Making a difference

The Depository Trust & Clearing Corporation

Annual Report 2009

Our purpose is to help grow the world economy by furthering the development of low-cost, efficient capital.

Our mission is, by 2010, to be the acknowledged world-class provider of servicing solutions to financial markets through leadership, innovation, technology, risk management and strategic alliances.

Our values provide the moral compass by which we operate, binding us together and underscoring our approach to business for all DTCC employees. They include integrity and trust, quality and excellence, customer focus, employee focus and respect, innovation and teamwork.

Introduction

Nothing is as powerful as the dedicated commitment at DTCC to one universally shared value—making a difference.

It is a common thread across a 36-year history of bringing greater efficiency, certainty, safety and soundness to financial markets—and reducing costs for our customers.

It also underscores our relentless drive during this period of industry transformation and re-regulation to work closely with our Board—and our customers—to mitigate risk across diverse customer segments and asset classes.

We recognize the unique opportunity DTCC has to work with regulators globally on systemic risk issues, based on our ability to see risk from a central vantage point. And as markets become more global, we're extending our capabilities to serve a growing number of customers overseas.

At DTCC, we don't aim to hit the mark, we aim above the mark. Our employees take pride and are energized by their ability to shape outcomes—whether managing through a crisis to protect customers or facilitating the growth our customers are striving to achieve.

Making a difference—it's what we do.

In 2009, during an extremely challenging time for the global financial community, DTCC's performance continued to deliver the certainty, leadership and value that are hallmarks of our long-standing service to the industry.

Even as the aftershocks of the events of 2008 reverberated throughout the global markets, DTCC continued to meet the industry's need for reliable, seamless securities processing, successfully settling $1.48 quadrillion in securities transactions. And we continued to bolster the strength and capabilities of the market's infrastructure, reinforcing and enhancing our risk management oversight and extending our offerings to new asset classes and client segments.

As the industry navigates through this period of transformation, DTCC remains determined to make a difference by working closely with our customers to help them stay ahead of the curve on issues such as intensifying regulatory requirements, the increasingly complex nature of risk, pressures on margins and accelerating global competition. Instead of reacting to events, DTCC is stepping up to help shape the industry's changing landscape, working with customers and regulators to tackle issues of transparency and systemic risk that are at the forefront of discussions about global financial reform.

Taking the Lead on Risk and Responses to Regulation

Over the past year, DTCC continued to succeed in managing the risks in the clearing corporations and settlement systems that serve the industry, maintaining our strong record for preventing losses to the company or our customers. At the same time, we implemented a series of initiatives to further strengthen our risk management infrastructure based on the evolving needs of our customers and a comprehensive analysis of lessons learned from the market turmoil of the past two years.

In 2009, we undertook an extensive examination of our entire risk management methodology to further strengthen our ability to provide effective and efficient risk mitigation for our members. These improvements included creating and implementing a turnkey liquidation methodology, which dramatically reduces our liquidation cycle time by two-thirds; deepening the structure of our standby liquidity support for settlement in our depository and the clearing corporations; initiating a redefined treatment of "illiquid" securities and positions us to properly adjust our clearing fund requirements for

positions that are more difficult to liquidate; and developing a portfolio margining approach for our fixed income subsidiary, Fixed Income Clearing Corporation (FICC), among other initiatives.

Because market turbulence has underscored the interconnections and interdependence of trading markets worldwide, DTCC is working with the industry, regulators and legislators to address systemic risk and transparency issues in the U.S. and overseas. In 2009, we took the unprecedented step to create the new position of Chief Systemic Risk Officer, focusing internally at DTCC to identify and assess the systemic risk implications for all existing and new products, activities, processes and systems, and, externally, to liaise with regulators globally on systemic risk issues.

We also actively participated in the broad policy debate taking place in the U.S. and Europe on financial services reform. Our goal is to educate decision-makers about the value of DTCC's infrastructure and its potential to help address regulatory issues driving financial reform efforts, with a particular focus on over-the-counter (OTC) derivatives. Over the past year, DTCC executives testified twice on these issues before the U.S. Congress, our expertise was sought by relevant Congressional committees drafting legislation and we submitted position papers on these issues to the European Commission and the Committee of European Securities Regulators.

Building on Our Core Capabilities

DTCC seamlessly settles more than a quadrillion dollars worth of securities transactions each year, across asset classes, including equities, fixed income, OTC derivatives, money market instruments, mutual funds and insurance products. Our intense focus on systems reliability ensures our ability to handle these volumes every trading day of the year. In 2009, we achieved near-perfect systems performance, posting 100% uptime for mainframe processing and 99.99% for Web availability.

We are keenly aware that our most valued asset is DTCC's reputation as a trusted provider—a reputation built on our core business and our ability to mitigate risk; reduce costs; create efficiencies; provide safety, soundness and reliability; maintain the highest standards for quality and excellence; and place our customers at the center of all we do. This heritage is where our competitive edge lies as we explore new opportunities to strengthen the industry by developing new products and enhancing existing ones.

Donald F. Donahue, *Chairman and Chief Executive Officer*

Partnering to Bring Innovation and Added Risk Benefits DTCC's commitment to deliver value and innovative solutions and reduce risk to the industry includes forging strategic partnerships, and 2009 saw two examples of this approach.

We announced a joint venture with NYSE Euronext to create New York Portfolio Clearing (NYPC) for U.S. fixed income derivatives. This new company will bring significant benefits to the fixed income industry and expand DTCC's reach to a new asset class: futures. It is scheduled to go live this year, subject to regulatory approval.

NYPC will break new ground by giving firms the opportunity to margin their U.S. government securities cash positions with their natural offsets in futures markets trades, using a single pool of collateral. This capability will strengthen the industry's risk management while more accurately calibrating firms' margin outlays. It will also increase transparency and mitigate systemic risk by allowing the industry and regulators to view portfolio risks across multiple markets simultaneously.

In addition, we closed a deal with Markit, a global information services company, to create MarkitSERV, a new company that combines the capabilities of our respective firms to help accelerate the adoption of electronic trade confirmation and reduce risk in the OTC derivatives markets. This jointly owned company allows market participants to confirm trades, while providing access to other services offered by the parent companies through a common portal.

Larry E. Thompson, DTCC General Counsel, testifying before a subcommittee of the House Financial Services Committee on "Improvements to Regulation of OTC Derivatives Market."

Additionally, we serve institutional investors across the globe through Omgeo, DTCC's joint venture with Thomson Reuters, which automates post-trade processing for this investor segment. Omgeo serves 6,000 customers representing more than 2,400 financial institutions in 46 countries.

Bringing Greater Transparency to the OTC Derivatives Market During 2009, we moved forward with the creation of another new DTCC subsidiary, The Warehouse Trust Company LLC (approved as a Federal Reserve System member in February 2010). Warehouse Trust will operate the Trade Information Warehouse as a U.S.-regulated trust company, reinforcing DTCC's commitment to embrace and support regulatory oversight in the global OTC credit derivatives market.

The Warehouse is a global repository that records the details of OTC credit default swap (CDS) trades. At the end of 2009, it served as the central repository for data on more than 2.2 million contracts, with a notional value of more than $25.1 trillion. During the year, the Warehouse also processed 50 credit events, including General Motors, on behalf of its users, helping ensure orderly payouts worth billions of dollars to investors in these contracts.

The Warehouse provides customers and regulators a level of transparency from a central vantage point to assess and manage risk across the global CDS market. This includes the weekly publishing on our Web site (www.dtcc.com) of extensive data on contracts stored in the Warehouse. In 2009, we expanded the data posted to further demystify risks in this market.

We also won two mandates from the International Swaps and Derivatives Association, via request-for-proposal processes, that will further extend our role in the OTC derivatives market. The first project entails creating a new global trade repository for OTC equity derivatives. This initiative will enable major players in the industry to meet a commitment made to regulators to have their OTC equity derivatives in a repository by July 31, 2010. The second project is the creation of a cash-flow matching service for OTC equity derivatives, which will reduce risk and settlement costs.

processed in excess of $1.48 quadrillion

DTCC strongly supports the value central counterparties (CCPs) can offer in the OTC derivatives market. But CCPs cannot encompass the entire market and we recognize that public corporations and other market participants will require, in limited circumstances, the flexibility that more tailored OTC derivative contracts can provide. For this reason DTCC has also consistently supported a single trade repository per asset class of derivatives, where the underlying position data on both cleared and non-cleared derivatives trades can be maintained and made accessible to the markets and regulators. From our experience helping to calm the CDS market following the Lehman crisis, through disclosure of trading information, we believe the greatest threat to managing systemic risk would be having trade data fragmented among multiple CCPs and multiple trade repositories. Our position on trade repositories ensures that the markets and their regulators would have immediate access to see the total exposure of trading parties globally. Nothing, in our view, is more critical than that.

Supporting Customers' Needs for Global Capabilities DTCC continues to press ahead with providing services our customers need, as they look to operate globally—with the reliability and low cost they've come to expect from us.

For EuroCCP, our European subsidiary, 2009 was a year of success as our "at-cost" utility model continued to help drive down the cost of clearing in the European markets. In a highly competitive environment for equities clearing and settlement, EuroCCP has established itself as a quick-to-market, customer-focused central counterparty through its fee restructuring, service extensions, geographic expansion and thought leadership. The company rolled out a tiered fee structure in October, setting a new clearing price benchmark for European equity trades. As a result, DTCC now delivers the low prices traditionally enjoyed by U.S. customers to high-volume European trading firms.

Although the implementation of interoperability between European clearing houses stalled in 2009, the industry is evaluating ways to reduce the risks these inter-CCP links may introduce. EuroCCP is contributing constructive proposals to this discussion with the hope of finalizing interoperability arrangements in 2010.

Another example of DTCC responding to the demands of a global marketplace is our service supporting syndicated loans, a market with increasingly complex operational risks and growing volumes. Our Loan/SERV offering is helping transform this highly manual and error-prone processing environment with automation and standardization.

The Loan/SERV offering includes a Contract Reconciliation Service, which enables agents and lenders to reconcile their loan positions on a daily basis with highly detailed information, and a Messaging Service, which provides a secure, automated network for transmitting standardized loan messages.

Our Global Corporate Actions Validation Service scrubs corporate announcement data from 118 countries and territories, giving customers high-quality information in a timely manner. In 2009, we enhanced the service by adding new data streams and connectivity options, including support for data transmissions over the SWIFT network.

We have also taken a lead role to improve transparency and reduce risk and cost in corporate actions processing. Working with XBRL US and SWIFT, we have set a goal to leverage a proven technology tool, XBRL (eXtensible Business Reporting Language), to develop standards that will improve communication between issuers and investors for corporate action announcements. We were pleased the effort of our XBRL team was recognized by UK-based *financial-i* magazine as its 2009 Most Innovative Solution Provider for corporate actions processing.

To mark DTCC's 10th anniversary of service to the industry, DTCC senior executives and Board members were invited to ring the closing bell at the New York Stock Exchange on November 19, 2009.

As our customers have expanded their trading activities globally, they've sought to have us extend the safety of our clearing corporations and reliability of our services to their counterparties. In 2009, FICC's Government Securities Division obtained regulatory approval to extend membership to include direct participation by non-U.S. broker/dealers and banks. In a second regulatory rule filing, now pending, FICC would extend membership to buyside firms, including investment companies, hedge funds and other investment managers.

Financial Management During a period of resource constraints across the industry, DTCC again exercised tight internal budgetary controls in 2009. Despite overall volume declines, we maintained our competitive pricing structure by reducing our expenses below the original budget. We also completed the successful negotiation of a 20-year lease for a portion of our post-2012 Northeast office space in New Jersey, which will lock in significant savings and favorably impact our long-term cost structure; DTCC's headquarters will remain in lower Manhattan. Once again, our DTC and NSCC subsidiaries received Standard & Poor's highest credit rating for the ninth consecutive year and FICC received this rating for the sixth consecutive year. These ratings underscore for customers and regulators the certainty, safety and soundness we provide the marketplace.

Our Anniversary, Our Board, Our Employees Last year marked a milestone for our organization. We celebrated the 10th anniversary of DTCC's creation and had the honor of ringing the New York Stock Exchange's closing bell to commemorate this event.

A decade's perspective highlights the magnitude of the change that has swept our industry. Ten years ago, it was impossible to anticipate the breadth and pace of transformation in financial services, the volatility, the exponential growth of volumes, the proliferation of trading platforms, the expansion of new asset classes, the business continuity requirements and the new types of risk. These and other factors put tremendous demands on the infrastructure, and it is a source of pride to our employees and our Board of Directors that DTCC has risen, without fail, to meet the perpetual challenges and opportunities confronting our industry.

Each year we look to our Board of Directors for invaluable counsel and collective insight about our business. I want to thank our Directors for their contributions and strong support in 2009, as DTCC navigated the industry's continuing transformation. In particular, I must express my deep appreciation to Gerald A. Beeson (Senior Managing Director and Chief Operating Officer of Citadel Investment Group, LLC in Chicago), Norman Eaker (Chief Administrative Officer of Edward Jones in St. Louis) and Timothy J. Theriault (President, Corporate & Institutional Services of The Northern Trust Company in Chicago), who have now retired from the DTCC Board, for all of the many ways they've helped ensure DTCC's continued excellence. Heartfelt thanks to each of them.

I also want to recognize the immeasurable contributions of three members of DTCC senior management who are retiring in 2010: Tom Costa, Vince Hilly and Alan Hutton.

Tom Costa is well-known and highly regarded across the industry for his sharp intellect, innovative thinking and tenacity. He helped conceptualize and launch the Government Securities Clearing Corporation (GSCC) in 1986, and also spearheaded successive groundbreaking initiatives, including the general collateral finance repo and the Real Time Trade Matching systems. In addition, he oversaw the creation of FICC in 2002, which brought together GSCC and the Mortgage-Backed Securities Clearing Corporation.

Vince Hilly has served quietly but very effectively behind the scenes over his distinguished 28-year career, most recently as DTCC's Chief Technology Officer and a Management Committee member. Vince was the principal architect of several of DTCC's core processing systems, and DTCC has come to rely on Vince's vast technical knowledge and valued counsel in expanding and protecting the stability, cost-effective performance and resilience of DTCC's IT infrastructure organization.

Alan Hutton must also be applauded for his more than 44 years of service to our industry and DTCC, most recently capping his distinguished career as the senior officer in charge of our newly created Southern Business Center in 2004. Alan played a key leadership role in DTCC's growth and transformation and his knowledge of our business and the intricacies of how it operates will be difficult to replace.

We thank Tom, Vince and Alan for their many contributions, and wish them all the best in their retirement.

Finally, I want to thank our employees for making 2009 another successful year. Their hard work, responsiveness and resourcefulness underscore what is truly unique about DTCC, and reflect the shared values and common purpose to which our staff is all committed.

In closing, we trust that with the foresight of our Board and dedication of our employees, DTCC will continue in the second decade of our service to the industry not only to meet, but to exceed your expectations.

Donald F. Donahue
Chairman and Chief Executive Officer

Corporate Governance

Given DTCC's expanding role in financial services, in 2009 our Board of Directors and senior management team undertook an extensive review of how DTCC governs itself, resulting in a series of recommendations that will strongly reinforce our governance mechanisms. As these recommendations are implemented in the coming months, they will result in significant improvements in Board oversight, with particular attention to our broadened risk-management responsibilities.

The changes will bring a more holistic approach to DTCC's oversight of its business, covering matters such as how we evaluate and approve new initiatives, and how we manage a growing portfolio of businesses that are independent of each other, while leveraging a common infrastructure.

We will also place greater emphasis on educating customers. We will be giving firms ample information to assess both the risks and benefits involved in interacting with DTCC, and ensure they understand the residual risk issues inherent in using the industry infrastructure to clear and settle trades, and handle other financial activities.

"From my perspective, DTCC is a hugely valuable organization, as it provides services that greatly improve the way we do our job. I like working with DTCC because it helps us further reduce risk and increase the kind of capacity that we have for all of our post-trade services that we need to fulfill at UBS without having to invest in it solely ourselves. It provides us with a seat at the table that allows us to work with our peers to help the industry overall."

Michele Trogni, *Member, DTCC Board of Directors*

Performance Highlights

Value of transactions settled by DTCC – $1.48 quadrillion

$209.7 trillion – Value of NSCC equity, bond and ETF transactions processed

Value of electronic book-entry deliveries $121.8 trillion

$33.9 trillion – Value of securities held in custody

Value of mutual fund transactions processed $2.4 trillion

$94.8 trillion – Value of MBS trades compared (par value)

Notional value of credit derivatives contracts in the Trade Information Warehouse $25.1 trillion

$905.1 trillion – Value of U.S. government transactions processed

Value of foreign issues on deposit $6.6 trillion

$2.95 trillion – Total cash dividend interest redemption and reorganization payments

Total value of underwriting processed $2.4 trillion

$94.6 trillion – Total value of money market instruments settled at DTC

As the financial industry began to emerge from the worst recession since the 1930s, DTCC focused its attention on strengthening its risk management processes and systems and to transfer more industry counterparty risks to itself.

DTCC's subsidiaries effectively managed the major bankruptcy of Lehman Brothers in 2008, and DTCC's exposure to $500 billion in pending trades. Although no DTCC subsidiary member firm failed in 2009, a number of smaller risk situations arose that were resolved without triggering a formal "cease to act" notice.

Transferring counterparty risk from individual firms to DTCC, and managing that counterparty risk from a central vantage point, is at the heart of DTCC's mission. By assuming the counterparty risk of its customers, DTCC substantially reduces one of the key systemic risk factors that the industry would otherwise face, especially when dealing with the failure of large, interconnected financial firms.

Decisive Steps DTCC has taken decisive steps to keep its risk management infrastructure in step with product innovation, while positioning itself to help the industry address re-regulatory pressures in the U.S. and overseas in the most cost-effective way possible.

Following the collapse of Lehman Brothers and the financial fallout of 2008, DTCC's Enterprise Risk Management Group undertook an extensive, self-directed examination of its entire risk-based margining methodology, working with external consultants and industry experts.

As a result, DTCC completed a comprehensive, year-long initiative to build, test and implement a turnkey liquidation methodology with the organization's investment advisor, which should reduce by two-thirds the time to liquidate a defaulting member firm's portfolio of pending trades. That effort also resulted in redefining "illiquid" securities and positions to better identify those instruments and their associated risks, since they increase risk for DTCC's subsidiaries in a liquidation. A proposal for adjusting the National Securities Clearing Corporation's (NSCC) and the Fixed Income Clearing Corporation's (FICC) clearing fund requirements for illiquid and concentrated positions under the revised definition is currently being finalized.

Accelerated Trade Guarantee To further insulate the industry from counterparty risk and eliminate any uncertainty that might exist about whether or not an equity trade will be completed on its original terms in the event of a member default, DTCC

Top: L to R: Karen Duffy, *Systems Director, Applications Development and Maintenance,* Lois Radisch, *Managing Director & Senior Counsel, General Counsel's Office,* Patrick Mapp, *Director, Corporate & Regulatory Compliance*

Bottom: Nan Noonan, *Managing Director, Chief Systemic Risk Officer,* Mario Rivera, *Systems Director, Risk Management Systems*

is also moving, pending the Securities and Exchange Commission (SEC) approval, to accelerate NSCC's trade guarantee for equities, corporate and municipal bonds trades from midnight of T+1 to the point of trade validation on trade date (T). As part of that effort, DTCC completed modeling and reporting enhancements needed to support the change. In 2010, DTCC will begin implementing intra-day risk monitoring systems for NSCC, FICC and the upcoming New York Portfolio Clearing (NYPC) futures clearing corporation. Such monitoring will allow DTCC to receive state-of-the-art, intra-day reports on changes in risk exposure, which can then be flagged for possible action. DTCC is also reviewing its credit risk rating matrix system, which is used to rate firms and their risks, in order to develop more innovative ways of using that information to identify new risk trends emerging in the marketplace.

DTCC also continued to move ahead with the implementation of a central counterparty for mortgage-backed securities, which should take place in the first half of 2010, pending regulatory approval. In the last quarter of 2009, FICC began testing the central counterparty procedures with member firms while it continued discussions with regulators on appropriate risk controls and liquidity for safe operation of FICC in light of the new "extreme but plausible" standard.

Increased Liquidity In addition, DTCC re-evaluated its liquidity resources to insure its subsidiaries could withstand the failure of the single largest family of members within a single company. Previously, DTCC held enough liquidity to handle the failure of the largest member.

The move followed a similar change in early 2009 that set new limits for The Depository Trust Company's (DTC's) net debit cap for a family of members associated with a single company, rather than simply a single legal entity.

Strengthening Risk Oversight During 2009, DTCC's Board also adopted changes to enhance its oversight of risk issues, and endorsed DTCC's creation of a new position, a Chief Systemic Risk Officer, to oversee the management of the systemic risk framework for DTCC and its subsidiaries. The new position was filled in October by Anne (Nan) Noonan, who is responsible for ensuring that DTCC can readily identify and assess the systemic risk implications for all existing and new DTCC products, activities, processes and systems. Noonan is also working with regulators, since the impacts on and threats to systemic stability arise from

“DTCC brings together, at the Board level and through advisory committees, people from across the industry who are working toward a common purpose. Sharing in a collective enterprise, especially in times like these, has tremendous value. I think the Board will continue to be very involved in the listening process, both with regulators and with users, helping the management of the organization to chart DTCC in the direction where we all would want it to go in order to be able to continue solving common problems. I believe we’re going to see the dividends from this type of collaboration going forward, even more so than we have in the past.”

David A. Weisbrod, *Member, DTCC Board of Directors*

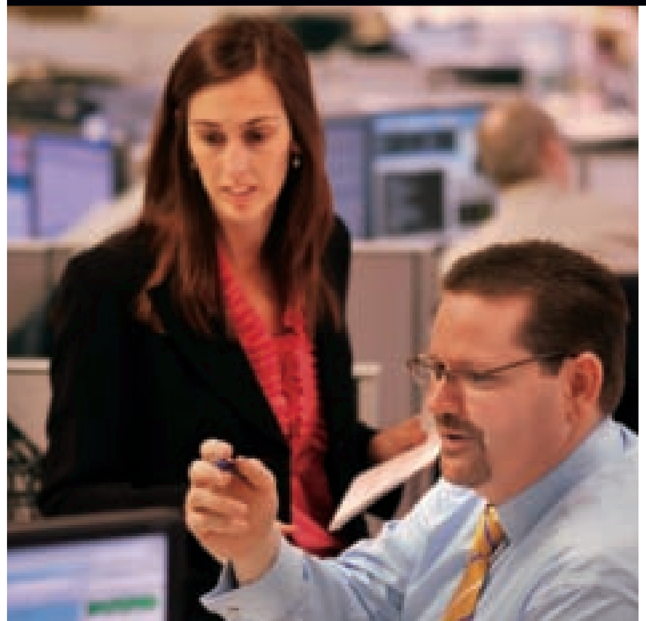
DTCC’s interconnections with other entities, which are continuing to increase. DTCC will also embark on new education efforts for its member firms and stakeholders to increase their understanding of DTCC’s operations, processes and member risks in interacting with DTCC.

Reducing Systemic Risk As global regulators and lawmakers focus on developing new regulations for the financial industry, there is an industry need for meeting reporting requirements driven by those regulations. DTCC is working with its members and policymakers to find ways it can leverage its systems to facilitate meeting those requirements cost effectively.

To help reduce certain systemic risks, DTCC has proposed expansion of its central counterparty protections to new market segments.

DTCC’s moves in 2009 to assist the industry with new regulatory demands included:

- Meeting all global regulatory requests for increased OTC derivatives data and transparency by publishing additional historical information on credit derivatives contracts stored in the Trade Information Warehouse.
- Strengthening its credit event processing systems to handle the 50 credit events that were processed in 2009, five times more than the number of events processed in 2008.
- Proposing the inclusion of buyside firms as members of its FICC subsidiary for U.S. government securities, thus making them eligible for the counterparty default protection provided by FICC’s guarantee.
- Helping to reduce risk in the corporate actions area by working with XBRL US and SWIFT to develop new standards that could dramatically improve direct communications between issuers and investors without requiring interpretation of complex legal documents by financial services firms.
- Demonstrating its own commitment to global standards on risk and transparency by posting on its Web site (at www.dtcc.com) a significantly expanded review of DTCC’s compliance with global standards for the operation of central counterparties and securities settlement systems promulgated by the Committee on Payment and Settlement Systems for the Bank of International Settlements (BIS) and the International Organization of Securities Commissions.



Top: Philip Braverman, *Managing Director, Tax & Treasury,* Anuja Bhardwaj, *Finance Director*

Left: Jillian Munro, *Director, Enterprise Architecture,* Peter Lepiane, *Director, Office of Corporate and Regulatory Compliance*

Transaction activity at NSCC mirrored market volatility in 2009.

Clearance & Settlement Equities

Processing volumes were higher in the first part of the year, then lower in the second half but remained relatively flat for 2009, increasing only slightly to a total of 23.2 billion transactions from 21.9 billion in 2008. However, the total value of transactions processed decreased by more than $100 trillion to $209.7 trillion, from $315 trillion in 2008. The average daily volume remained stable at 92.3 million, up from 86.5 million in 2008, while the average value fell to $835 billion from $1.26 trillion.

As the central counterparty for the major U.S. exchanges and most other equity trading venues, DTCC provides clearing, settlement, risk management and a central counterparty guarantee of trade completion for virtually all broker-to-broker equity, listed corporate and municipal bond and UIT trading in the U.S. market through its National Securities Clearing Corporation (NSCC) subsidiary.

With the economy mired in a recession and the credit markets slow to recover from the downturn, NSCC's Continuous Net Settlement system (CNS) helped free up trillions of dollars of capital by netting down or reducing the total number of trade obligations requiring financial settlement. In 2009, netting reduced financial settlement from $209.7 trillion to $5 trillion, a netting factor of 98%. In addition, netting mitigates systemic and operational risk by minimizing the movement of both securities and money among trading partners.

Carlos Martinez, *Relationship Services Representative,* Javette Laremont, *Director, Product Management, Equities Clearance & Settlement,* Louis Lepore, *Product Manager, Equities Clearance & Settlement*

NSCC safeguards the capital markets with its central counterparty guarantee.

One of NSCC's key responsibilities to the industry is to provide the processing capacity to seamlessly handle trading volumes, including unpredictable spikes in volume. Although 2009 did not produce a new record at NSCC for transaction processing on a single day, the clearinghouse twice set a new record for the number of shares processed, first on June 17 with 94.7 billion shares and again on August 24 with 96.9 billion shares, up from the previous high of 85.7 billion shares achieved on October 10, 2008.

Payment and Movement of Securities While NSCC provides final CNS settlement instructions to customers each day, the payment and book-entry movement of securities ownership occurs at DTCC's depository subsidiary, The Depository Trust Company (DTC). DTC settles NSCC transactions, institutional trades, money market instruments and other financial obligations. As trading on the exchanges and markets slowed, the number of book-entry movements of securities ownership in 2009 dropped to 300 million per day from 317 million in 2008, a decrease of 5%. The value of these deliveries, which include both netted broker-to-broker and institutional transactions, also fell to $121.8 trillion from $182 trillion in 2008.

Trade Guarantee Mitigates Systemic Risk The dominant theme in 2009 was risk mitigation. Market participants became increasingly concerned about the ongoing solvency of their trading partners, and the industry looked to NSCC for protection and guarantee of trade completion in the event one of its counterparties failed.

NSCC's ability to safeguard the capital markets begins with its central counterparty guarantee, by assuming the buyer's credit risk and the seller's delivery risk in the event either side defaults. In 2009, NSCC continued working closely with its customers and regulators to move forward with plans to accelerate its guarantee from midnight the day after the trade is executed to near-real time for all CNS-eligible trades, including equity, corporate bond and municipal bond transactions. The accelerated guarantee, which is pending SEC approval, will provide greater certainty and stability for firms—and even greater protection for the market as a whole in the event of default.

Real Time Trade Capture and Reporting NSCC also embarked this year on the most comprehensive redesign of its equity trade capture and reporting systems, which are responsible for accepting transaction data after a trade is executed and sending contract reports to the firms. The new system, called Universal Trade Capture (UTC), will replace the multiple trade-capture applications currently used by NSCC with a single system that will feature a standardized input record from all marketplaces and standardized real-time messages to participants. UTC, which is expected to launch in late 2010 pending regulatory approval, also dovetails with NSCC's plan to accelerate its trade guarantee, giving firms contract data and confirmation that their trade is guaranteed within minutes of execution.

As part of the redesign, NSCC is also enhancing its automated systems to interface with DTCC's Enterprise Risk Management group so it can monitor and analyze trading activity more efficiently to further reduce systemic risk. The UTC system is being designed with maximum flexibility so marketplaces and participants have the option either of migrating to the new universal format at their own pace or continue to use the legacy formats.

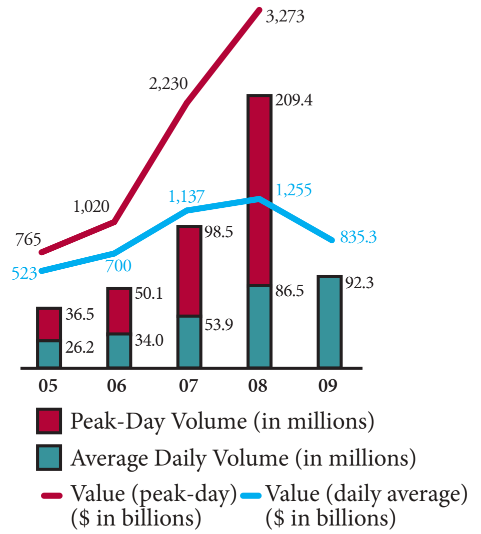
Robust Risk Management Yields Highest Credit Rating NSCC and DTC's tight fiscal management and strong risk management controls were singled out in 2009 when Standard & Poor's awarded the subsidiaries its highest credit rating, AAA/Stable/A-1+, for the ninth consecutive year, citing their robust risk management and financial safeguards. The rating signals to lenders that they can have confidence in NSCC's ability to meet its financial obligations and that NSCC is recognized as a reliable and high-quality borrower. S&P commented in its report that, "We consider NSCC's risk-management controls, processes, and procedures to be excellent…NSCC employs multiple layers of protection to shield itself from member default, including stringent membership admission procedures and a variety of controls and systems to track member positions."

Expenses Remain Flat for Fourth Consecutive Year Cost containment also remained a top priority in 2009. For the fourth consecutive year, NSCC kept expenses relatively flat at less than $70 million to clear virtually all equity trades executed on U.S. exchanges and other liquidity destinations. Despite market-wide increases in the cost of complying with new regulations and higher costs for maintaining a committed line of credit, NSCC was able to hold the line on expenses again this year. As a user-owned, at-cost utility, NSCC employs tight fiscal controls to continually drive down the unit cost of clearing, which remained the lowest in the world at about one-third of a penny per transaction (or an average of 56 thousandths of one U.S. penny per 100 shares). A new value-based pricing model implemented in 2009 aligned fees with the level of risk posed by each firm's trading positions and also offered tiered discounts for high-volume members.

Increasing Liquidity Resources to Protect Against Firm Default DTC also restructured the net debit cap controls in the depository this year to ensure it has sufficient liquidity to protect against the failure of a financial family of affiliated members. The decision to increase liquidity came in response to growing regulatory and industry concern that, as consolidation and market evolution have made financial institutions increasingly interdependent, financial problems at one firm can impact the stability of another, related member—potentially causing both to fail simultaneously. DTC obtained regulatory approval from the SEC in 2009 to limit the aggregate maximum net debit cap for any Affiliated Family to $3 billion, which was achieved by increasing cash deposits in the Participant's Fund by $700 million to $1.3 billion and securing a committed $1.9 billion line of credit.

Reducing Risks and Costs of Broker-to-Broker Trades During 2009, NSCC completed development of its Obligation Warehouse (OW), which will automate the processing of trades cleared outside its systems (known as ex-clearing) as well as the management of fails in a real-time electronic environment. These transactions have long raised concern in the industry because they are cleared broker-to-broker, making them costly to process and susceptible to human error. In addition, they pose risk to the system because they are less visible to regulators and the industry.

NSCC Average vs Peak-Day Volume and Value of Transactions



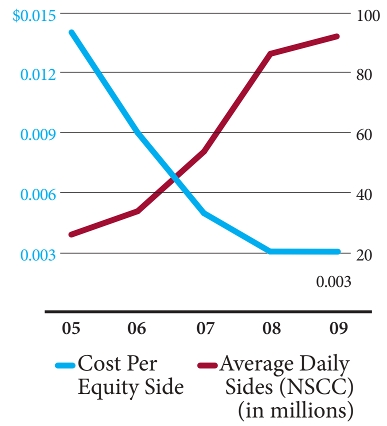
Note: There was no new peak day in 2009

The Obligation Warehouse, which is expected to go live in mid-2010 pending SEC approval, will automate the processing of ex-clearing trades as well as the management of fails in a real-time electronic environment. It will also enhance transparency for users by acting as a central repository of their open (i.e., failed or unsettled) broker-to-broker obligations. When used in parallel with NSCC's other services, this will provide users with a complete view of virtually all of their open obligations traded in the U.S. marketplace for equities, corporates, municipals and unit investment trust securities—providing a central vantage point to monitor and mitigate risk.

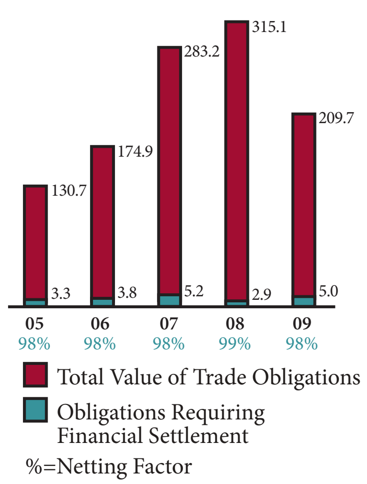
Top: Thomas Sakaris, *Vice President, Equities Clearance & Settlement*

Bottom: Nancy Budinoff, *Executive Assistant,* Eric Miller, *Managing Director, Operations*

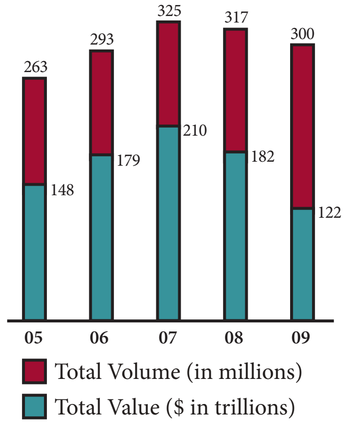
Cost Per Side and Average Daily Sides



NSCC Total Value of Transactions Benefit of Netting
($ in trillions)



DTC Book-Entry Deliveries



“We should view EuroCCP as a real success. The fact that since DTCC arrived on shore in Europe, we have seen dramatic reductions in the prices of European equity clearing which is a win for DTCC's customers. DTCC has done a very effective job of providing a solution for low-cost, safe and reliable equity clearing in Europe, but we should remember that DTCC's value goes beyond what it did for its own customers. DTCC was the catalyst for a reduction in costs for the whole market as a result of the efficiency of its offering setting a new pricing standard. We're hopeful that with more progress on interoperability, European financial firms will gain greater access to EuroCCP, and benefit from its at-cost utility business model.”

Robin A. Vince, *Member, DTCC Board of Directors*

Helping the Industry Comply with New Regulatory Mandates NSCC also announced plans this year to help the industry comply with a new federal mandate requiring the reporting of adjusted cost basis information between financial intermediaries when assets move from one firm to another. Pending regulatory approval, NSCC will extend the capabilities of its Cost Basis Reporting Service (CBRS) to transfer agents, issuers, mutual funds, custodian banks and broker/dealers to allow for the movement of cost basis information from one financial firm to another.

Enhancing Transparency of Pricing
To enhance the transparency of its pricing model, NSCC launched an online calculator on www.dtcc.com in 2009 to help customers estimate their monthly clearing costs and evaluate new business opportunities in a dynamic, user-friendly environment. In addition, NSCC enhanced its Participant Information Efficiency Report to include customized data for firms detailing their clearing costs for the previous month, the average unit cost and the average cost per 100 shares. Both initiatives were developed in response to feedback from customers on DTCC's annual satisfaction survey—and since their launch, both the calculator and customized report have received high marks.

Omgeo Navigates Market Volatility Omgeo, DTCC's joint venture with Thomson Reuters, automates post-trade processing for institutional investors globally and has a client base of more than 6,000 customers, including over 200 hedge funds, in 46 countries. The market downturn reduced transaction volume through Omgeo's U.S. domestic trade confirmation service, Omgeo Trade Suite, to about 240 million confirmations in 2009 from 360 million in 2008, a decrease of 33%. However, transaction volumes for Omgeo Central Trade Manager (Omgeo CTM), the company's core matching platform for domestic and cross-border trades, increased 35% to 51.2 million from 37.7 million in 2008 as investment managers increasingly leveraged the service. Volumes on U.S. fixed income allocations in Omgeo OASYS, a U.S. domestic trade allocation and acceptance service that communicates trade and allocation details between investment managers and broker/dealers, fell slightly to 127.8 million this year from 135.7 million in 2008.

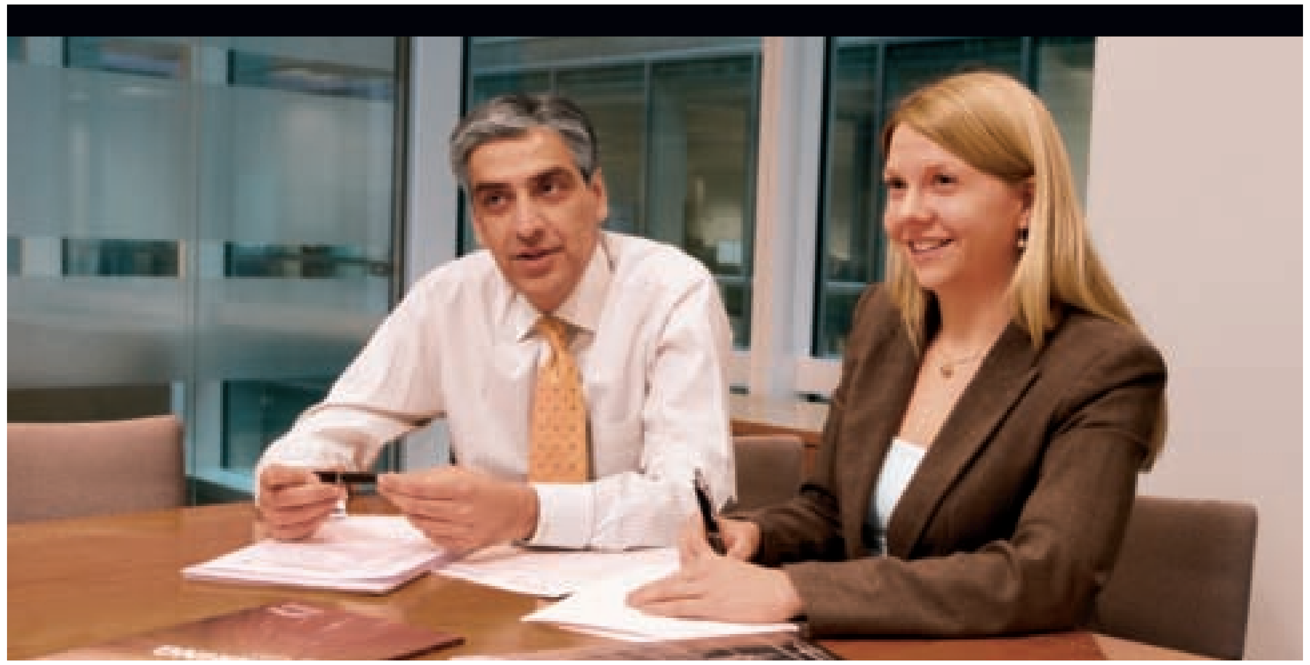
EuroCCP

European Central Counterparty Limited (EuroCCP) in 2009 continued to strengthen its position across Europe by delivering high-quality risk management through an at-cost business model, driving down costs and expanding options for customers. EuroCCP, DTCC's European subsidiary, provides equities central counterparty clearing services on a pan-European basis, and offers trading firms an alternative model for clearing: governed by users and following a not-for-profit revenue structure.

Since beginning operations in 2008, EuroCCP—headquartered in London, incorporated in the UK and regulated by the UK's Financial Services Authority—has been responsible for the dramatic reductions in equity clearing costs of 50% to 80% across Europe.

On multiple fronts, 2009 was a time of growth and innovation for EuroCCP, and its coverage of trading venues quadrupled. After its initial appointment by the Turquoise multilateral trading facility (MTF), EuroCCP began clearing for SmartPool, a multilateral trading facility for block trading, in February 2009. EuroCCP extended its clearing coverage to NYSE Arca Europe in March and to Pipeline Financial Group Limited in mid-2009. At the request of prospective users, EuroCCP was also selected to clear for NASDAQ OMX's exchanges in Denmark, Finland and Sweden. This service will be offered via multilateral interoperability with two other CCPs, EMCF and SIX x-clear. The service will be activated once interoperability arrangements are finalized and regulatory approval is received.

Andrew Simpson, *Head of Product Management, EuroCCP (London)*



Bhagwant Singh, *Head of Risk, EuroCCP (London),* Sanna Kamptz, *Senior Specialist, EuroCCP (London)*

EuroCCP has expanded its instrument coverage five-fold, from 1,200 ISINs at launch in 2008 to 6,000 by year-end 2009. It has also extended its coverage to new instruments, with coverage initiated in October 2009 for 120 of the most liquid Depositary Receipts traded in Europe. In 2009, EuroCCP's membership base, comprising General and Individual Clearing Participants, grew to 25. Those Participants together represent over 50 firms that trade pan-European securities. The company's daily clearing volumes over the 12-month period averaged 370,000 transaction sides. The peak day for clearing activity occurred August 5, when EuroCCP processed over 680,000 sides. For the year, EuroCCP processed a total of 94.7 million transaction sides across 15 markets.

EuroCCP in 2009 began working with Omgeo to develop a groundbreaking initiative to clear transactions between EuroCCP Participants for their underlying hedge fund and institutional clients on a pan-European basis. Phase one of the service, to be launched in mid-2010, will clear transactions between prime brokers and executing brokers for their underlying hedge fund clients.

EuroCCP also extended its efforts to reduce the cost of clearing in Europe by restructuring its fee schedule. The new, three-tiered schedule delivers volume discounts on an individual participant basis, makes monthly post-trade costs more transparent and predictable, and encourages trading firms to concentrate their clearing volumes at EuroCCP. Fees start at 3 euro cents (€0.030) per side for the first 100,000 sides and drop to one-fifth of a euro cent (€0.002) for sides above 500,000, matching the fee levels of NSCC in the U.S. market.

Restructured fees and new product offerings are among the ways EuroCCP has prepared for further diversification of its customer base. The company's Relationship Management and Business Development teams stepped up activities with existing and prospective clients in 2009, including high-frequency traders, buyside firms and firms based in the Nordic markets.

EuroCCP in 2009 contributed to the ongoing dialogue regarding interoperability among multiple, competing CCPs—a cornerstone of the competitive and integrated capital market envisioned by European Union (EU) policymakers. Regulatory concerns about the complexities and inter-CCP credit exposures caused by multi-CCP interoperability slowed progress on implementing these arrangements, but EuroCCP provided thought leadership with constructive proposals that promote competition and transparency. For instance, a white paper circulated to regulators and other CCPs in December offered several recommendations for reducing risks among interlinked CCPs, including the adoption of a single, standard interoperability agreement. In addition, EuroCCP participated in key policy advisory and expert groups organized by the European Commission and European Central Bank.

Fixed Income Securities Trading:

Huge Strides in Cost and Risk Reduction

Faced with the continuing global economic slowdown, investors began to pull back from trading in most fixed income instruments in 2009. After a record-setting pace in 2008, trading in U.S. Treasury securities and federal government agency issues—the world's largest and most active market—retreated below the quadrillion-dollar mark in 2009. The prolonged slump in U.S. housing markets also led to a drop in mortgage-backed securities trading. Trading in corporate bonds, however, picked up in 2009 as many companies, taking advantage of the low interest-rate environment, quickly issued new debt.

Against this backdrop, DTCC's Fixed Income Clearing Corporation (FICC) continued its seamless processing of trading volume while forging ahead on several significant initiatives designed to reduce risks and costs for the securities industry.

First, the company completed construction and undertook extensive testing of its central counterparty for mortgage-backed securities, a function expected to bring some of the most far-reaching change and risk-reduction to this industry segment in nearly a quarter century.

Second, FICC announced a joint venture with NYSE Euronext to clear U.S. fixed income derivative transactions. Called New York Portfolio Clearing, the new company will, for the first time, combine the margining of fixed income trades in the cash markets with their offsetting positions in the derivatives markets, bringing an unprecedented level of capital efficiency and transparency to the marketplace.

Third, in the wake of the Lehman Brothers collapse, there's been renewed appreciation in the securities industry for the value a clearing organization provides by guaranteeing trades and overseeing risk management. In response, FICC has moved to expand its membership to non-U.S. banks and broker/dealers, and is working to admit more buyside firms, such as hedge funds and mutual funds.

Right: Gary Chan, *Vice President, Product Management, Fixed Income Clearance & Settlement*

Bottom: Michele Hillery, *Director, Product Management, Fixed Income Clearance & Settlement,* Kate Connelly, *Director, Product Management, Fixed Income Clearance & Settlement*

Economic Downturn Brings Reduced Securities Trading

Reflecting the overall slowdown in the U.S. economy, the value of government securities trades FICC processed in 2009 declined 13% to $905.1 trillion from $1.04 quadrillion the previous year. The volume of government securities transactions FICC handled tumbled even more, falling 17% to 28.7 million trades from 34.4 million processed in 2008. FICC was, however, able to raise its netting factor for government securities trades to 79% for the year, freeing up billions of dollars in capital for its customers by netting down or eliminating almost four out of every five dollars that would have otherwise gone to settlement.

The value of the mortgage-backed securities trades FICC cleared in 2009 also dropped. It was down 15% to $94.8 trillion from $111.3 trillion the previous year. The volume of trades processed by FICC declined less sharply, sliding 10% to 2.4 million mortgage-backed security transactions compared with 2.6 million in 2008. FICC clears and nets trades of mortgage-backed securities issued in the secondary market by government agencies or government-sponsored enterprises such as Fannie Mae and Freddie Mac. Over the course of 2009, FICC was able to net down and thus reduce the par value of the mortgage-backed securities trades destined for settlement by more than 93%.

Meanwhile, trading volumes for almost all other fixed income instruments also tumbled in 2009. Municipal bond trades were down 10% to 6.4 million from the 7.1 million transactions processed in 2008. Trading volume in unit investment trusts fell by 22% to 1.66 million transactions from 2.14 million in 2008. In contrast, the value of corporate bond trades submitted for processing climbed substantially in 2009, rising to $2.98 trillion versus $2.42 trillion the year before. This was a 22% increase and reflected companies' eagerness to take advantage of low interest rates in order to raise new capital.

Applying an Industry Remedy for Failures to Deliver

A failure to deliver or receive treasury securities sold in a trade or pledged in a loan or repo transaction—known in industry shorthand as a "fail"—typically creates both clearing problems and credit risks. As the number of fails began to rise sharply in 2008, spiking to nearly $2.6 trillion in one week, the securities industry set out to find a way to reduce or eliminate this practice. Early in 2009, the Treasury Markets Practices Group, an industry organization sponsored by the Federal Reserve Bank of New York, asked FICC to levy a charge on its members if they fail to deliver a treasury security on time.

In response, FICC initiated a 3% charge beginning in May of 2009 on failed settlement obligations. As an incentive to prevent fails, the charge has proved highly effective. While the fail rate was already trending downward, it dropped by more than 90% after the fines were imposed. To bring greater transparency to this market practice, FICC now publishes data daily on the dtcc.com Web site showing the aggregate par value of fails.

Moving Customers to Web "Front-End" Technologies

FICC continued its efforts in 2009 to encourage customers to retire from outdated VMS "green screen" technology and instead monitor and manage the processing of their government securities transactions via the Web front-end functions of its Real Time Trade Matching (RTTM) system. The migration to RTTM's Web functions reflects FICC's effort in recent years to drive trade management to the newer, more flexible and more user-friendly systems that offer powerful query capabilities for live and historical data, spreadsheet download capabilities and end-of-day reports. Using RTTM's Web functions, interdealer brokers can now modify and track buy/sell transactions as well as GCF and DvP Repo transactions in several different ways. The goal for 2010 is to phase out the legacy green screen terminals and guide all participant firms to trade management via the RTTM Web front-end.

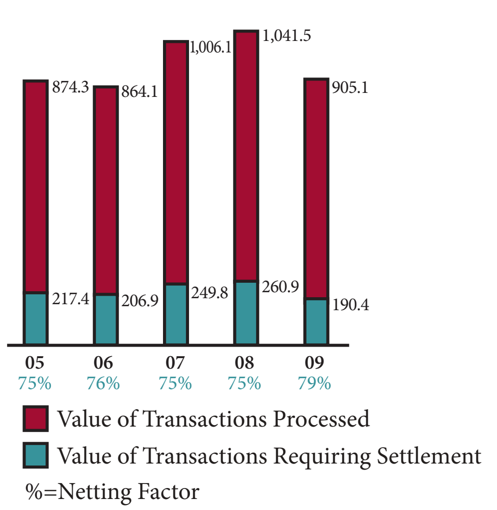
Built, Tested and Ready: a Central Counterparty for Mortgage-Backed Securities Trades

For over three years, FICC has been designing and building a central counterparty or CCP for the U.S. mortgage-backed securities market. Through the CCP, FICC will guarantee completion of trades, net out as many of the mortgage pools that underlie the traded securities as possible, and thus eliminate the exchange of billions of dollars that would otherwise have to take place in order for the trades to be completed.

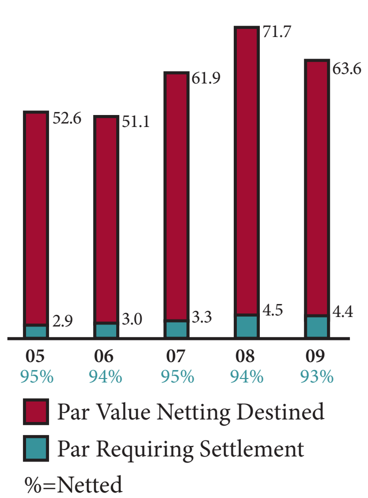
For more than two decades, FICC has been able to net down or eliminate more than 90% of the mortgage-backed securities trades coming into its clearing system. While the remaining trades are settled bilaterally, there is no guarantee that any of the transactions will be completed. In a market where trading volume runs close to $100 trillion annually, where trades settle only once a month and where buyers don't know which mortgage pools will make up their security until 48 hours before settlement, this lack of a guarantee leaves banks and trading houses with billions of dollars of trade exposure each day.

FICC's new central counterparty will change this long-standing industry process entirely, bringing firms far more control over their risk exposure and cash flow. During 2009, FICC made the last technical adjustments to the CCP, completed customer training and end-to-end testing with firms eager to use the new service, and, in

U.S. Government Securities
($ in trillions)



Mortgage-Backed Securities TBA Trades
($ in trillions)



Janet Wynn, *Managing Director, Global Relationship Management,*
Peter Kelly, *Director, Fixed Income Clearance & Settlement*

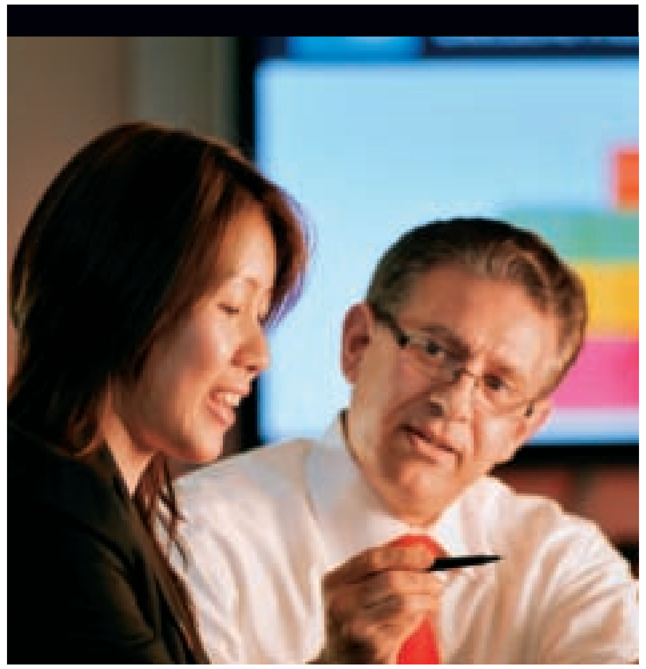
September, undertook the first of a series of full pilot tests of its powerful new clearing and netting engine. Testing has continued into 2010.

Planning for CCP Phase Two: More Streamlining Even as FICC awaits final approval from the Securities and Exchange Commission to begin full-scale operation of the mortgage-backed securities CCP, it has already published a set of ideas about how it can use its trade guarantee and the CCP to further streamline the settlement process and bring the industry even greater reductions in trade costs and risks. Although industry practice is to settle mortgage-backed securities trades once a month, FICC suggests there is no reason it could not net all TBA (To-Be-Announced) trades each day as they are reported—and then step in as the counterparty to each net position, rather than waiting to begin netting until just prior to settlement.

By following these steps, FICC would not only create additional reductions in cost and risk, but could eliminate today's complex balance order netting process, essentially revolutionizing how mortgage-backed securities trades have been processed for 30 years. FICC's plan is that, with support from its member firms and the approval of the SEC, it can introduce these changes in late 2011 or early 2012.

Joint Venture Creates New Synergy: "One-Pot" Margining When the whole equals more than the sum of its parts, the result is called synergy—and that's exactly what DTCC and NYSE Euronext expect to create with New York Portfolio Clearing, the innovative, 50/50 joint venture they announced in 2009. It will offer risk and margin methodologies unique in the industry by combining the capabilities of NYSE Euronext's futures exchange, NYSE Liffe U.S., with the risk management and reference data systems of FICC.

The new joint venture will clear a firm's trades executed on NYSE Liffe U.S. and combine the margin for these trades in the same account with the firm's margin for its cash market trades cleared through FICC. By margining cash and derivative trades in a "single pot," the joint venture will bring together cash positions and their natural derivatives hedges in a way that no current market structures can achieve.



Pei Yen Ling, *Technical Project Manager,*
Louis Colombo, *Vice President, Information Services*

FICC forged ahead on several initiatives to help **reduce risk and costs** for the industry.

"Sometimes people, I think, misunderstand DTCC in terms of what it's trying to be. DTCC operates on a not-for-profit basis, and it has no interest in trying to disintermediate participants in the financial service industry. What they're trying to do is provide services, which really, by definition, are not a point of competition between members of the industry. As an industry-owned organization, their focus is on addressing the common needs of financial firms, both current and prospective customers. Their core strengths are creating centralized, standardized, automated solutions that bring greater efficiency, reduce risk and lower costs for all users."

Art Certosimo, *Member, DTCC Board of Directors*

Because trades in the two separate markets tend to offset each other and thus reduce risk, New York Portfolio Clearing expects to be able to create much greater capital and operational efficiency for its customers while opening the U.S. derivatives market to new competition. Another synergy is that the joint venture will give participants a look at their entire trading portfolio across fixed income asset classes. In addition, it offers regulatory authorities a comprehensive look—a bird's-eye view that doesn't exist today—across all of the industry's fixed income asset classes.

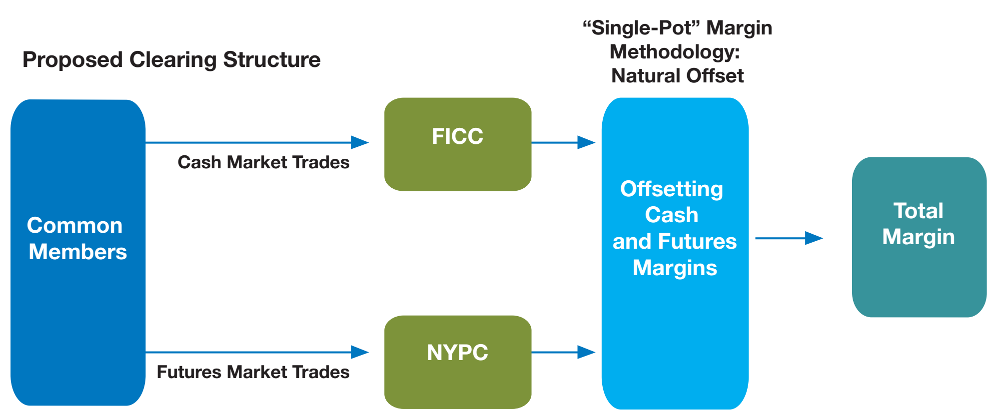
New York Portfolio Clearing plans to begin operations in mid-2010, pending regulatory approval, saving its customers billions of dollars each day in capital costs while giving regulatory agencies a better view of risk across market. That's synergy.

FICC Now Welcomes Members from Across the Globe Among the consequences of the collapse of Lehman Brothers in 2008 was a heightened appreciation throughout fixed income markets for the value of FICC's trade guarantee. For example, after having to deal with failed Lehman trades themselves and negotiate each contract with the trustees of Lehman's bankruptcy, hedge funds that originally had chosen not to join FICC were now more interested in membership. FICC responded to the market's broader interest by updating its rules to make its capital requirements for membership more uniform and by meeting throughout 2009 with numerous asset managers, unregistered investment funds and mutual fund companies to discuss membership costs and benefits.

Early in 2009, FICC's initiative to admit non-U.S. financial institutions into membership in its Government Securities Division received regulatory approval, and FICC began to welcome the first foreign companies into the clearing corporation. Because nearly half of all U.S. Treasury debt is held by foreign governments and foreign investors, trading in U.S. securities makes up a global market. In response, DTCC has moved to expand its trade guarantee, and extend the reach of its risk management expertise and the reliability of its systems, to this worldwide market.

Foreign firms and overseas asset managers also have come to make up a sizeable segment of FICC's Mortgage-Backed Securities Division. In addition to the World Bank, members of FICC involved in mortgage-backed securities include sovereign wealth funds from Asia, a growing number of hedge funds and several U.S. government agencies. "We want these firms inside the clearing corporation as much as possible," DTCC Chairman and CEO Donald F. Donahue told the securities industry in April 2009, "because membership ultimately reduces risk for the industry as a whole."

The Value Proposition of New York Portfolio Clearing (NYPC)



{ Providing Certainty & Reliability }

Asset Services

Although the current economic downturn continues to affect the value of securities and financial instruments held by The Depository Trust Company (DTC), the depository went on to serve the financial services industry with a broad array of services in 2009 ranging from settling more than $299.4 trillion in securities trades, processing a $64 billion corporate merger and helping to handle the fifth largest bankruptcy in U.S. history.

DTC streamlines and automates the settlement and servicing of securities held in custody (including equities and bonds), helps execute corporate actions such as mergers and dividend and interest payments, and boosts efficiencies by streamlining the processing of syndicated loans, structured securities and tax services. In 2009, DTC helped process the merger of Pfizer, Inc. and Wyeth, two pharmaceutical giants, and then went on to help process the bankruptcy and reorganization of the CIT Group.

The value of securities held at the depository at year-end stood at $33.9 trillion, up 23% from $27.6 trillion in 2008. The number of securities held at the depository increased slightly to just over 3.5 million, including equities, corporate and municipal debt, asset-backed securities, exchange-traded funds and money market instruments, as well as securities from the United States and more than 121 other countries and territories.

Working with agents in the U.S. and around the world, the depository collected and allocated to customers just under $3 trillion in dividend, interest, redemption and reorganization payments, down 17% from $3.5 trillion in 2008. The depository also handles the initial processing, distribution and settlements of new issues, including more than 99% of all municipal issues in the U.S. In 2009, the number of new issues dropped by 25% to 40,000 new issues in 2009 from 53,000 in 2008, but the value of the new issues declined by just 1% to $2.3 trillion in 2009 from $2.4 trillion in 2008.

Left: John Yurman, *Director, Financial Planning & Analysis,* Ann Marie Bria, *Director, Asset Services*

Bottom: John Faith, *Vice President, Operations,* Stacey Lewis, *Manager, Asset Services*

Reducing Risk In a move to further reduce risk for the industry, DTC announced in 2009 that it would change the way it handles principal and income payments (P&I) on the more than 3.5 million securities it services beginning in 2011. The P&I payments include dividend, interest, periodic principal, redemption and maturity payments. In a white paper issued in November 2009, DTC said after an internal review and in-depth discussions with regulators, it would only allocate P&I payments that have been made on time and identified with the correct CUSIP. This changes the current practice where DTC allocates virtually all payments on their scheduled payment dates, including those that may be late or received without the detail needed to allow a payment to be paired with its specific CUSIP number. While the practice of allocating all entitlements on the payable dates has provided a great deal of certainty for DTC participants and their customers, the exposure to credit and liquidity risk in an increasingly complex financial and regulatory environment has grown to unacceptable levels, the white paper states.

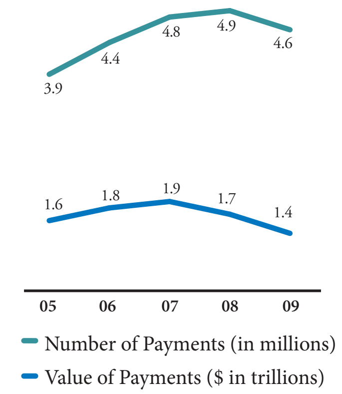
DTC also continued to tackle the problem of paying agents that make late or inaccurate payments on structured securities in 2009. A major initiative recommended by DTC and an industry task force in 2008 was the issuance of a report card that tracked the performance of the six largest paying agents and posted the results on a monthly basis on the DTCC Web site. The result: every bank improved its performance and the number of late or missing payments rates fell dramatically in 2009.

Jeanne Mauro, *Director, Corporate Actions,*
John Lovetere, *Manager, Customer Support Center*

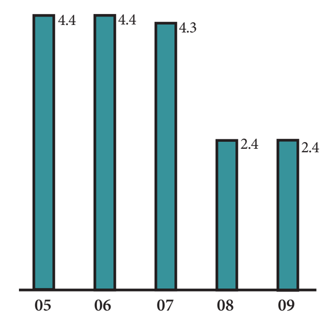
Reengineering Core Services DTC continued to move ahead on the multi-year reengineering project of its securities underwriting and its corporate actions processing in 2009. After the successful launch of its new municipal underwriting system in 2008, DTC turned its sights on the reengineering of corporate equities processing and launched its new equities underwriting system in October 2009. The new system became mandatory for corporate underwriters of equities as of January 1, 2010. The underwriting system for corporate debt issues will be implemented in 2010 and will become mandatory in January 2011, subject to regulatory approval. Other new services rolled out in 2009 included the automation of a popular estate planning feature called Survivor Options, as well as key enhancements for Elective Dividend Services, the Stock Loan Repurchase Payment Order system and for the Dividend Reinvestment Program.

The corporate actions reengineering will upgrade and replace many of the 60 legacy systems that currently support corporate actions and will create a single new platform capable of handling increasingly sophisticated types of securities, both domestic and international. Due to the size and complexity of the reengineering, the project will be deployed in phases over the next several years with announcements first, followed by elections and payments for distribution events, redemption events and finally reorganization events. (The first phase of the project, completed in October 2009, added new data elements to the Global Corporate Action (GCA) Validation Services.) The goals of the reengineering initiative are to enforce international communication standards and provide the highest quality corporate actions data, while improving the identification and representation of events. The project calls for the introduction of a new browser-based user interface in 2012 and the retirement of all legacy files on or before 2015.

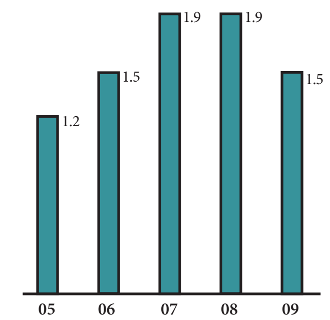
DTC Cash Dividend and Interest Payments



DTC Underwriting Value
($ in trillions)



Value of DTC Reorganization and Redemption Payments
($ in trillions)



ON THE GLOBAL FRONT

Standardizing Corporate Actions

DTCC has supported industry-wide standards in the corporate actions arena and has been working closely with XBRL US, (the consortium for eXtensible Business Reporting Language in the U.S.), SWIFT Standards and the International Securities Services Association. In May 2009, DTCC, XBRL US and SWIFT announced plans to join together to promote straight-through processing in corporate actions by electronically capturing data directly from issuers in a standardized form when a corporate action is first announced.

The new corporate actions platform being developed by DTCC will support these industry standards rather than proprietary formats. When the platform is up and running, new ISO 20022 corporate action announcements with a unique Corporate Actions Identifier will provide clear and consistent identification of a corporate actions event on a global basis, and participants will have full connectivity to issuer-based XBRL tools. Supporting these standards for corporate actions will enhance straight-through processing and reduce risk for the industry, ensure that customers receive the most timely and accurate announcement data possible and enable them to manage the entire corporation actions life cycle, including announcements, instructions and payments from a single integrated Web application.

In 2009, DTCC's Global Corporate Actions (GCA) introduced a new low-cost browser service that offers real-time, unlimited access to all global validated corporate action information in its database. The GCA browser provides a direct connection to the GCA Validation Service database, a centralized source of the highest quality "scrubbed" corporate action information on global securities. GCA also enhanced services by adding new data streams and connectivity options, including a link with SWIFT to transmit data over the SWIFT network.

Syndicated Loans DTCC pushed ahead on the global front with its Loan/SERV suite of services, which is helping to automate and streamline the processing of syndicated commercial loans. In 2009, DTCC piloted a successful test of its Loan/SERV electronic messaging service—the first and only global electronic messaging system serving the syndicated loan market. The Loan/SERV Messaging Service will automate and streamline the communication process between banks and lenders by employing standardized, instant messaging.

In addition, DTCC introduced the Loan/SERV Contract Reconciliation Service in the U.S. and Europe in 2009. Contract Reconciliation, which represents an advanced version of Loan/SERV's earlier Reconciliation Service, takes loan reconcilement to a more detailed level and provides reconcilement at all levels from the commitment and facility level down to the individual contracts with all of the relevant transaction detail. In 2009, more than 1,750 funds managed by leading investment firms including PIMCO, Oak Hill Advisers, Highland Capital Management and KKR linked to Loan/SERV's reconciliation services. Major financial service firms that linked their loan administration systems to Loan/SERV in 2009 include Deloitte & Touche, Misys plc, ClearStructure Financial Technology LLC, and Markit.

DTCC and Markit also announced plans in 2009 to combine resources to speed development of a comprehensive solution for the processing of syndicated loans. Markit and DTCC will combine key services with those provided by ClearPar, an automated syndicate loans operations platform, which was acquired by Markit in 2009. The new platform will link to all existing and future Loan/SERV products.

Canadian Settlement DTC expanded its Canadian-Link Services in 2009 to enable customers to settle Canadian securities that are not fully eligible for DTC services. Canadian securities that are not regulated by the U.S. Securities and Exchange Commission (SEC) do not qualify as DTC-eligible and cannot participate in dual settlement offered by the Canadian-Link Services. DTC has designated these securities as "limited-eligible" which enables customers to use the enhancement—called "intra-DTC"—to settle these securities in U.S. or Canadian dollars. Another option, called "free of payment," allows DTC to handle the transfer of the security from one account to another, but payment is settled outside DTC.

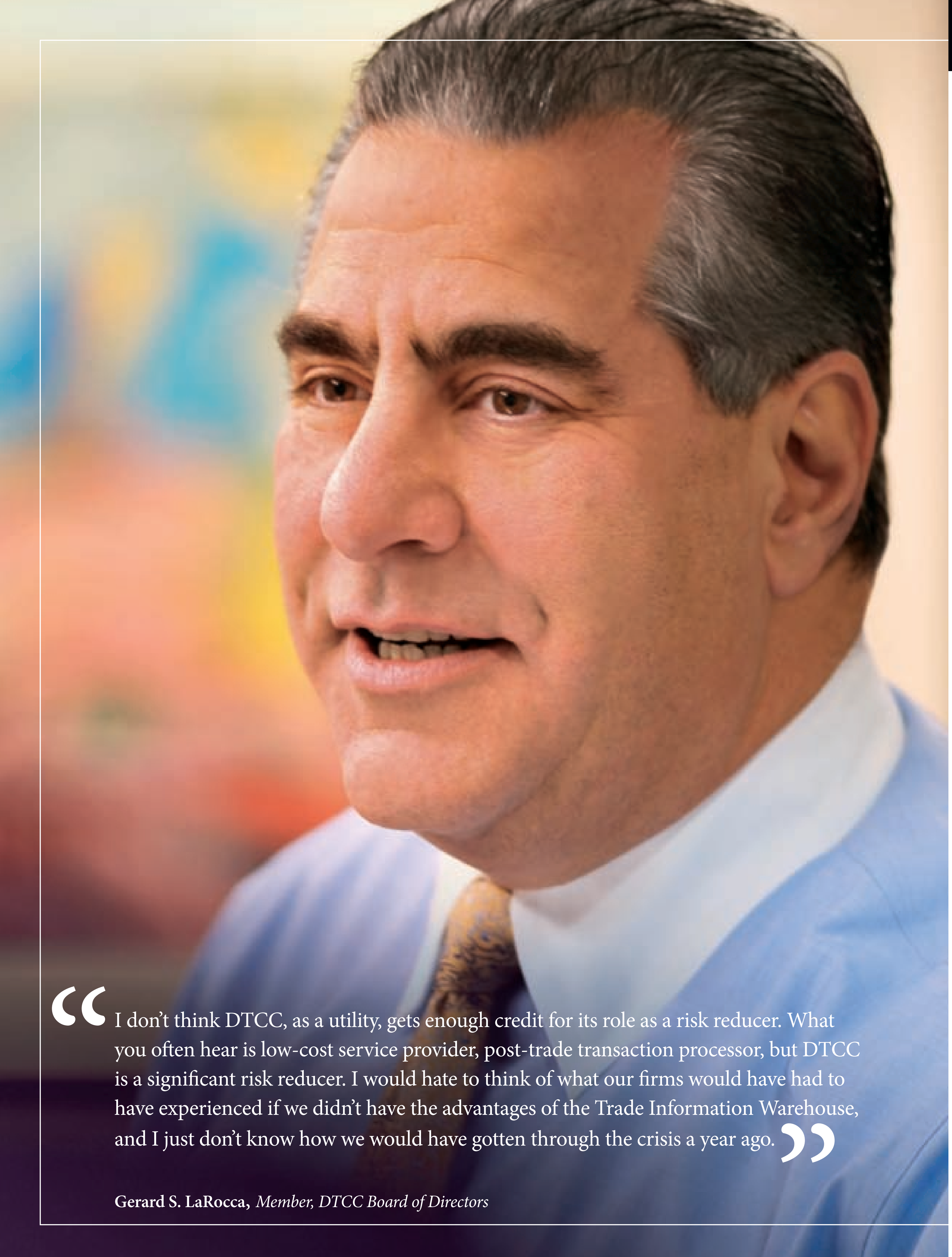
Top: Warren Benwell, *Team Leader, International GCA Operations (London),* Caroline O'Shaughnessy, *Vice President, Global Sales, Asset Services (London)*

Left: Rita Virdee, *Associate Product Manager, Loan/SERV (London)*

No More Paper Dematerialization—the elimination of paper stock certificates in the industry—remained near the top of the agenda for DTCC in 2009. With the approval of the SEC, DTC eliminated physical certificates for withdrawals-by-transfer (WTs) for all eligible but non-participating issues in DTC's Direct Registration System (DRS) starting July 1, 2009. A DRS is a book-entry system that enables investors to register their shares electronically with the issuing company or its transfer agent. Instead of a paper certificate, investors receive a statement of their holdings. (DTC is currently the only registered clearing agency operating a DRS.) Beginning January 9, 2009, the SEC also approved eliminating physical certificates for WTs for all DRS-participating issues. All the major and regional exchanges in the U.S. modified their listing requirement in 2008 to mandate that all listed securities must be eligible for a DRS. Both the industry and the SEC continue to encourage dematerialization of equities securities because paper certificates are inefficient, expensive to issue and can be lost or stolen. In another dematerialization move, DTC eliminated its Direct Mail by Depository Service (DMD) in 2009 and no longer mails physical certificates to investors or third parties.

Tax Benefits Through its TaxRelief™ service, DTCC's Global Tax Services continued to deliver foreign tax relief benefits to its customers totaling $1.7 billion in 2009. TaxRelief enables customers to secure withholding tax relief for themselves and their customers on cross-border dividend and interest payments such as American Depositary Receipts (ADRs), global shares, foreign ordinaries and foreign fixed income securities. In 2009, DTC expanded this service to provide tax benefits for holders of Irish ordinaries, Italian ADRs, certain New Zealand ADRs and unsponsored ADRs. ADRs, which allow investors to invest in securities from other countries, are receipts for the shares of a foreign-based company held in custody in the U.S. Whereas a sponsored ADR is created by a depositary bank in collaboration with the issuing company, an unsponsored ADR has no direct involvement with the foreign company and is generally established in response to investor demand. Government changes regarding registering foreign securities in the U.S. led to significant growth of unsponsored ADRs offered to investors in the last two years.

We offer a broad range of **automated services** for custody, underwriting, corporate actions and syndicated loans.



> "I don't think DTCC, as a utility, gets enough credit for its role as a risk reducer. What you often hear is low-cost service provider, post-trade transaction processor, but DTCC is a significant risk reducer. I would hate to think of what our firms would have had to have experienced if we didn't have the advantages of the Trade Information Warehouse, and I just don't know how we would have gotten through the crisis a year ago."

Gerard S. LaRocca, *Member, DTCC Board of Directors*

{ OTC Derivatives }

Tackling an unprecedented number of corporate defaults, increased scrutiny from regulators and policy makers worldwide and efforts to improve trade reporting, created a significantly challenging environment for financial firms and corporate risk managers investing in over-the-counter (OTC) derivatives in 2009.

At the center of this activity lies DTCC Deriv/SERV's Trade Information Warehouse (Warehouse), the industry's only global repository and post-trade infrastructure for managing OTC credit derivatives throughout their multi-year life cycle. In 2009, the Warehouse processed a steady stream of "credit" events (e.g., bankruptcies and debt restructurings) and "successor" events (e.g., mergers, acquisitions and reorganizations), expanded public reporting of credit default swaps (CDS) data, and supported various central counterparty (CCP) providers in bringing their services to market.

Facilitating the orderly and sound operation of the CDS market, the Warehouse closed the year supporting the record keeping and processing of more than 2.2 million CDS contracts worth approximately US$25.1 trillion in gross notional value.

Servicing the Multi-Year CDS Trade Life Cycle The Warehouse's wide array of automated processing services helps ensure the industry has a robust infrastructure in place to manage the various events that may impact a CDS transaction.

In 2009, the Warehouse processed 50 credit events globally, including the General Motors (GM) bankruptcy, the largest in U.S. industrial history. The total net funds transferred between net sellers and buyers of protection as a result of these bankruptcies were reduced to US$17.7 billion from a gross notional value of US$386 billion. By comparison, nine credit events were processed in 2008 requiring a total net funds transfer of $12 billion, reduced from a gross notional value of US$285 billion.

Recognizing the Warehouse's value in helping the market manage GM's headline-grabbing bankruptcy, the *New York Times* cited in a Breaking Views June 8 column, "…the vague guesses of four years ago have been replaced by hard data. The Depository Trust & Clearing Corporation, which now collects trading information, was able to say last week that the $35.3 billion of outstanding swaps trades on GM netted down to possible payments between market participants of an unremarkable $2.2 billion." The article also suggested that experience, new processing and better information helped calm the market following such a significant default, which previously would have been considered a "scary monster."

The Warehouse also processed 129 succession events throughout the year. Having a standardized and automated method to support these types of actions enables the Warehouse's global repository to reflect the most accurate and current information on the market.

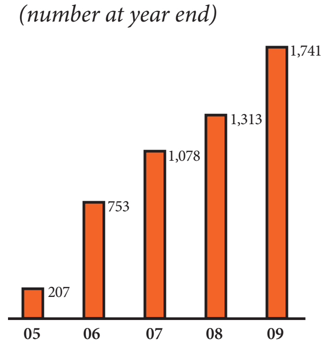
The Warehouse netted and facilitated central settlement of counterparty CDS payment obligations worth a net US$334 billion, reduced from a gross value of US$1.3 trillion. The greatest efficiency came on quarterly roll dates, reducing a gross value of US$300 billion to a net value of US$17 billion. Payment obligations are centrally settled in nine currencies in partnership with CLS Bank International.

Enhancing Transparency Through a Centralized Trade Repository The Warehouse's global repository was launched in late 2006 in collaboration with the OTC derivatives community and in consultation with regulators. Virtually all CDS contracts in the worldwide market are registered in this repository. Clients include all major derivatives dealers and more than 1,700 buyside firms and other market participants in 52 countries.

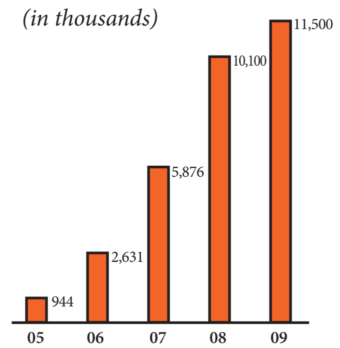
Because the Warehouse's global repository holds these CDS data records in a single location, greater transparency is achieved in the CDS market. In fact, DTCC publishes weekly on its Web site (www.dtcc.com) aggregate information on the CDS transactions maintained in the repository. This public release of data, first initiated in November 2008, was continually enhanced in 2009 and now includes current and historical records. Detailed information on individual firm trading has also been made available confidentially to regulators around the world with the consent of market participants.

Andrew Byatt, *Director, Business Development, Deriv/SERV (London)*

Deriv/SERV Customers
(number at year end)



Deriv/SERV Transactions Processed
(in thousands)



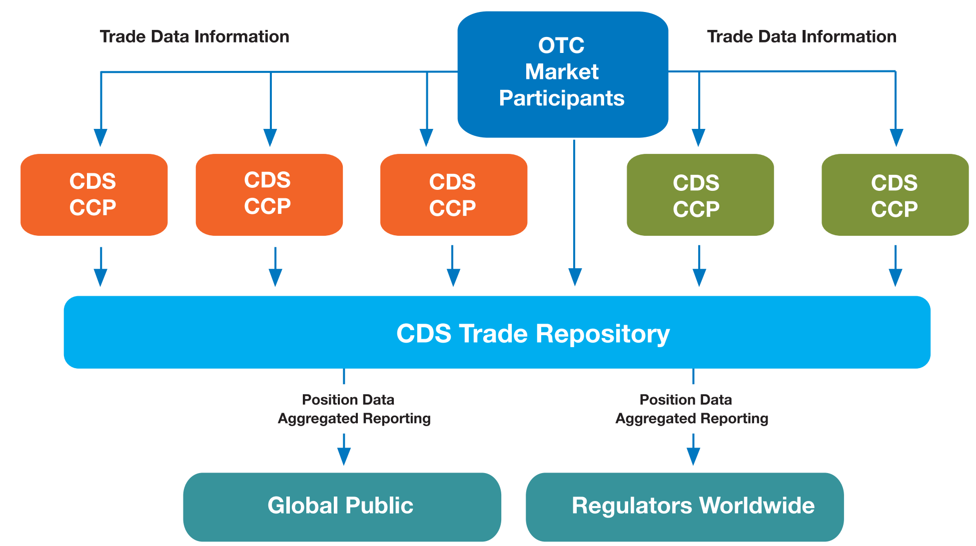
In 2009, DTCC also began recording and reporting the market's more customized CDS contracts, helping the industry meet commitments to regulators to expand transaction reporting. Representing a small percentage of transactions in the market, these contracts were not previously held in the Warehouse because of their tailored nature. Increased reporting provides the public and regulators with a better perspective on the size and scope of the market.

Supporting Central Counterparty Services The Warehouse also worked with various central counterparty (CCP) services who leveraged the Warehouse's well-established functionality to expedite the launch of their trade guarantee solutions. To date, there are four operating CCPs for the CDS market located in the U.S. and Europe. DTCC is working with additional CCPs as they gear up to launch their services. A market-neutral service provider, the Warehouse is optimally equipped to support any and all CCPs that are established in the market.

By utilizing the Warehouse's post-trade processing infrastructure rather than investing valuable resources to build their own, CCPs can achieve the objectives of CCP clearing, including mitigating and mutualizing counterparty risk and increasing market liquidity.

DTCC recognizes the benefits that CCP services bring to market participants, as they guarantee that open trade positions between counterparties will be completed in the event of a financial firm failure.

A Single Repository Model Supports Systemic Risk Management



Carole Lahaye, *Operations Specialist, Deriv/SERV (London),* Daniel Olajide, *Manager, Deriv/SERV Operations (London),* Aishling Kelly, *Associate Product Manager, Deriv/SERV (London)*

However, its establishment for OTC derivatives trading does not diminish the need for all trades, both cleared and non-cleared, to be reported into a central trade repository. Doing otherwise would threaten to fragment market data and bring back a level of opaqueness to the market.

Collaborating Towards a Global Regulatory Framework DTCC has also received approvals from the New York State Banking Department to establish a subsidiary to operate the Warehouse as a regulated limited purpose trust company and from the Federal Reserve for the Warehouse to become a member of the Federal Reserve System. Warehouse Trust Company LLC (Warehouse Trust) commenced operation in March 2010.

While the new subsidiary is directly regulated by these authorities, DTCC fully supports providing regulators globally with information about the OTC credit derivatives market. DTCC established Warehouse Trust to ensure that regulators, wherever they are located, have unfettered access to the information they need to assess risk in the global market. For example, because there is a global repository fully established in the marketplace, Warehouse Trust is well positioned to support proposed regulatory reform such as the preparation of reports that identify concentration risk both in terms of counterparties and reference entities. DTCC aims to collaborate with global groups, such as the OTC Derivatives Regulators' Forum, to address their areas of market concern.

Launching MarkitSERV DTCC Deriv/SERV's matching and confirmation service (now a part of MarkitSERV) processed a record 11.5 million transactions in 2009, up 14% from the 10.1 million processed in 2008. The service was launched in late 2003, partnering with global dealers and buyside firms looking to improve their operational practices in a market that was growing at exponential levels. By bringing what were historically manually processed transactions into an automated environment, this service helped market participants reduce their backlog of unconfirmed CDS contracts in the marketplace. To date, market participants indicate that virtually all of their CDS transactions are submitted for electronic matching and confirmation versus about 15% when the service was first launched.

This has brought greater certainty, operational efficiency and risk mitigation into the trading of these instruments.

In September 2009, DTCC and Markit launched MarkitSERV, a new jointly-owned company that aligns the two organizations' electronic trade confirmation and workflow platforms to provide a single gateway for over-the-counter derivatives trade processing. Leveraging DTCC's and Markit's combined expertise, MarkitSERV extends the benefits of a more streamlined and automated confirmation capability to a wider user base and across a more diverse range of OTC derivatives asset classes including credit, interest rate, equity and commodities. The new company is industry-governed and has a global presence, including offices in London, New York and Tokyo.

A priority for DTCC in the coming year will be to work with MarkitSERV and market participants to create an OTC equity derivatives trade reporting repository that will reflect these instruments for major trading firms. The new repository is intended to enable OTC equity derivatives market participants to meet commitments made to global regulators to have all their trades reported to a repository by July 2010. Selected by the industry in October 2009 to build the equities repository, DTCC and MarkitSERV are working to complete the buildout of the service, conduct industry testing and make the first set of reports available to the public and regulators by July this year.

DTCC Deriv/SERV was also selected by the industry in December to create an OTC equity derivatives cash flow matching service. This new service will provide a more automated and streamlined environment for processing the matching and netting of payment obligations on OTC equity derivatives transactions. The industry has made commitments to launch this new service by year-end.

Facing a Year in Transition As regulators and policy makers around the world look to reshape the OTC derivatives market, 2010 can be viewed as a transition year for the industry. The impact of these potential changes to the industry are yet to be determined.

DTCC remains committed to working with global regulators, in addition to its customer base throughout the world, to provide the services needed to safeguard the OTC derivatives market.

“DTCC's commitment to quality is in the organization's DNA. They regularly survey their customers every single year, both at a line management level and among senior executives at member firms. Are we making progress? Are we improving? Where do we need to improve? And they are using a rigorous set of metric tools, like Six Sigma, and other definitive goal-setting measures, to enhance their efficiency, drive productivity and maintain tight fiscal controls. In fact, their compensation program is linked to the results they submit to the Board every year. Being customer-centric is at the core of what DTCC brings to the industry, and how they hold themselves accountable every single day.”

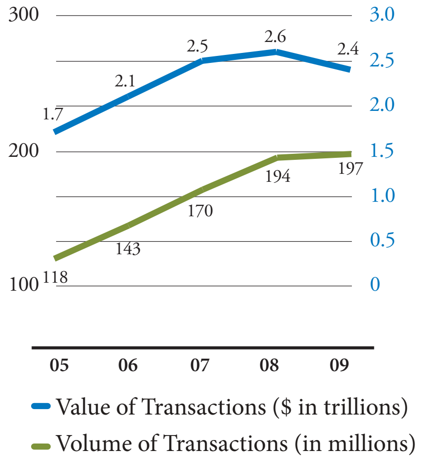
Norman Eaker, *Member, DTCC Board of Directors*

Expanding beyond its traditional Mutual Fund Services offerings, DTCC has worked with the industry to develop operational innovations and service suites for both managed accounts and alternative investment products.

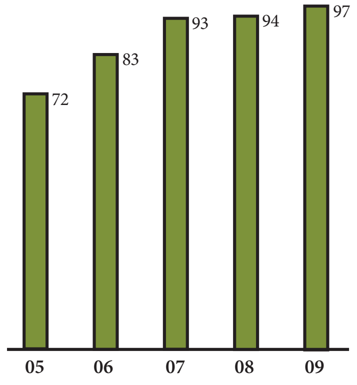
While DTCC's Wealth Management Services' business confronted some challenges in 2009—overall, volumes were moderate-to-flat, even as the industry moved toward a cautious recovery—the business seized on the tremendous opportunities to refine its products, further expand centralized connectivity, and lower risks and costs for customers in the mutual fund, managed accounts and alternative investment product markets. These new businesses are steadily gaining the attention of industry participants who have seen their distribution opportunities—and thus business recovery—challenged by the lack of a centralized infrastructure to automate transaction processing.

Adam R. O'Neill, *Leadership Acceleration & Development,* Michelle McLean, *Project Manager, Wealth Management Services,* Richard Lanning, *Vice President, Relationship Management*

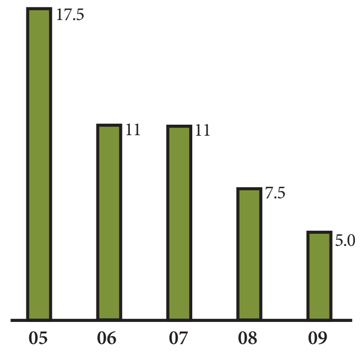
Fund/SERV®



Networking Sub-Accounts
(in millions)



Cost per Mutual Fund Transaction
(in cents)



Leveraging Efficiencies for New Needs and New Markets Expanding beyond its traditional Mutual Fund Services offerings, DTCC has worked with the industry to develop operational innovations and service suites for both managed accounts and alternative investment products.

DTCC's Managed Accounts Service (MAS), launched in 2007, delivers end-to-end connectivity and information-exchange among sponsors, investment managers and their service providers. In 2009, DTCC accelerated industry adoption of MAS by offering investment managers a Web-based portal, allowing them simplified access to the platform. UBS Financial Services and 14 of its investment-manager partners entered an intensive testing period that will evolve into full production in 2010, and an additional 30 managers are participating in portal activities. This strong commitment moves the industry toward a much more streamlined model that will provide the same efficiencies and scalability that DTCC has brought to other key market segments. In 2010, DTCC plans to expand the functionality of MAS to support additional products such as unified managed accounts, unified managed household accounts and model portfolios, providing these products the opportunity to develop and grow on a tremendously efficient operations infrastructure.

DTCC's Alternative Investment Products (AIP) service, modeled after DTCC's core Mutual Fund Services, links global market participants—including broker/dealers, fund managers, administrators and custodians—to similarly provide end-to-end processing of alternative investments such as hedge funds, funds of funds, private equity, real estate investment trusts (REITs) and limited partnerships.

With the first transactions going live in the system in late 2008, adoption of AIP accelerated in the non-traded REIT area in 2009, with several large distributors and their product sponsor-partners committing to development in 2010. The hedge fund industry has also recognized the potential for DTCC's AIP service to enhance risk management and reduce operational costs, with an additional ten hedge funds and managed futures funds in the membership queue for 2010. In addition, a proposed rule change under review by the U.S. Securities and Exchange Commission would give broker/dealers control of these accounts in compliance with Rule 15c3-3 when the funds are using AIP. Once approved, members of the industry will have further impetus to become active participants.

Right: Annemarie Gilly, *Vice President and Head of Global Mutual Funds, Wealth Management Services*

Bottom: Lisa Argento, *Director, Global Relations & Development*

The Year in Brief for Core Mutual Fund Services

More than two decades ago, when the mutual fund industry experienced explosive growth, DTCC set out to solve many of its operational problems. Fund/SERV® transformed transaction processing and money settlement for the fund companies and broker/dealers, banks and other firms that market mutual funds through automation and a single connection. Through periods of steady volume growth, Fund/SERV continues to provide the capacity to support the industry, while at the same time, driving down the cost of doing business. For the 1,037 companies using the service in 2009, Fund/SERV completed close to 197 million transactions, a 2% increase from the 194 million recorded the year before, while the volume of defined contribution and other retirement plan transactions included in this total rose to 42% from 38%.

Another service, Networking, allows funds and firms to automatically update and exchange account-level information. In 2009, the service supported 97 million subaccounts, a 3% increase from the 94 million recorded in 2008. Over the last five years, DTCC has reduced fees for both Fund/SERV and Networking, saving the industry close to $150 million.

In 2002, DTCC added 529 college savings plan transactions to the Fund/SERV platform. These plans are municipal securities; each state has its own 529 program requirements and administrative methods, which makes for highly complex transactions and escalated costs for fund managers and firms. DTCC further addressed these problems in 2009 with enhancements to Fund/SERV and Networking, allowing firms to capture an added level of customer data necessary to streamline processing.

Two additional core Mutual Funds services effectively reduce the long and often frustrating timeframes in which fund transfers are completed. ACATS-Fund/SERV, which moves mutual fund assets between firms, and which has been expanded to handle some fund-to-firm transfers, increased 30% to 731,000 transfers monthly, on average, compared to 561,000 in

DTCC has developed an innovative **suite of services** to support managed accounts and alternative investment products.

2008. And Transfer of Retirement Assets, a service that allows the movement of assets in fund-sponsored IRAs between fund companies, executed over 113,000 requests in 2009, a 36% decrease from the 177,000 recorded the previous year.

Reflecting changing marketplace trends, volumes in DTCC's Commission Settlement, which facilitates the timely payment of commissions to those who market fund products and eliminates the costly transfer of hard-copy payment records between funds and firms, dipped 8% to 2.1 billion from 2.3 billion.

Cross-border funds—principally those domiciled in Dublin and Luxembourg—have been traded on Fund/SERV since 2002. With heightened interest from European-headquartered funds and firms seeking the efficiency and low-cost processing that Mutual Fund Services provide in the U.S., DTCC opened membership in 2009 so that these firms could now become direct members of NSCC.

Planning Ahead of Marketplace Needs

To help set future direction and to identify opportunities where DTCC can help address new and ongoing challenges, Wealth Management Services established a Senior Advisory Board this year, comprising a cross-section of its customer base. Some of the issues considered by the advisory board include consolidation of funds, new regulations, and new demands from institutional and retail customers. For example, as firms continue to migrate to an omnibus environment, taking on more account-level activity, the need for increased transparency is amplified. DTCC is pursuing, with the industry, a service that will support omnibus accounting and provide funds with critical information on positions and activities.

Another DTCC priority is to migrate the industry onto Mutual Fund Profile Service, an all-encompassing central database of fund information that is extracted from prospectuses and other documents and is necessary to effectively distribute funds. The ability to access this data from a single source on a continuous basis strips away a long-standing and costly problem for funds and firms. It will have long-term benefits for industry members in the form of a dynamic tool that can help them drive their funds businesses forward.

When IRS cost-basis reporting requirements legislation becomes effective in January 2012 for the fund industry, a hugely important planning effort will have been completed. DTCC has already taken a leading role, working with a committee of the Investment Company Institute, to leverage the capabilities of its existing Cost-Basis Reporting and Mutual Fund Services to meet these new compliance obligations.

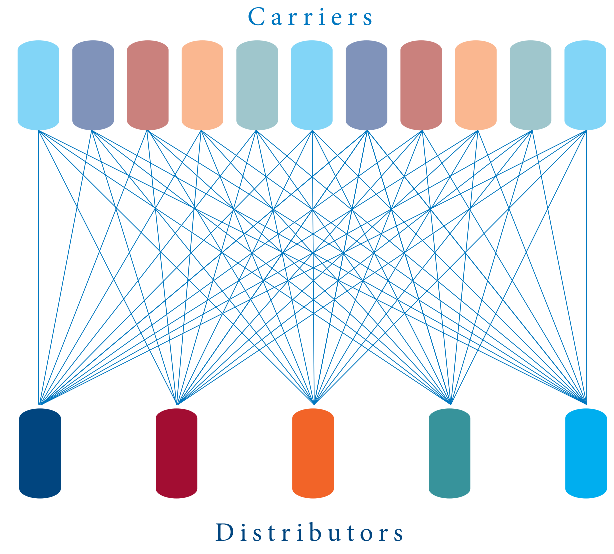
As investors moved to safeguard their retirement savings and income amidst the recent economic uncertainty, they continued to seek refuge by purchasing annuity products—attracted by their promise of guaranteed lifetime income.

Connecting More Trading Partners, Supporting Insurance Industry Growth Fixed annuity sales topped $105 billion last year, only 2% below the record high of 2008, placing renewed pressure on the insurance industry to modernize its infrastructure to meet this sustained level of demand.

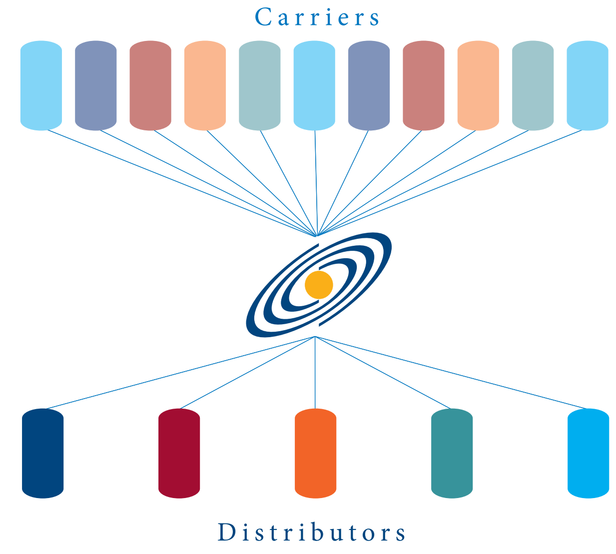
With investors concerned about their long-term financial security following one of the most difficult financial crises in more than 70 years, lawmakers and regulators in Washington and in state capitols made increased oversight of these financial instruments a priority. Given this climate, DTCC's Insurance & Retirement Services (I&RS) faced twin challenges in 2009: continue to expand automation of insurance processing to support its customers' growth and help achieve the transparency goals of regulators while also further reducing internal costs for insurance firms.

Michael A. Chernin, *Senior Unix Security Engineer, Corporate Information Security,*
Lisa Conner, *Team Leader, Financial Reporting,* Scot Halvorsen, *Associate Counsel, General Counsel's Office*

Proprietary Model
Distributors and carriers use their own direct lines with multiple trading partners



DTCC's Insurance & Retirement Services Model
Automated processing solutions connect all trading partners through one hub



Expanding Usage in Challenging Times In 2009, I&RS reached its highest level of service usage from a growing community of firms that now number over 400, including insurance carriers, firms that market insurance products, and technology vendors that offer services enabling companies to connect to DTCC. I&RS made significant leaps this year by adding 20 new users, nine of which were independent or bank broker/dealers, with nearly 40 more firms beginning the membership process to join National Securities Clearing Corporation (NSCC). In addition, product adoption increased significantly as existing customers added nearly 100 I&RS services into their mix, underscoring the growing importance that firms place on automation.

Growing product adoption and rising annuity sales generated more than 7.79 billion transactions through I&RS services, a 14% increase over the previous year's total of 6.84 billion. I&RS also settled nearly $25 billion in premium payments, up 3% from $24.2 billion in 2008.

I&RS posted record daily volumes for four services in 2009 as the industry further embraced automation to mitigate risk and enhance transparency:

- **Positions & Valuations,** which transmits annuity and life insurance contract details from carriers to distributors, set a new one-day high of 8.8 million records on October 1, 2009, up 13% from the previous peak of 7.8 million in August 2008. For the year, Positions & Valuations processed nearly 4 billion records in 2009 compared to just over 3.4 billion in 2008, a 17% increase.
- **Financial Activity Reporting,** which reports on account transactions throughout the life of a contract, established a new daily mark of 388,000 on May 4, 2009, up 28% from the previous peak of 303,000 set in December 2008. Annual volume for this service surpassed 58 million, a 17% increase over the 2008 total of almost 50 million.
- **Licensing & Appointments,** which automates the transfer of an agent's licensing and appointment status between carriers and distributors, set a one-day record on October 26, 2009, of 67.8 thousand, up 2% from the previous high of 66.4 thousand in January 2006.
- **Commissions,** an automated system that transmits commission information from carrier to distributor and provides same-day money settlement, set a daily record of 1.1 million on April 7, 2009, up 10% from the previous peak of 1.0 million achieved in April 2008.

I&RS encouraged **greater product adoption** by developing innovative new pricing strategies in 2009.

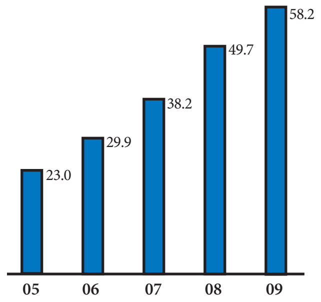
Building for Growth and Driving Down Costs In 2009, I&RS continued to work closely with its Senior Advisory Board (SAB), which consists of senior executives from major insurance carrier and distribution firms, to help encourage product adoption among current users and expand the number of new users. The SAB was founded in 2007 to provide I&RS with high-level guidance on long-term strategic goals and short-term planning for connecting the industry and building an electronic environment for insurance processing.

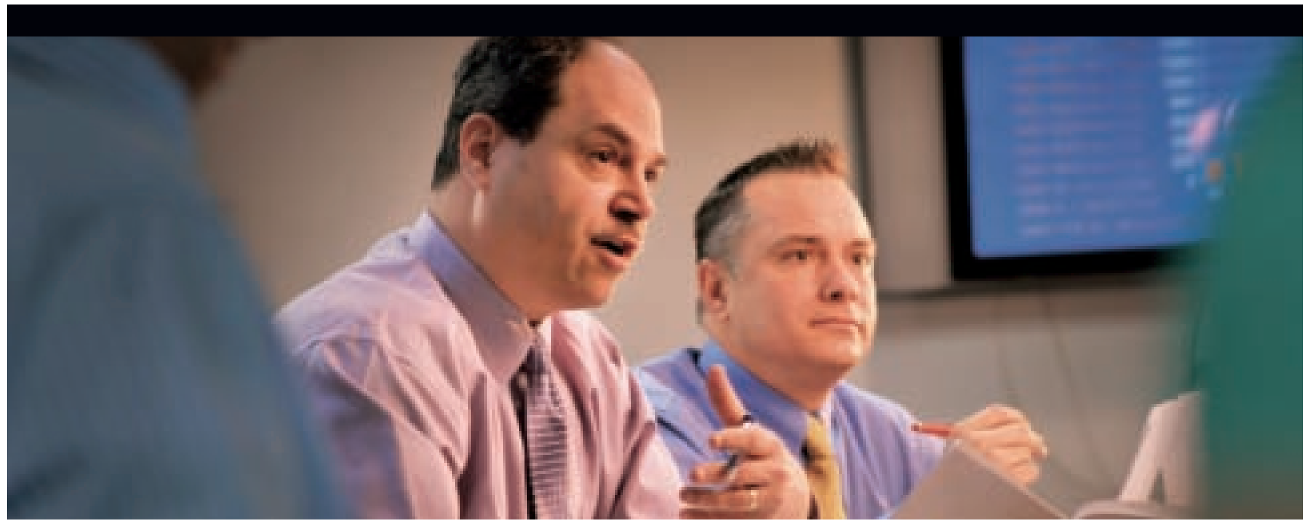
Based on input from the SAB and individual customers, I&RS focused on leveraging its core services by developing the Access Platform, a direct Web connection available at no cost to insurance industry customers. The Access Platform was originally introduced in 2008 as a desktop application allowing firms to verify the status and accuracy of an agent's appointment information to legally sell insurance.

New Pricing Strategies Drive Product Adoption I&RS encouraged greater product adoption by developing innovative new pricing strategies in 2009, including providing discounted fees on newer services, with firms able to apply the savings to their bill for any I&RS core service. These savings were added to the $6 million in fee cuts delivered at the start of 2009 due to rising processing activity, reflecting the value of DTCC's industry utility model that leverages economies of scale to drive down processing costs.

Briana Moskovic, *Manager, Relationship Management, Insurance & Retirement Services*

Insurance Financial Activity Reporting (FAR) Volume
(in millions)





Top: Cory Stark, *Director, Product Management, Insurance & Retirement Services,*
James K. Taylor, *Director, Relationship Management, Insurance & Retirement Services*

Right: Leonard Schmitt, *Group Director, Relationship Management, Insurance & Retirement Services*

I&RS's proactive steps to reduce fees and eliminate development and startup costs for the Access Platform yielded new opportunities for I&RS to reach out to mid- and smaller-sized independent broker/dealers, allowing the business to extend the risk mitigation and cost reduction benefits of its services to a wider segment of the insurance industry.

The Access Road to Greater Automation As part of the expansion of the Access Platform, I&RS added two "In-Force Transactions" in 2009, including a simple and efficient way to change Broker Identification Numbers, and Representatives of Record. In a year filled with mergers and acquisitions of major banks and broker/dealers, I&RS's automated capabilities and processing support were particularly useful in helping customers meet the enormous administrative challenges of this activity. And to ease the financial burden on firms, I&RS also enacted a pricing discount for mergers and other major events that produce an unusually large number of transactions.

New Challenges Encourage Innovation In 2009, I&RS unveiled a new Web-based service, "Attachments," which adds a critical component to the industry's straight-through processing initiative by allowing insurance carriers and distributors to electronically exchange digital (imaged) documents and electronically signed documents during the processing of annuity information for new business. Attachments mitigates operational risk by reducing the number of "not-in-good-order" (NIGO) transactions and expedites the confirmation process by eliminating the need to fax or mail paper documents. It also helps to meet increasing regulatory and compliance requirements by automating this process and producing a transparent audit trail.

In the future, I&RS will enhance Attachments to support documentation exchange for other functions as well as add the capability to the Access Platform.

What makes us different?

Our philosophy. Our approach. Our people.

Dedicated. Talented. Committed to excellence. Our people continue to distinguish and differentiate this organization. They have broad experience in not only the industry segments we serve, but also in the technology needed to deliver those services most efficiently. Our people work closely with customers to create solutions that help minimize risk, foster continued business growth—and benefit the entire financial services industry.

WHAT WE OFFER

Our goal is not only to help customers meet their current challenges but to develop new services that will support their efforts to grow new revenue sources and reach new trading parties. If there's a way for us to help our customers, we're anxious to do so.

Equities Clearing and Settlement

Automated Customer Account Transfer Service (ACATS)
A central processing system that provides for the timely transfer of customer accounts among participant financial institutions, including banks and broker/dealers. (NSCC)

Continuous Net Settlement (CNS)
An automated book-entry accounting system that centralizes the settlement of compared security transactions and maintains an orderly flow of security and money balances. CNS nets down or reduces the total number of trading obligations that require financial settlement. (NSCC)

Cost-Basis Reporting Service (CBRS)
An automated system that provides brokerage firms, banks and other financial organizations the ability to transfer customer cost-basis information from one firm to another on any asset transferred through the Automated Customer Account Transfer Service (ACATS) or otherwise transferred. (NSCC)

Settlement Service
Facilitates end-of-day net settlement of a participant's net settlement obligations resulting from trading activity.

Inventory Management System (IMS)
Allows participants to centrally manage their own settlements as a way of furthering straight-through processing. (DTC)

Institutional Delivery Netting Service (ID Net)
A joint service of The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC), that extends the benefits of netting to institutional trade settlement. (NSCC and DTC in collaboration with Omgeo LLC)

Fixed Income Clearing and Settlement

Real Time Trade Matching (RTTM)
A widely used interactive tool that enables dealers, brokers and other market participants to automate the processing of their securities trades throughout the trading day. (FICC)

Auction Takedown (GSD)
A service that reduces settlement risk and costs for participants in the Fixed Income Clearing Corporation's (FICC) Government Securities Division (GSD) that purchase securities through the U.S. Treasury Department's auction programs. (FICC)

Netting and Settlement
A service of FICC's Government Securities Division (GSD) that provides centralized, automated clearance and guaranteed settlement of eligible U.S. Treasury bills, notes, bonds, strips and book-entry non-mortgage-backed agency securities. (FICC)

Repurchase Agreements Services (GSD)
FICC matches and nets repo transactions as part of its netting process for other government securities trading activity, including all buy/sell transactions and auction purchases. (FICC)

Electronic Pool Notification (MBS)
Enables firms engaged in the mortgage-backed pool allocation and notification process to electronically transmit MBS pools to buyers in a quick, efficient and reliable manner. (FICC)

Custody and Asset Servicing

Custody and Safekeeping
Enables participants to outsource the safekeeping and processing of physical securities that are not or cannot be held through DTC's regular depository services. (DTC)

Underwriting Service
Allows underwriters to distribute both primary and secondary offerings of securities quickly and economically via electronic book-entry delivery and settlement. (DTC)

Direct Registration System (DRS)
Provides registered owners with the option of holding their assets on the books and records of the transfer agent in book-entry form. (DTC)

Security Position Reports (SPR)
Provide valuable information on the record date holdings of securities in DTC customer accounts. (DTC)

Global Corporate Actions

Global Corporate Actions (GCA) Validation Service
A centralized source of corporate action announcement information. (DTCC Solutions LLC)

GCA Browser Service
An online connection to the Global Corporate Actions (GCA) Validation Service database. (DTCC Solutions LLC)

GCA @Source
A comprehensive Web application that provides quick and easy browser access to securities data collected and maintained for the over two million securities eligible for processing by DTC. (DTCC Solutions LLC)

Loan/SERV

Loan/SERV Reconciliation Service
Allows for the reconciliation of more than 79,000 global lender positions daily between agents and lenders around the globe. (DTCC Loan/SERV LLC)

Mutual Funds

Defined Contribution Clearance and Settlement (DCC&S)
Facilitates the automated processing and reporting of defined contribution and other types of retirement plans that may include mutual funds, collective and stable value funds, guaranteed investment contracts, and other investments. (NSCC)

Fund/SERV
The industry standard for processing and settling mutual fund orders, including both 1940 Act and other pooled investment products for investment companies, money managers and financial intermediaries. (NSCC)

Mutual Funds Profile Service
Provides the fund community with a multi-dimensional, central data source for comprehensive fund prospectus and operational information. (NSCC)

Networking
An automated, centralized record-keeping system through which all customer account activities can be exchanged and reconciled by participants. (NSCC)

Other Wealth Management Services

Managed Account Service
A central gateway for seamless communication of some of the most important information required to establish and maintain managed accounts. (DTCC Solutions LLC)

Alternative Investment Products (AIP) Service
A platform that links global market participants and provides end-to-end processing of alternative investments such as hedge funds, funds of funds, private equity, real estate investment trusts and limited partnerships. (NSCC)

Insurance & Retirement Services

Licensing and Appointments (LNA)
Automates and standardizes the two-way flow of information needed to manage agent information between insurance carriers and distributors, eliminating paper and simplifying data exchange. It also provides for money settlement between parties for licensing- and appointment-related fees. (NSCC)

Financial Activity Reporting (FAR)
Enables insurance carriers to provide distributors with daily annuity and life insurance financial transaction information, giving them a comprehensive and accurate picture of client accounts and helping them supervise and manage those accounts. (NSCC)

Applications and Initial Premiums (APP)
A system that transmits initial annuity application and premium information from distributors to issuing insurance carriers. (NSCC)

Positions and Valuations (POV)
Transmits annuity and life insurance contract details from insurance carriers to distributors. (NSCC)

In-force Transactions (IFT)
Facilitates the exchange of information between insurance carriers and distributors for broker/dealer, Registered Representative and Broker Identification Number (BIN) changes. (NSCC)

Attachments (IAT)
Streamlines the processing of paperwork for new business in annuities by allowing for the electronic exchange of digital (imaged) documents, signatures and forms. (NSCC)

International

EuroCCP Clearing and Settlement (in Europe)
European Central Counterparty Ltd. (EuroCCP) is the European subsidiary of The Depository Trust & Clearing Corporation (DTCC) that provides pan-European, low-cost clearing services. (EuroCCP)

OTC Derivatives

Trade Information Warehouse
The market's first and only comprehensive trade database and centralized electronic infrastructure for post-trade processing of OTC derivatives contracts over their multi-year life cycles. (DTCC Deriv/SERV LLC)

Lifecycle Event Processing
Provides services to manage all phases of the OTC credit derivatives post-trade process, including automation of payment calculations, successor events such as reorganizations or renames of corporate entities and credit events such as bankruptcies, restructurings and insolvencies. (DTCC Deriv/SERV LLC)

Central Settlement
Central Settlement automates the exchange of payments in multiple currencies due on bilaterally netted, over-the-counter (OTC) credit derivatives contracts held at DTCC's Trade Information Warehouse. (DTCC Deriv/SERV LLC)

For further information about our products and services, please go to dtcc.com or call 1 800 422 0582 (U.S.) or 1 212 855 4270 (international).

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The DTCC Board is currently composed of 17 directors. Thirteen directors are representatives of clearing agency participants, including international broker/dealers, custodian and clearing banks, and investment institutions. Two directors are designated by DTCC's preferred shareholders, NYSE Euronext and FINRA, and the remaining two are the chairman and chief executive officer and the president and chief operating officer of DTCC. Individuals are nominated for election as directors based on their ability to represent DTCC's diverse base of participants, and Board committees are specifically structured to help achieve this objective.

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