562,621,000, respectively.

EMCC interposes itself between participants for eligible trades that have been guaranteed. The guarantee of the settlement positions by EMCC results in potential liability to EMCC. Guaranteed positions that have not yet settled are marked-to-market daily. Collateral received in respect of these marks is held by EMCC. In accordance with the processing requirements of Euroclear, EMCC pledges a portion of these deposits. At December 31, 2004, the market value of the deposits pledged totaled approximately \$6,793,000. At the close of business on December 31, 2004, guaranteed positions due to EMCC from participants and guaranteed positions due from EMCC to participants approximated \$549,118,000 (\$249,698,000 at December 31, 2003).

During 1995, a SIPC trustee was appointed to liquidate the business of Adler Coleman Clearing Corporation (ACCC), a former NSCC participant. NSCC and the SIPC trustee entered into an agreement in connection with the settlement of certain positions held by ACCC at NSCC whereby NSCC would be liable to the trustee under certain

conditions for amounts which management estimates could be up to \$17,000,000 plus interest. In October 2002, NSCC transferred proceeds of \$15,000,000 to the SIPC trustee to satisfy a written demand made by the trustee pursuant to the agreement. At December 31, 2004 and 2003, the remaining balance of the accrual for potential losses included in accounts payable and other liabilities is \$3,582,000.

The Companies lease 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 \$55,478,000 in 2004 and \$52,122,000 in 2003. At December 31, 2004, future minimum rental payments under all non-cancelable leases follow:

(Dollars in thousands)	Amount
2005	\$ 39,588
2006	36,356
2007	34,129
2008	26,352
2009	21,912
Thereafter	73,268
Total minimum rental payments	\$231,605

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

If a participant fails to fulfill its settlement obligations to NSCC, FICC and/or EMCC 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 EMCC have a multilateral netting contract and limited cross-guaranty agreement with DTC and OCC, under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a

common defaulting participant to the extent that they have excess resources of the defaulting participant. NSCC and OCC also have an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant's failure. Further, DTC and NSCC have a netting contract and limited cross-guaranty agreement which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized. Finally, if a deficiency still remains, NSCC, FICC and EMCC would then assess the balance of the deficiency in accordance with their rules.

As discussed in Note 1, NSCC, FICC and EMCC 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 connection with the acquisition of real estate (see Note 8), DTCC incurred certain relocation and severance expenses totaling \$13,909,000 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 \$6,852,000 was recorded to reflect the net cost

of surrendering the space, including the impairment in the carrying value of leasehold improvements.

13 Subsequent Event:

At EMCC's October 27, 2004 Board meeting, the Board authorized the dissolution of the Corporation and its deregistration as a clearing agency with an effective date of no later than March 31, 2005, subject to there being no bonafide offers by another organization to continue the business of EMCC. The decision became final on January 1, 2005, after no such offers were received.

On January 5, 2005 EMCC filed a rule change with the SEC to provide for the exiting of open fail positions prior to the deregistration of the Corporation. The rule filing provided that February 15, 2005 will be the last date on which EMCC will accept data on transactions to be processed through the Corporation. In addition, the proposed changes established February 23, 2005 as the final settlement date and that any trades that remain open as of that date will be exited by EMCC. Thereafter, EMCC will create deliver and receive instructions between the original buyers and sellers and these obligations must be settled outside EMCC.

In conjunction with the dissolution of EMCC, the shareholders of Class A and Class B common stock will receive their appropriate distributions. Further, EMCC anticipates that participants' clearing fund deposits will be returned by March 31, 2005. Any assets and liabilities that remain unsettled at the time of dissolution, which are not expected to be significant, will be assumed by DTCC.

Report of Independent Auditors

PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017



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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and cash flows present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and its subsidiaries at December 31, 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

March 16, 2005