

Fixed Income Clearing Corporation

Financial Statements

For the years ended December 31, 2007 and 2006

Fixed Income Clearing Corporation
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For the years ended December 31, 2007 and 2006

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Report of Independent Auditors

To the Board of Directors and Shareholder of
The Fixed Income Clearing Corporation:

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of Fixed Income Clearing Corporation (the "Company") at December 31, 2007 and 2006, and the results of its operations and its 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 Parent changed the manner in which it accounts for its defined benefit pension and other postretirement plans in 2006.

PricewaterhouseCoopers LLP

February 15, 2008

Balance Sheets

(IN THOUSANDS, EXCEPT SHARE DATA)

December 31,	2007	2006
Assets		
Cash and cash equivalents	\$3,549,977	\$771,777
Investments in marketable securities	31,032	12,967
Accounts receivable	5,004	7,749
Clearing fund	17,188,979	13,948,169
Fixed assets, less accumulated depreciation and amortization of \$46,913 and \$50,784 at December 31, 2007 and 2006, respectively	16,894	9,900
Deferred income taxes, net	5,666	8,306
Other assets	337	1,232
Total assets	\$20,797,889	\$14,760,100
Liabilities and Shareholder's Equity		
Liabilities:		
Accounts payable and other liabilities	\$71,305	\$44,156
Payable to participants	28,520	11,687
Clearing fund:		
Cash deposits	3,459,085	706,088
Other deposits	17,188,979	13,948,169
Total liabilities	20,747,889	14,710,100
Commitments and contingent liabilities (Note 7)		
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
Total shareholder's equity	50,000	50,000
Total liabilities and shareholder's equity	\$20,797,889	\$14,760,100

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

Statements of Income and Retained Earnings

<i>(IN THOUSANDS)</i>		
For the Year Ended December 31,	2007	2006
Revenues:		
Revenue from services	\$158,026	\$133,329
Interest income	102,370	45,417
Total revenues	260,396	178,746
Discounts and other refunds to participants	(165,179)	(77,519)
Net revenues	95,217	101,227
Expenses:		
Employee compensation and related benefits	48,699	57,000
Information technology	8,739	7,200
Professional, clearance and other services	30,682	29,591
Occupancy	6,062	6,300
Other general and administrative	1,643	1,370
Total expenses	95,825	101,461
Loss before income taxes	(608)	(234)
Income tax benefit	(608)	(234)
Net income	-	-
Retained earnings, beginning of year	40,617	40,617
Retained earnings, end of year	\$40,617	\$40,617

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

Statements of Cash Flows

(IN THOUSANDS)

For the Year Ended December 31,

2007

2006

Cash flows from operating activities:		
Net income	\$ -	\$ -
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on fixed asset disposal	-	4
Depreciation and amortization of fixed assets	4,171	5,105
Net discount accreted on securities owned	(32)	(193)
Deferred income taxes	2,640	(3,894)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	2,745	(3,933)
Decrease in other assets	895	336
Increase in accounts payable and other liabilities	27,149	11,490
Increase in payable to participants	16,833	528
Increase in clearing fund cash deposits	2,752,997	59,138
Net cash provided by operating activities	2,807,398	68,581
Cash flows from investing activities:		
Maturities of investments in marketable securities	13,000	37,000
Purchases of investments in marketable securities	(31,033)	(7,918)
Purchases of fixed assets	(11,165)	(7,034)
Transfer of fixed assets to National Securities Clearing Corporation	-	415
Net cash (used in) provided by investing activities	(29,198)	22,463
Net increase in cash and cash equivalents	2,778,200	91,044
Cash and cash equivalents, beginning of year	771,777	680,733
Cash and cash equivalents, end of year	\$3,549,977	\$771,777
Supplemental disclosure - income taxes paid, net of refunds	\$542	\$2,507

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

Notes to Financial Statements

December 31, 2007 and 2006

NOTE 1 BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the government and mortgage-backed securities markets (participants), consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification.

FICC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). The other principal operating subsidiaries of DTCC are The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), DTCC Deriv/SERV LLC and DTCC Solutions LLC. FICC consists of the Government Securities (GSD) and Mortgage Backed Securities (MBSD) divisions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents: FICC invests funds in overnight reverse repurchase agreements, which are considered cash equivalents. Such agreements provide for FICC's delivery of cash in exchange for securities having a market value of at least 102% of the amount of the agreement. Custodians designated by FICC that are participants take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$3,547,076,000 and \$771,040,000 at December 31, 2007 and 2006, respectively. At December 31, 2007, four major financial institutions, that are also participants, were counterparties to these agreements.

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, 2007 and 2006, are as follows:

	Carrying value			Market Value		
	U.S. Treasury Securities	Corporate Notes	Total	U.S. Treasury Securities	Corporate Notes	Total
(Dollars in thousands)						
2007						
Due in one year or less	\$30,038	\$994	\$31,032	\$30,224	\$995	\$31,219
2006						
Due in one year or less	\$11,964	\$1,003	\$12,967	\$11,932	\$999	\$12,931

Discounts and other refunds to participants: FICC provides discounts on its billing to participants based upon the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as determined by its Board of Directors. Such discounts amounted to \$67,176,000 in 2007 and \$35,220,000 in 2006.

Notes to Financial Statements

December 31, 2007 and 2006

FICC invests available clearing fund cash deposits in overnight reverse repurchase agreements. The earnings on these investments are passed through to the applicable participants of FICC and are included in interest income and discounts and other refunds to participants. Such earnings totaled \$98,003,000 and \$42,299,000 in 2007 and 2006, 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.

Fixed Assets: These assets consist primarily of computer equipment and software which are principally being depreciated on a straight-line basis over three years.

FICC capitalized costs related to software that was developed for internal use or purchased totaling \$14,613,000 and \$6,673,000 in 2007 and 2006, respectively. The amortization of capitalized software costs was \$3,047,000 in 2007 and \$2,248,000 in 2006. The depreciation of other fixed assets was \$1,124,000 in 2007 and \$2,857,000 in 2006.

In 2007, FICC did not transfer any equipment to any of its affiliated companies. In 2006, FICC transferred certain computer equipment with a net book value totaling \$415,000 to NSCC, resulting in the removal of \$1,754,000 and \$1,339,000, respectively, from the related cost and accumulated depreciation and amortization accounts.

During 2007, FICC had no fixed asset disposals compared to a charge of \$4,000 in 2006.

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 which are short-term in nature approximates current market value.

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 CLEARING FUND

FICC's rules require its participants to maintain clearing fund deposits based on calculated requirements, which were \$15,567,868,000 and \$11,617,328,000 at December 31, 2007 and 2006, respectively. 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 December 31, 2007 and 2006, including \$5,279,196,000 and \$3,897,031,000, respectively, in excess of calculated requirements follows:

Notes to Financial Statements

December 31, 2007 and 2006

(Dollars in thousands)	2007	2006
Cash	\$3,459,085	\$706,088
U.S. Treasury and Agency securities, at market	17,188,979	13,948,169
Letters of credit issued by authorized banks	199,000	860,102
Total	\$20,847,064	\$15,514,359

NOTE 4 TRANSACTIONS WITH RELATED PARTIES

NSCC: FICC had an agreement with NSCC whereby NSCC provided credit and quantitative risk services to FICC. Effective October 1, 2006, this agreement was terminated and DTCC began providing these services under its service agreement with FICC. The net charges from NSCC under this agreement in 2006 were \$747,000. Further, FICC has an agreement with NSCC whereby FICC provides real-time trade matching services to NSCC. At December 31, 2007 and 2006, no amounts were due to NSCC.

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, accruals for normal services increased the balance to \$5,391,000. 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, the remaining accrual balance of \$54,000 was reversed and was included as a reduction of information technology expenses in 2006.

DTCC: FICC has an agreement with DTCC whereby DTCC disburses substantially all funds required to sustain the operations of FICC. The related expenses are allocated to FICC based upon FICC's use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for FICC including administrative, internal audit, finance and legal services. In 2007, the billing for these services was determined as 102% of total allocated expenses excluding pass through charges and the impact of capitalized software. The billing for these services in 2006 was at 110% of the cost of the services. The fee representing the amount over actual cost included in professional, clearance and other services expense was \$1,623,000 in 2007 and \$1,557,000 in 2006. At December 31, 2007 and 2006, amounts payable to DTCC included in accounts payable and other liabilities were \$67,630,000 and \$36,347,000, respectively.

Omgeo LLC: 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 FICC included in reimbursement from affiliates were \$3,000 in 2007 and \$57,000 in 2006.

FICC is contingently liable for a portion of NSCC's office lease, which expires on December 31, 2012. At December 31, 2007, the contingent commitment of FICC for the remaining lease term was approximately \$4,753,000.

Notes to Financial Statements

December 31, 2007 and 2006

NOTE 5 INCOME TAXES

FICC is included in DTCC's consolidated Federal, combined New York State and New York City, and unitary California and Illinois income tax returns. A separate company Florida return is filed. The income tax benefit calculated on a separate company basis for the years ended December 31, 2007 and 2006, consists of the following:

(Dollars in thousands)	2007	2006
Current income taxes:		
Federal	(\$2,050)	\$2,822
State and local	(1,198)	838
Deferred income tax benefit:		
Federal	1,965	(3,074)
State and local	675	(820)
Income Tax benefit	(\$608)	(\$234)

The 2007 benefit is primarily due to the pre-tax loss increased by the reversal of deferred tax assets, primarily from book capitalized costs currently deductible on the tax return.

The major temporary differences that gave rise to the deferred tax assets (liabilities) at December 31, 2007 and 2006 are as follows:

(Dollars in thousands)	2007	2006
Employee benefit related	\$11,125	\$9,489
Depreciation and amortization	358	643
Capitalization of software developed for internal use	(5,838)	(2,526)
Other	21	700
Net deferred income tax asset	\$5,666	\$8,306

On November 7, 2007, the Financial Accounting Standards Board voted to defer the effective date of Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," for all non-public companies for the periods beginning after December 15, 2007. This decision was confirmed with the issuance of FASB Staff Position No. Fin 48-2 on February 1, 2008. FIN 48 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. The impact of applying this interpretation beginning in 2008 is not expected to have a material effect on the financial position of the company.

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

All eligible employees of FICC participate in DTCC's trustee, noncontributory defined benefit pension plan. In addition, FICC participates in DTCC's noncontributory supplemental executive retirement and benefit restoration 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 healthcare program which provides benefits to eligible retired employees. DTCC's costs for these plans aggregated \$52,397,000 in 2007 and \$54,418,000 in 2006.

In accordance with Financial Accounting Standards Board Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," DTCC recorded a credit of \$45,613,000 on a pre-tax basis offset by a deferred tax reversal of \$18,547,000 resulting in a net credit of \$27,066,000 to the accumulated other comprehensive loss account to report the funded status of the defined benefit pension and other postretirement benefit plans, thereby increasing shareholders' equity in 2007. The reduction in the obligation was primarily the result of an increase in the interest rate used to discount the projected benefit obligation to its present settlement amount. The remaining net charged in shareholders' equity represents an amount not yet recognized as pension expense.

The impact of DTCC adopting this standard in 2006 was 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 the accumulated other comprehensive loss account, thereby reducing shareholders' equity. In addition, a credit of \$24,400,000 was recorded 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 the accumulated other comprehensive loss account to reflect a net reduction in the additional minimum pension liability, thereby increasing shareholders' equity, due to 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.

FICC's share of the periodic charges and accumulated other comprehensive credit was a charge of \$5,392,000 in 2007. Such amount is included in employee compensation and related benefits. The equivalent amount for 2006 was a charge of \$15,462,000. Charges are based primarily upon the proportion of FICC's salary costs to aggregate salary costs for DTCC and its subsidiaries and credits are determined on a first-in-first-out basis.

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 COMMITMENTS AND CONTINGENT LIABILITIES

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, 2007, the gross amount of guaranteed positions due from netting GSD participants to FICC, which are scheduled to settle on or before January 2, 2008, approximated \$520,766,232,000 and the amount scheduled to settle after January 2, 2008 approximated \$255,034,843,000.

There is an equal amount due from FICC to certain other GSD participants after consideration of deliveries pending to FICC.

FICC 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 FICC's financial position

NOTE 8 OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

In the normal course of business, because it guarantees certain settlement obligations of its netting participants (see Note 7), FICC is exposed to credit risk. FICC mitigates its exposure to credit risk by requiring such participants to meet minimum financial standards for membership, verifying their compliance with financial and other standards, monitoring their financial status and trading activity, requiring participants to meet daily mark-to-market obligations, and requiring participants to provide clearing fund deposits (see Note 3) in the form of cash, and U.S. Treasury and Agency securities. FICC has reserved the right to require eligible letters of credit to be posted as Clearing Fund collateral where it deems it necessary to protect itself and its members from the risk presented by a particular member's insolvency regime.

If a participant fails to fulfill its settlement obligations to FICC and FICC determines that such participant is insolvent, FICC would liquidate that participant's outstanding netted security positions and apply the failed participant's margin and mark-to-market deposits, including clearing fund deposits, to satisfy any outstanding obligation and/or loss. FICC has entered into a multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and the Options Clearing Corporation 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. In addition, FICC has entered into a cross-margining agreement with the Chicago Mercantile Exchange (CME) under which FICC and CME would apply available amounts to each other under specified circumstances.

In the event that a deficiency still exists, FICC would satisfy the deficiency by assessing the participants with whom the defaulting participant most recently conducted trading activity, subject to various priorities and limitations as defined in FICC's Rules. If one or more of such participants does not pay its assessment, FICC would satisfy such deficiency by utilizing 25% of its retained earnings, or such greater amount of retained earnings to be determined by the Board of Directors. Thereafter, if necessary, each remaining participant would be assessed on an equal basis up to \$50,000. Finally, if a deficiency still remains, FICC would assess all remaining participants on a pro-rata basis based upon their average daily level of required clearing fund deposits over the prior year; however, any such remaining participant may limit its additional liability to the amount of its required clearing fund deposit by terminating its membership in FICC. Further, certain inter-dealer brokers have an absolute cap of \$5,000,000 on losses associated with each insolvency.

As discussed in Note 1, FICC provides automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification services to participants in the government securities, mortgage-backed securities and financing marketplaces for brokers, dealers, banks and other market participants. As such, FICC has a significant group concentration of credit risk since its participants may be impacted by economic conditions affecting the securities industry. As described above, such risk is mitigated in a number of ways.

NOTE 9 OTHER MATTERS

In 2006, 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 \$278,000 was recorded to reflect the net cost of surrendering the space, including the impairment in the carrying value of leasehold improvements. In 2007, there was no similar provision. In addition, FICC incurred certain relocation and severance expenses totaling \$237,000 that are included in employee compensation and related benefits. In 2006, there was a similar provision of \$884,000.