

## Fixed Income Clearing Corporation

### Balance Sheets

(unaudited)

	September 30,	
	2006	2005
	(in thousands, except share data)	
<b>Assets</b>		
Cash and cash equivalents	\$955,850	\$546,901
Investments in marketable securities	12,952	40,768
Settlement receivable	--	70,418
Accounts receivable	5,676	8,608
Clearing fund	13,631,401	10,991,427
Fixed assets, less accumulated depreciation and amortization of \$49,780,000 and \$45,452,000 at September 30, 2006 and 2005, respectively	8,911	9,960
Other assets	5,732	2,582
<b>Total assets</b>	<b>\$14,620,522</b>	<b>\$11,670,664</b>
<b>Liabilities and Shareholder's Equity</b>		
Liabilities:		
Settlements payable	\$ --	\$70,418
Accounts payable and other liabilities	24,037	24,639
Payable to participants	17,015	18,810
Clearing fund:		
Cash deposits	898,069	515,370
Other deposits	13,631,401	10,991,427
<b>Total liabilities</b>	<b>14,570,522</b>	<b>11,620,664</b>
Contingent liabilities		
Shareholder's equity:		
Common stock		
Class A, \$.50 par value: 105,000 shares authorized, 20,400 shares issued and outstanding	10	10
Paid in capital	9,373	9,373
Retained earnings	40,617	40,617
<b>Total shareholder's equity</b>	<b>50,000</b>	<b>50,000</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$14,620,522</b>	<b>\$11,670,664</b>

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

**Fixed Income Clearing Corporation****Statements of Income and Retained Earnings**

(unaudited)

For the Nine Months Ended  
September 30,  
2006 2005  
(in thousands)

	2006	2005
<b>Revenues:</b>		
Revenues from services	\$99,365	\$122,104
Interest income	32,690	16,618
Total revenues	132,055	138,722
Discounts and other refunds to participants	(66,456)	(66,771)
<b>Net revenues</b>	<b>65,599</b>	<b>71,951</b>
<b>Expenses:</b>		
Employee compensation and related benefits	34,804	33,506
Information technology	5,040	15,060
Professional, clearance and other services	20,211	21,790
Occupancy	4,592	4,427
Other general and administrative	995	718
Reimbursement from affiliates	(43)	(3,550)
<b>Total expenses</b>	<b>65,599</b>	<b>71,951</b>
Income before income taxes	-	-
Provision for income taxes	-	-
<b>Net income</b>	<b>-</b>	<b>-</b>
Retained earnings, beginning of period	40,617	40,617
Retained earnings, end of period	\$40,617	\$40,617

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

**Fixed Income Clearing Corporation****Statements of Income and Retained Earnings**

(unaudited)

	For the Three Months Ended September 30,	
	2006	2005
	(in thousands)	
<b>Revenues:</b>		
Revenues from services	\$33,035	\$40,213
Interest income	12,992	5,702
<b>Total revenues</b>	<b>46,027</b>	<b>45,915</b>
Discounts and other refunds to participants	(24,076)	(22,281)
<b>Net revenues</b>	<b>21,951</b>	<b>23,634</b>
<b>Expenses:</b>		
Employee compensation and related benefits	11,040	11,336
Information technology	1,621	4,332
Professional, clearance and other services	6,977	7,655
Occupancy	1,975	1,066
Other general and administrative	352	89
Reimbursement from affiliates	(14)	(844)
<b>Total expenses</b>	<b>21,951</b>	<b>23,634</b>
Income before income taxes	-	-
Provision for income taxes	-	-
<b>Net income</b>	<b>-</b>	<b>-</b>
Retained earnings, beginning of period	40,617	40,617
Retained earnings, end of period	\$40,617	\$40,617

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

## Fixed Income Clearing Corporation

### Statements of Cash Flows

(unaudited)

For the Nine Months Ended

September 30,

2006

2005

(in thousands)

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Cash flows from operating activities:

Net income	\$ -	\$ -
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	2,759	5,408
Net discount accreted on securities owned	(178)	(169)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,860)	1,391
Decrease (increase) in other assets	248	(157)
(Decrease) increase in accounts payable and other liabilities	(8,629)	2,726
Increase in payable to participants	5,856	2,695
Increase in clearing fund cash deposits	251,119	153,349
<b>Net cash provided by operating activities</b>	<b>249,315</b>	<b>165,243</b>

Cash flows from investing activities:

Maturities of investments in marketable securities	37,000	40,000
Purchases of investments in marketable securities	(7,918)	(23,761)
Purchases of fixed assets	(3,280)	(1,019)
<b>Net cash provided by investing activities</b>	<b>25,802</b>	<b>15,220</b>
<b>Net increase in cash and cash equivalents</b>	<b>275,117</b>	<b>180,463</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>680,733</b>	<b>366,438</b>
<b>Cash and cash equivalents, end of period</b>	<b>955,850</b>	<b>546,901</b>
<b>Supplemental disclosure - income taxes paid</b>	<b>\$542</b>	<b>\$736</b>

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

## Fixed Income Clearing Corporation

Notes to Financial Statements (unaudited)

September 30, 2006

**Note 1-** Fixed Income Clearing Corporation (FICC) is a clearing agency registered with the U.S. Securities and Exchange Commission that provides various services to participants 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. The quarterly financial statements of FICC, which have been prepared in accordance with accounting principles generally accepted in the United States of America, should be read in conjunction with the annual financial statements as of December 31, 2005. FICC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC).

**Note 2-** FICC's rules require certain participants to maintain clearing fund deposits based on calculated requirements, which at September 30, 2006 totaled \$11,011,448,000. The clearing fund is available to secure participants' obligations and, in certain circumstances to satisfy other losses and liabilities of FICC, should they occur. All clearing fund cash and securities are recorded on the balance sheet. A summary of the total deposits held at September 30, 2006, including \$4,979,198,000 in excess of calculated requirements follows:

(Dollars in thousands)	GS Division	MBS Division	Total
Cash	\$166,048	\$732,021	\$898,069
U.S. Treasury and Agency securities, at market	10,771,244	2,860,157	13,631,401
Letters of credit issued by authorized banks	734,632	726,544	1,461,176
Total deposits	\$11,671,924	\$4,318,722	\$15,990,646

**Note 3-** All eligible employees of FICC participate in DTCC's trustee, noncontributory defined benefit pension plan. In addition, FICC participates in DTCC's nonqualified benefit plans which provide for certain benefits to eligible executives of FICC upon retirement. Further, FICC 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 September, 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. DTCC plans to adopt this standard as of December 31, 2006.

Based on September 30 estimates, the impact on FICC will be a charge of approximately \$10 million, assuming a discount rate of 5.73% and a return of 8% on the pension plan assets. The actual impact of this new standard will not be determined until December 31, when the year-end discount rate and the fair market value of the pension plan assets are finalized.

**Note 4-** The Securities Industry Automation Corporation (SIAC), an entity owned by the NYSE Group and the American Stock Exchange, had provided various computer services to FICC under the National Securities Clearing Corporation's agreement with SIAC. Beginning in 2005, FICC and SIAC agreed to the migration of systems applications to DTCC. The insourcing of these applications was completed on October 15, 2005.

In accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," FICC accrued \$4,866,000 in 2005 to recognize its estimated obligations for real estate, fixed asset abandonment, overhead and related expenses. During 2005, there was a net increase of \$525,000 in the accrual. During the first quarter of 2006, \$1,421,000 was paid. In July, FICC reached a final settlement with SIAC and paid \$3,916,000 to satisfy all remaining obligations related to the insourcing agreement. Accordingly, FICC reversed the remaining accrual balance of \$54,000 that was previously included in accounts payable and other liabilities.

**Note 5-** In connection with the relocation of 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. Accordingly, a provision of \$486,000 was recorded to reflect the net cost of surrendering the space, including the impairment in the carrying value of leasehold improvements.

