The Depository Trust & Clearing Corporation

SAILING TO THE END OF THE MAP

ANNUAL REPORT 2010

MISSION

We protect our clients and financial markets and systems as a whole. We leverage our scale and expertise to perfect a more robust, unified infrastructure and promote solutions that systematically reduce risks, amplify operating efficiency and minimize cost.

VISION

We are unwavering in our commitment to drive out risks and costs. To achieve this, we partner with clients to bring stability to the global financial markets and create efficiencies for an ever-expanding industry.

About the cover:

THERE BE DRAGONS (TBD)

Medieval mapmakers would often write the initials "TBD" in the corners of maps they drew up for explorers. TBD stood for the expression, **"There Be Dragons,"** which was the mapmakers' way of saying they had no idea what was out there at the edge of the known world, but it was unquestionably dangerous.

INTRODUCTION

We are rapidly entering a period of **transformational change** in financial services, as policymakers and regulators fundamentally rewrite rules governing risk mitigation globally.

There are no clear navigational maps on this journey. Like those before us, we have essentially sailed to the end of the map — of the known world.

DTCC is moving with great focus and speed to **reexamine and enhance** our own internal risk controls, to work with customers and regulators to help control systemic risks and to see where our **centralized infrastructure** can provide data to effectively support regulators, while minimizing costs of regulatory compliance to our users.

This year, our Annual features some of the **great explorers** to remind us that throughout history, we have faced uncertainty. But trusting in our resolve to innovate, willingness to collaborate and our commitment to explore new destinations, we have endured to achieve amazing new discoveries.

LETTER TO STAKEHOLDERS

A sweeping transformation is underway across global financial markets, in response to the worst financial crisis since the Great Depression. It's reshaping DTCC, and challenging us to fundamentally reexamine how we mitigate risk and protect our customers and the financial markets.

In response, DTCC has launched a top-to-bottom reassessment of how we think about and oversee risk, how we manage it and how we mitigate it — both within DTCC itself, and, more broadly, across the financial system. This is a huge challenge, and as the theme of this annual report conveys, we have indeed sailed into uncharted waters.

It is not, however, a complete change of course. DTCC's core mission has always been, first and foremost, to protect and mitigate risk for customers, issuers and investors. Throughout our history, we have successfully done just that. In each crisis — the 1987 market break, the financial crises of the 1990s, 9/11, the financial meltdown of 2008 and others — DTCC has protected members and helped safeguard the integrity and reliability of the global financial system.

We have done our job well, but times have changed. As the world's largest infrastructure organization, we must become ever more vigilant in our efforts to provide the safety and soundness on which the industry relies.

We have designated this aggressive, enterprise-wide initiative to take risk management to a new level as "DTCC 3.0." DTCC 3.0 means reshaping DTCC's systems and services to lower their risk profile, further safeguard DTCC and the financial industry, and, oftentimes, also make us more efficient from a cost standpoint. It means reevaluating many assumptions behind the practices we employ and the services we've been offering customers for decades.

In other words, it will alter significantly how we support and work with customers to identify and mitigate risk, while minimizing costs as much as possible.

DTCC's New Mission and Vision Hallmarks of DTCC's risk transformation are the new Mission and Vision Statements we recently introduced to communicate our long-term strategic direction. As we move into this new decade and embrace this more expansive understanding of risk, our **Mission** statement is:

> **We protect our clients and financial markets and systems as a whole.** We leverage our scale and expertise to perfect a more robust, unified infrastructure and promote solutions that systematically reduce risks, amplify operating efficiency and minimize cost.

Our **Vision** statement is:

> **We are unwavering in our commitment to drive out risks and costs.** To achieve this, we partner with clients to bring stability to the global financial markets and create efficiencies for an ever-expanding industry.

As our Mission and Vision statements attest, our reputation as a trusted provider is built not only on risk management but also on our other core capabilities to tightly manage costs, create efficiencies, maintain the highest standards for quality and excellence and put the interests of our customers and the financial markets first.

Addressing Systemic Risks At the core of our "3.0" transformation is our greatly expanded understanding of risk. During 2010, DTCC's Systemic Risk Office completed an extensive study that identifies a series of processes and events that present systemic risk exposures, either directly to DTCC or to the financial markets more broadly. During 2011, we intend to expand the dialogue on these issues through communications with customers and other interested parties, and to move forward with near-term strategies to continue progress on these issues.

DTCC recognizes that this fundamental reappraisal of risk and the higher degree of rigor it demands will entail ongoing dialogue with our customers, regulators and other market participants in the coming years.

The scope of changes this reappraisal will necessitate is illustrated perfectly by fundamental revisions to core services that DTCC continued to develop in 2010:

- **Accelerating the Trade Guarantee.** The events of 2008 underscored the importance of accelerating NSCC's trade guarantee from midnight of T+1 to point-of-validation on trade date. The new guarantee, expected in 2011, will significantly reduce credit exposure and systemic risk across the industry by eliminating up to two full business days' worth of counterparty risk.
- **Strengthening Margining Capabilities.** DTCC began implementing upgraded intraday risk monitoring systems for NSCC and FICC, and is preparing to implement intraday margining. These upgraded capabilities allow DTCC to monitor intraday changes in risk exposure, and, where appropriate, trigger intraday calls to improve our ability to ensure we have enough collateral on hand to safeguard against a firm failure. We also completed the design of several other extensive revisions to margining practices for implementation in 2011, again to provide a more sophisticated means of calibrating the collateral needed to secure exposures to customer activity.
- **Mortgage-Backed Securities.** Working with our customers, DTCC continued steps towards implementing the safety of a trade guarantee to this market for the first time ever, and lowering risk by reducing settlement activity through pool netting. Pending regulatory approval, we expect to transfer our mortgage-backed securities division into a central counterparty structure in 2011.

WE PLAN FOR THE UNTHINKABLE AND UNIMAGINABLE — TO ENSURE THAT IT NEVER COMES.

- **Money Market Instruments.** During 2010, DTCC worked with the SIFMA Money Market Instruments (MMI) Blue Sky Taskforce to develop new approaches to strengthen risk controls in the MMI system. These plans will be discussed extensively with market participants in 2011, leading to subsequent implementation of agreed changes.
- **Entitlement Payments.** For many years DTCC has supported customers' allocation of entitlement (income, redemption, reorganization) payments to their investor clients by advancing funds intraday, anticipating their receipt by day's end, to reduce the impact of inefficiencies in this process. As, through industry-wide effort, this process has dramatically improved, it has become clear that DTCC should no longer take these risks; during 2010, working with customers, DTCC completed preparations to move to a process under which the depository processes these payments the same day only if we receive them along with the appropriate information before a daily cutoff time.

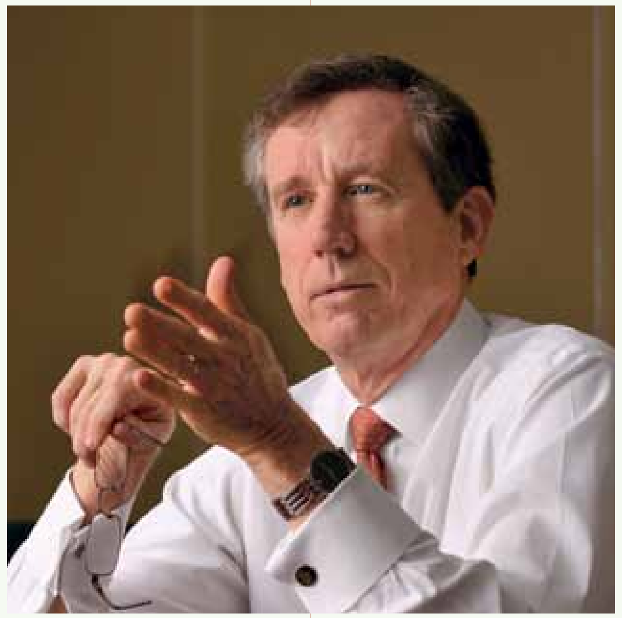
In each of these cases, DTCC has worked closely with our regulators to tailor these revisions and to develop extensive analyses supporting them. The heightened sensitivity to risks driven by the financial crisis has rightfully "raised the bar" in how these changes are designed and developed and how DTCC works with our regulators in the approval process. DTCC remains optimistic that all of these critical changes for the markets will proceed in 2011.

Continued Reliability and Innovation

But even as we rethink the risk issues in our core processing responsibilities, DTCC continued to deliver rock-solid reliability in our activities and innovative solutions for new risk concerns. In 2010, we continued to seamlessly process in excess of $1.66 quadrillion in securities transactions across asset classes, including equities, fixed income, OTC derivatives, money market instruments, mutual funds and insurance products. We continued to deliver robust systems reliability, posting 100% uptime for mainframe processing and 99.99% for Web availability. And, for the fifth year in a row, we achieved a world-class 91% overall customer satisfaction rating in an independent annual customer survey.

Even as we focused on DTCC's core risks and responsibilities, we also completed work on innovations addressing new issues for the markets. Let me highlight some key examples:

- **New York Portfolio Clearing (NYPC),** our joint venture with NYSE Euronext, is a groundbreaking initiative that will reduce risk and deliver capital efficiencies to its members by providing a single margin calculation across government securities trades cleared at FICC and related futures positions traded on NYSE Liffe U.S. It's designed to provide much larger efficiencies in margining and a consolidated view of both futures and cash market activities for government securities. NYPC received regulatory approval on March 1, 2011 and subsequently launched in late March.
- We've also created the **Obligation Warehouse** (OW) to automate the matching of broker-to-broker trades that are currently settled directly between the trading parties (known as "ex-clearing" trades). With real-time access to track, manage and resolve failed obligations, the OW will help firms better manage and address the operational risks and costs associated with processing these ex-clearing trades.
- We delivered key milestones in reengineering the **Corporate Actions** platform that will help mitigate risk and automate and transform the way corporate actions are announced and processed in the U.S, including release of new standardized ISO 20022 message formats, a milestone in migrating U.S. corporate actions processing to international standards.



Expanding OTC Derivatives Capabilities

The Warehouse Trust Company was established in March 2010 as a New York State bank member of the Federal Reserve System to operate our Trade Information Warehouse for over-the-counter (OTC) credit default swaps (CDS). Its launch was an important step forward in furthering regulatory and industry objectives to bring greater transparency and added risk mitigation to the global OTC credit derivatives market. We also continue to add more CDS transaction data to what we already publish online for greater public transparency, which now includes net market-wide exposures to each CDS index and index tranche, as well as market-wide exposures to each of the top 1,000 individual corporate and governmental entities on which CDS are written.

In another move in the OTC derivatives market, in mid-2010 we introduced a data repository for global OTC equity derivatives, and later an automated cash flow matching and netting service for these contracts to bring greater transparency, risk mitigation and accuracy to that area. We've seen the value that our Trade Information Warehouse's automated settlement functionality has brought to the CDS market, and we believe this service can deliver the same valued benefits to other OTC derivatives asset classes.

Transparency in the global OTC derivatives market has become a global regulatory imperative, and DTCC and our members are committed to meeting this objective so regulators can view risk exposures from a central vantage point and help protect markets against systemic risk. To assist them in doing this, we've just launched the first automated online portal through which regulators and other authorities can directly access and query detailed position risk data from the data (covering 98% of all CDS contracts in the global market) registered in DTCC's global repository.

The Global Dimension

DTCC's derivatives activities exemplify our continued efforts to expand our support for our members' activities globally. In addition to our broad involvement in the support of the global derivatives markets, DTCC also continues, through our EuroCCP subsidiary, to help drive the consolidation of the clearing infrastructure in Europe and to continue the dramatic reductions in European clearing fees — in part to prepare for the evolution of the truly trans-Atlantic trading markets signaled by recent exchange merger announcements. Other DTCC services continued to expand in their global scope — Loan/SERV's reconcilement system, for example, now holds positions in loans from 20 different countries and in 11 different currencies, a solid base for its 2011 expansion to include a delivery-versus-payment-type settlement capability in major currencies.

As the global dialogue on regulatory reform proceeded throughout 2010, DTCC also remained deeply involved. Senior DTCC management participated in extensive efforts to work with legislators and their staff on various issues as the U.S. Dodd-Frank financial reform legislation took shape. Similarly, DTCC participated in discussions in Europe with European legislators and regulatory authorities on key initiatives addressing issues comparable to Dodd-Frank, including, among others, the European Market Infrastructure Regulation and changes to the Markets in Financial Instruments Directive.

One issue emerging from global regulatory reform efforts signals another possible opportunity for DTCC to support the global markets and its customers. With the creation of financial stability oversight mechanisms in the U.S. and Europe, there appears to be an evolving regulatory consensus that broad mechanisms must be developed to support transparency of financial institutions' activities to global supervisors, including a global system of financial institution identifiers.

Last year, DTCC acquired Avox Limited, a reference data business, as part of our global strategy to provide customers with a full suite of value-added data capabilities. Avox's primary business is maintaining high-quality reference information on legal counterparties needed by financial services firms to support a variety of operational, risk management and compliance activities. Working with SWIFT, the Belgium-based banking cooperative, DTCC has advanced a proposal to financial stability oversight authorities to leverage these Avox capabilities as a core component for a global identifier system.

DTCC also has discussed with regulators, in the U.S. and in Europe, ways of leveraging infrastructure data collection as the basis for broader transparency capabilities, similar to the steps we've taken for OTC derivatives. We hope that global regulators will agree on the overwhelming advantage of understanding risks globally, from a central vantage point, thereby avoiding the data fragmentation that could critically detract from systemic risk management.

I must also express my personal thanks to our President, Bill Aimetti, who retired in February. Throughout his career, Bill has been instrumental in ensuring that DTCC's systems and operations function at world-class levels. He brought a new level of discipline to how we develop applications and manage our infrastructure, while reducing risk and driving continuous improvement.

William B. Aimetti, *President, DTCC*

Corporate Governance

In 2010, DTCC completed the major phase of a renovation of our corporate governance practices to strengthen our abilities to oversee risk. Many changes in Board structures — committees, reporting practices and the like — have fortified our corporate governance mechanisms
and strengthened Board oversight. We have enhanced internal governance as well with similar changes at the management level — a New Initiatives Committee to review new service proposals from multiple perspectives, including an eye to the risks each project may pose to DTCC, our customers and the markets, and a Management Risk Committee for detailed oversight and discussion of risk issues among senior management.

Reflecting DTCC's increasingly global scope, and strengthening its corporate governance practices, DTCC's Board and management agreed in mid-2010 that it was time for DTCC to adopt the practice of splitting the positions of Chairman of the Board and Chief Executive Officer, with the Chairman to play a more active role in the control structures of DTCC and the CEO to run the actual businesses. In early April, the Board announced that Robert Druskin, a veteran industry leader, would be appointed Chairman of DTCC's Board, effective April 18, 2011. The Board and management are unanimous in our belief that this will further strengthen DTCC's ability to meet our many responsibilities and assure continued resilient and robust risk management, and we are delighted to have Bob become an integral member of DTCC's senior management team. His expertise will be of great value as we face heightened industry requirements to develop innovative, effective solutions that facilitate the health and competitiveness of the global capital markets.

Minimizing Costs While Maximizing Risk Mitigation

Remaking an entire process of risk management with far more checks and balances does not come easy — or cheap. There are costs involved that entail, among other things, enhancing risk management systems and procedures, the expansion of staff, implementing a capability for the development of analyses and action plans to address systemic risk issues in DTCC's own systems and in industry functions we support, and other enhancements to the important control functions DTCC provides for the industry. At the same time, DTCC continues to see significantly depressed transaction volumes, as compared with periods before the financial crisis.

Given DTCC's risk management demands and the market environment, at the recommendation of DTCC management, DTCC's Board of Directors approved in December a 16% fee increase across DTCC's businesses. But we are working hard to control these costs and to offset them with cost reduction steps where possible in other parts of our business.

Thanks to Our Board of Directors

DTCC's Board plays an invaluable role in providing guidance and broad industry perspective, as we look to transform our risk management, control costs and enhance our support for customers. We are grateful to our directors — and their organizations — for the time and energy they devote to our activities, and I want to extend particular thanks to Bob Kaplan, Executive Vice President of State Street Bank & Trust Co., who retired from our Board at the end of this Board year, for his particular contributions. We are fortunate that DTCC is able to attract such experienced and diverse talent to our Board.

The People of DTCC

Seeing risk transformation as an opportunity to strengthen the industry epitomizes the spirit of DTCC. Our employees' contributions are key as we strive to protect customers and the industry, and minimize operating costs.

DTCC has an enormous challenge ahead to achieve our mission and vision, and bring an unparalleled level of risk mitigation to our customers and the industry. But DTCC has risen to every challenge that this organization and our industry have ever faced. I am absolutely confident that DTCC will do so again, and that we will make DTCC 3.0 and its dramatically strengthened support for our transformed industry and the markets a reality. We want to be, and we will be, the best-in-class example of an organization that others can point to as "how it's done."

Donald F. Donahue
President and Chief Executive Officer

DTCC 3.0

Risk management and mitigation have always been at the heart of DTCC's core responsibilities to the financial services industry. In response to the financial crisis, DTCC has launched an aggressive enterprise-wide program — **"DTCC 3.0" — that will further strengthen DTCC's risk management capabilities at every level,** to deliver even greater protection to our customers and the industry as a whole, promoting stability in the markets globally.

PROPOSED CHANGES UNDER DTCC 3.0 IN 2011

1 ACCELERATING NSCC'S TRADE GUARANTEE

Upon regulatory approval, NSCC will guarantee completion of Continuous Net Settlement (CNS) and Balance Order trades upon receipt and validation of the trades — generally more than a day earlier than the current guarantee. NSCC's accelerated guarantee will substantially mitigate member firms' credit risk exposure and is consistent with the timeframe that FICC and EuroCCP now provide. To backstop the enhanced trade guarantee, NSCC will add two new components — the margin requirement differential and the coverage component — to its clearing fund formula and augment its intraday monitoring to include intraday calculations of mark-to-market and volatility exposures.

2 MODIFYING NSCC'S CLEARING FUND METHODOLOGY FOR LIQUIDATION PERIOD

NSCC is modifying the assumed liquidation period used in the clearing fund calculations to reflect that a portion of a failing member's positions across all assets (equities, corporate and municipal bonds and unit investment trusts) are liquidated each day of the assumed three-day liquidation period, as the market depth for the issues permits. The previous methodology assumed all liquidation would occur at the end of the third day. NSCC anticipates this change will reduce clearing fund requirements for most members.

3 LAUNCHING THE OBLIGATION WAREHOUSE

NSCC's Obligation Warehouse, launched in Q1 2011, provides a central, industry-wide repository for processing trades that were previously confirmed and settled directly between trading parties rather than through NSCC (known as ex-clearing trades), processing other open obligations, and for managing fails. The warehouse will enable members to manage counterparty risk and improve operational efficiency by supporting the confirmation of ex-clearing transactions and providing a repository of broker-to-broker fails for equities and corporate and municipal bonds.

4 INCORPORATING BACK AND STRESS TEST RESULTS INTO NSCC AND FICC MEMBERS' CLEARING FUND REQUIREMENTS

Back tests measure the sufficiency of the clearing fund by using real price moves to create a synthetic liquidation profit or loss, which is then compared with individual members' clearing fund deposits; stress tests measure model performance under extreme scenarios. While NSCC and FICC have not previously incorporated back and stress test results into members' margin calculations, they intend to modify procedures to apply preestablished criteria (including the dollar amount and frequency of any member deficiencies and member financial resources) to determine when and by how much to increase individual member clearing fund requirements and/or whether a situation must be escalated to senior DTCC management. The timing and sequence of these initiatives will depend on regulatory rule filing approvals, and members will be kept informed of implementation progress.

5 ADDING AN FICC INTRADAY MARGIN CALCULATION AND COLLECTION CYCLE

To protect members from a spike in intraday exposure, FICC is instituting more frequent assessments of value at risk (VaR) and adding an intraday margin call for its Government Securities Division (GSD) participants concurrent with the start-up of New York Portfolio Clearing on March 21, 2011. As part of this change, FICC will eliminate for GSD members the clearing fund's margin requirement differential component, which the intraday cycle will render unnecessary. In addition to the intraday calculation, FICC will mark all positions to market intraday, enabling FICC to respond quickly to increased price volatility and intraday position changes. FICC's GSD will collect debits and pay credits to members through the Federal Reserve's automated Funds-Only Settlement service.

6 GUARANTEEING MORTGAGE-BACKED SECURITIES TRADES

FICC is also preparing to become a central counterparty (CCP) for mortgage-backed securities trades, pending final regulatory approval. As a CCP, FICC will guarantee MBS transactions, which will require some changes to the clearing fund calculation, including the addition of the margin requirement differential and coverage component. Furthermore, certain members will later be able to combine their GSD and MBSD positions in a single margin portfolio for risk management purposes. Members who maintain more than one account within a division may also elect to combine these accounts for risk management purposes, subject to limitations. To provide liquidity in an extreme failure scenario, the MBS CCP has established a "Capped Contingent Liquidity Facility," which allows it to source needed liquidity across its membership rather than relying on other static and often expensive credit sources.

7 IMPLEMENTING ONE POT MARGINING

New York Portfolio Clearing, LLC (NYPC), a joint venture of DTCC and NYSE Euronext for clearing U.S. fixed income derivatives, will enable members to improve their capital efficiency by margining their FICC and NYPC (U.S. Treasury futures and options) positions in a "one pot" margin portfolio. To further improve capital efficiency, members' affiliated legal entities will be allowed to combine their FICC and/or NYPC positions in the same margin portfolio. NYPC will allow regulators to view market risks across asset classes from a single vantage point, delivering an unprecedented level of market transparency.

8 RESTRUCTURING THE P&I PAYMENT PROCESS

Effective February 2011, The Depository Trust Company (DTC) is implementing new policies and procedures for the daily collection and allocation of cash entitlements — commonly referred to as principal and income (P&I) payments — due on DTC-eligible securities. The changes are designed to eliminate the risks of prior allocation practices. Under the new procedures, DTC will not disburse entitlements to beneficial owners until it has received the corresponding payments from agents and unless the payment information includes sufficient detail to be able to pair payments with their specific CUSIP numbers.

9 IDENTIFYING POTENTIAL SOURCES OF SYSTEMIC RISK

DTCC has prepared a groundbreaking paper on systemic risk that identifies key risks across the financial system infrastructure. The paper, approved by DTCC's Board and shared with key regulators in the U.S. and in Europe, discusses the challenges of detecting new forms and types of risk. It also proposes steps that market participants, including infrastructure entities, can take to adequately assess systemic risks and incorporate such assessments into the design and approval of new products and services. DTCC is currently developing plans to address areas of potential risk identified in the study.

10 IMPROVING TRANSPARENCY IN THE GLOBAL OTC DERIVATIVES MARKET

DTCC is continually expanding its reporting and processing services that increase the transparency of the global over-the-counter (OTC) derivatives market. DTCC in 2010 established a new London-based subsidiary, DTCC Derivatives Repository Ltd., to maintain global credit default swap data identical to that maintained in the New York-based Trade Information Warehouse (TIW) and also to house the new Equity Derivatives Reporting Repository (EDRR). The EDRR serves as the industry's repository of standardized data on equity derivatives positions; EDRR data, just like data from the TIW, is provided to regulators for risk-monitoring purposes. DTCC's Deriv/SERV unit in 2010 also launched the market's first automated, global cash flow matching and netting service for OTC equity derivatives. In 2011, it is establishing an online portal to give regulators worldwide secure, direct access to detailed data from the TIW's global data set.

11 EDUCATING STAKEHOLDERS ON RISK MANAGEMENT POLICIES AND PROCEDURES

To equip our participants and supervisors with the knowledge and tools necessary to prepare for possible firm failures or other systemic breakdowns, DTCC during 2011 will introduce a new education program. The program will be designed to deliver operations- and executive-level information on the risk management policies and procedures of the company's primary clearance and settlement subsidiaries. The program will provide instruction in the margining and guarantee processes of NSCC, FICC and DTC. The program will also offer workshops that will enable participant firms' risk officers and treasurers to explore wind-down and close-out scenarios under a variety of hypothetical circumstances.

12 STRENGTHENING THE CORPORATE CULTURE

DTCC's employees are on the front lines of the organization's risk transformation; they are responsible for driving the process and radically changing how they do their jobs. One overriding responsibility will be the same for everyone: accountability for identifying and managing all aspects of risk. DTCC has introduced a multi-stage program to support staff during this transitional period. This includes training for supervisors; briefings by officers; and online guides to help staff as they create annual development plans and pinpoint key areas and actions specifically related to risk.

LEIF ERICSSON 1000

VIKING EXPLORER LEIF ERICSSON SET OUT ON HIS EXPEDITION TO FIND NORTH AMERICA, ARMED WITH LITTLE MORE THAN AN EARLY ACCOUNT BY ANOTHER COUNTRYMAN, BJARNI HERJÓLFSSON, WHO HAD BEEN BLOWN OFF COURSE EN ROUTE TO GREENLAND SOME YEARS BEFORE.

Herjólfsson reported seeing what looked like new lands beyond Greenland. Hearing this, Ericsson was inspired to make his own journey.

Ericsson spent part of his youth in Greenland, the land that his father, Eric the Red, had discovered, colonized and named. And so it was from Greenland that Ericsson put to sea in the year 1000. Within weeks, he and his crew of 35 sailors had sailed south and reached today's Newfoundland, in northeastern Canada. He became the first European to reach North America, besting his closest competitor, Christopher Columbus, by almost 500 years.

Just as Leif Ericsson based his exploration on earlier narratives, DTCC typically pushes ahead with new products and new technology based on participant reports and concerns. Working closely with its customers, DTCC is able to monitor trends and innovations in the financial services industry, with the opportunity to explore possibilities and fashion products and services that support the industry as a whole.

For example, New York Portfolio Clearing, DTCC's joint venture with NYSE Euronext to clear futures trades and margin them into one pot with cash trades, reflects the urgent push by DTCC customers to reduce risk while lowering costs. DTCC listened to its customers and took the lead in exploring how to construct a new product that can clear regulatory requirements, add to market diversity and reduce costs by accurately accounting for risk.

TRANSFORMING RISK MANAGEMENT WILL SIGNIFICANTLY ALTER HOW DTCC SUPPORTS AND WORKS WITH CUSTOMERS.

In 2010, DTCC embarked on far-reaching initiatives on the front lines of risk management: enterprise risk, systemic risk, operational risk, compliance and audit. DTCC has also strengthened its governance structure relating to risk management, focusing on collaborating with customers and policymakers in the U.S. and abroad to identify ways to leverage its systems for cost-effective regulatory compliance.

Three Lines of Defense Across the enterprise, DTCC is employing the "three lines of defense" model to better manage risk throughout the organization.

The first line of defense is DTCC's individual business lines, including Product Management, Operations, and Information Technology, and other business areas that own and manage the various forms of risk. These groups are responsible for identifying and measuring risks that affect their businesses, and judging how effectively the risks are being controlled. A top priority is implementation of appropriate technology to standardize and streamline data collection and assessment, making it easier to evaluate the business units' risk profiles.

The second and third lines of defense rest with DTCC's specific risk control areas, including enterprise and operational risk management areas, and DTCC's Internal Audit group. These capabilities are being upgraded to ensure that DTCC is prepared for the challenge of assumptions about tolerable levels of risk.

Managing Enterprise Risk DTCC continues to transform its Enterprise Risk Management (ERM), which encompasses the management of market, liquidity and credit risk. A number of initiatives underway will make ERM even more robust and improve liquidity resources in the depository, equity and fixed income clearing corporations, and the newly-launched New York Portfolio Clearing (NYPC). With regard to liquidity risk, DTCC is positioning itself to analyze the impact of the new regulatory standards promulgated by CPSS/IOSCO and Dodd-Frank.

Among DTCC's initiatives are preparations for intraday collection of margin, as well as the close monitoring of customer liquidity levels on an intraday basis. Intraday margining will supplement the existing end-of-day cycle and serve to reduce risk by providing a timelier, more accurate picture of customers' trading positions and margin requirements during the day. The Government Securities Division of FICC will implement intraday margining in connection with the implementation of its one pot margining approach with New York Portfolio Clearing in the first quarter of 2011, while NSCC will take steps to initiate the collection of intraday margin later in the year.

In another effort to narrow industry risk, NSCC is working to implement a near real-time trade guarantee for all Continuous Net Settlement-eligible trades, including equity, corporate bond and municipal bond transactions, pending regulatory approval. Accelerating the trade guarantee will reduce counterparty risk for trading firms by having NSCC become the central counterparty earlier in the trade lifecycle. Currently, NSCC guarantees trades at midnight of T+1. This project would apply NSCC's guarantee at the point-of-trade validation for locked-in trades (i.e., trades already compared and matched at the marketplace). Trades submitted for comparison would be guaranteed upon comparison.

DTCC is also strengthening basic credit analysis and monitoring. In addition to traditional financial measurement data, DTCC will be reviewing leading indicators of near-term risk that can help to determine what the market is thinking, in real-time, about a particular member or counterparty.

DTCC has also evolved many new sophisticated and specialized computer models and algorithms to conduct back and stress testing on participants. (Stress tests assess the vulnerability of a financial institution or system to extreme market and credit risk scenarios, whereas back tests compare real portfolios and trading results by a firm with model-generated risk analysis.) DTCC has enhanced its Quantitative Analysis Research Platform, with all back and stress test studies now performed on this platform, using production-sourced data.

Zeroing In on Systemic Risk DTCC's systemic risk policy requires understanding the impact on — and threats to — systemic stability that may arise as a result of internal processes, procedures and systems in day-to-day operations, as well as by the possibility of responding to an extraordinary market event, or through interconnectedness with other entities.

In line with this initiative, DTCC has recently completed a major study that identifies potential sources of systemic risk within DTCC as well as from certain market conventions and practices. This study carefully reviews areas that may have systemic implications — such as access to liquidity during normal times or extreme events, high frequency trading and its impact on DTCC, and worst-case scenarios for extreme financial events. DTCC is now developing plans to address areas of potential risk identified in the study.

DTCC has also incorporated systemic risk assessment into the approval process to develop any new products or services by examining potential benefits or adverse effects on systemic stability. This assessment is part of the work of DTCC's New Initiatives Committee (NIC), created in 2010 to evaluate and rigorously assess the risks of all proposed business projects.

A Defense Framework for Operational Risk Working with regulators, customers and employees, DTCC is strengthening its operational risk management. Building on past efforts and accomplishments, DTCC has formulated a detailed implementation plan for enhanced operational risk capabilities. The plan outlines a systematic, top-to-bottom review of all activities across the organization, to bring more structure to DTCC's operational risk model and sharpen its approach to risk.

DTCC continues to put in place a framework that is helping the organization pinpoint the data needed to identify current and emerging risk in every business area, adopt the technology that will allow the company to efficiently analyze and monitor that data, and then to work with each business and senior management on risk mitigation efforts and controls.

Focusing on Compliance and Internal Audit Over the past several years, DTCC has strengthened its overall compliance and internal audit programs, centralizing key functions and implementing enhanced policies and procedures.

Christopher Pento | Managing Director, Knight Execution and Clearing LLC

Thomas Gooley | Managing Director, Head of Operations, Morgan Stanley Smith Barney

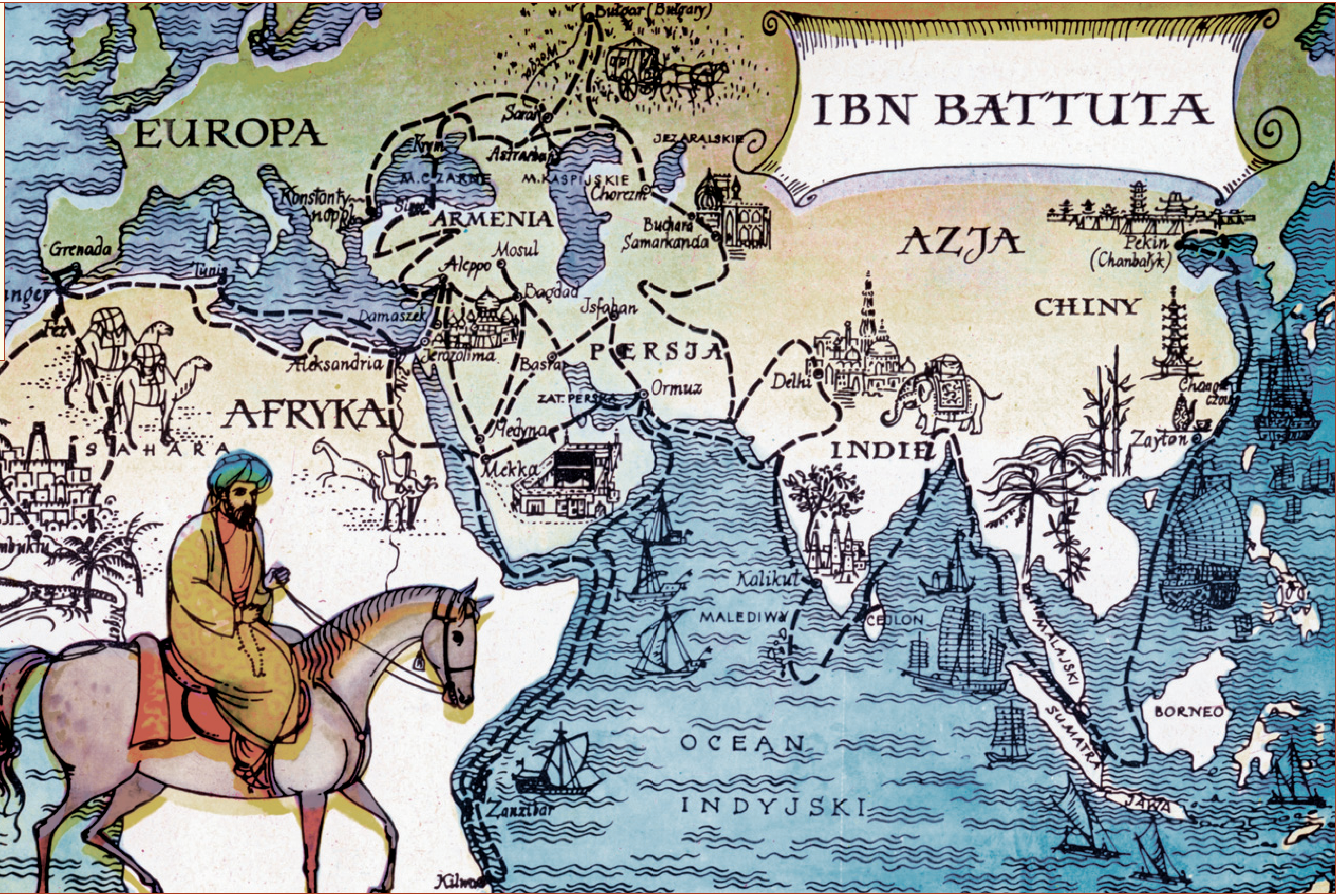
DTCC's Office of Compliance and Regulatory Compliance (OCRC) team supports the business and functional areas by sharing results of compliance risk assessments and performing compliance testing of key laws and regulations applicable to DTCC. The OCRC has broadened its compliance training and education to help employees identify and mitigate risk. In addition, the OCRC continues to expand its risk monitoring activities, acting in a number of situations where suspicious activity was detected, and in some cases helping to support subsequent action by appropriate regulators to thwart illicit activity. Through this outreach, regulators and law enforcement officials are developing a deeper understanding of these types of problems, and increasingly are seeking DTCC's help with their investigations.

In DTCC's ongoing risk management transformation, Internal Audit is expected to review practices and controls with risk implications for the organization, including strategy, structure, and even the industry's standards and practices. As part of this effort, Internal Audit has introduced a management control and awareness program that requires managers of the business and functional areas to self-report control issues. This process helps foster a culture centered on risk mitigation by engaging the entire organization in identifying and managing risk, and in designing and evaluating controls.

The Front Line: Employees DTCC's risk transformation also encompasses multiple culture changes. For instance, the organization has introduced broad employee communications and mandatory education programs. The intention is to build and reinforce employee awareness about what constitutes risk across the enterprise, and what solutions might be applied to reducing it. The organization is also actively recruiting professionals with state-of-the-art risk management skills and perspectives, as well as embedding risk and control staff in business lines and operations.

DTCC'S REPUTATION IS BUILT NOT ONLY ON RISK MANAGEMENT BUT ALSO ON OUR COMMITMENT TO MANAGE COSTS AND CREATE EFFICIENCIES FOR OUR CUSTOMERS.

IBN BATTUTAH 1325



NEARLY HALF A CENTURY
BEFORE MARCO POLO EVEN SET OUT FOR CHINA, IBN BATTUTAH HAD ALREADY BEEN THERE.

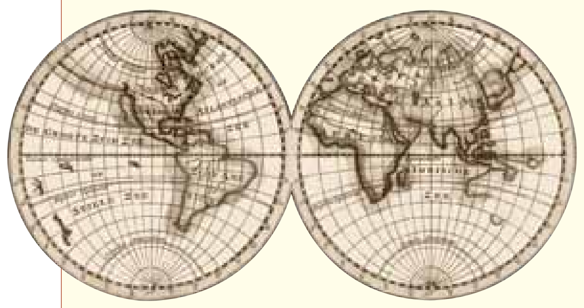
He was 21 when he left his home in Tangier in 1325, traveling through North Africa and Syria, to make the "Hajj" or Muslim pilgrimage to Mecca. And then, with an insatiable curiosity about the world that stretched beyond, he kept going. When he finally returned home, he was 51.

During his travels, Battutah floated down the Rhine, sailed the Indian Ocean, and rode countless miles on camels and horses. He also spent eight years in the court of the Sultan of Delhi, who then sent him as North India's ambassador to the Middle Kingdom — present-day China.

All in all, Battutah traveled an astounding 75,000 miles and visited the equivalent of 44 modern-day countries. No other medieval adventurer is known to have traveled so extensively. His vivid descriptions of the political and social climate of the regions he explored have provided great insight into medieval Eastern civilization. Back in Morocco, he eventually recounted his years on the road in one of the world's greatest travel books. The book's title, "*Rihla,*" is loosely translated in classical Arabic as "The Journey."

Like Ibn Battutah, DTCC shares a thirst for learning from market participants and other financial service organizations around the world, and quests to build relationships and share knowledge, both formally and informally. We have knowledge-sharing agreements with securities infrastructure partners from countries as varied as Brazil, China, India, Japan, Korea, Pakistan and Taiwan. For DTCC, our journey is an exploration of opportunities to strengthen the global financial services industry and further mitigate risk, minimize costs, create efficiencies and provide safety and reliability.

Clearance & Settlement — Equities



NSCC SAFEGUARDS THE CAPITAL MARKETS WITH ITS CENTRAL COUNTERPARTY GUARANTEE.

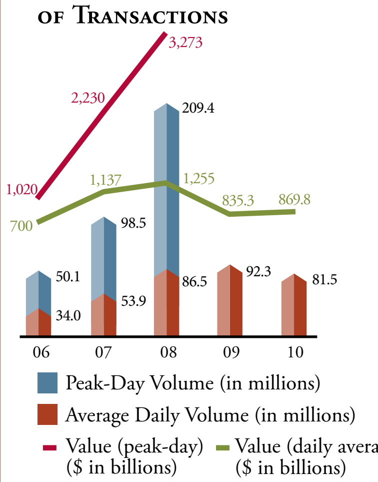
A relentless focus on risk mitigation, the growth of high frequency trading, and the "flash crash" in May were the defining events of 2010 in the U.S. cash equity markets — a year that also saw the Dow Jones Industrial Average climb 9%, even as overall trading activity remained relatively slow.

At National Securities Clearing Corporation (NSCC), the central counterparty for trades executed on the major U.S. exchanges and most other equity trading venues, processing volumes fell 12% to 20.4 billion transactions in 2010, down from 23.3 billion. The average daily volume experienced a similar drop, falling to 81.5 million from 92.3 million in 2009, while the total value of transactions processed by NSCC rose slightly in 2010 to $217.5 trillion, up 4% from $209.7 trillion compared to last year.

Processing volumes would have been even lower in 2010 if not for the flash crash on May 6, 2010, a systemic shock that sent the Dow into freefall and sparked a period of extreme market volatility that spanned nearly two months. During this time, NSCC set a new record for the total daily shares processed, reaching 129.4 billion shares on the day of the flash crash. NSCC's commitment to ensuring adequate processing capacity to handle these types of unpredictable spikes in volume helps provide the industry with stability and certainty.

NSCC's Continuous Net Settlement (CNS) system continued to mitigate systemic and operational risk in the market by minimizing the movement of both securities and money among trading partners. In 2010, NSCC reduced the total number of trade obligations requiring financial settlement from $217 trillion to $5.5 trillion, representing a netting factor of 98%, which enhanced liquidity in the financial system and allowed firms to optimize their capital.

NSCC Average vs Peak-Day Volume and Value of Transactions



Note: There have been no new peak days since October 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. The number of book-entry movements of securities ownership remained relatively stable in 2010 at an average of 295 million, down just 2% from 300 million movements the previous year. The value of these deliveries, which include both netted broker-to-broker and institutional transactions, dropped 4% to $118 trillion from $122 trillion in 2009.

Responding to Changes in Market Structure NSCC took several steps in 2010 to stay ahead of the changes that are reshaping equity market structure. For example, the successful migration of the first of the four legacy trade capture and reporting applications set the stage for the early 2011 launch of the Universal Trade Capture (UTC) system. UTC is designed to satisfy the growing need across the industry for real-time information by modernizing how equity trade data is captured, processed and reported. It also helps mitigate the risks associated with today's fragmented equity market structure and the growth of high frequency trading.

NSCC also on-boarded new equity exchanges in 2010 for NYSE Euronext, Nasdaq OMX, Direct Edge and BATS, as market centers increasingly looked to employ unique pricing strategies on different platforms to capture greater market share. Working closely with the exchanges, NSCC established connectivity and performed pre-launch testing — a robust process designed to protect the security and soundness of the capital markets by ensuring the seamless flow of data to NSCC once trading begins.

Ellen Bocina Vice President, Product Development, Fidelity Investments

Nyron Latif Global Co-Head of Goldman Sachs Asset Management Operations

Kevin McCosker | Director, Pershing LLC

Transforming the Processing of Ex-Clearing Trades and Fails

NSCC finalized preparations in 2010 for the launch of the Obligation Warehouse (OW), ushering in a new era to help financial firms better manage and address the operational risks and costs associated with processing trades that were previously confirmed and settled directly between trading parties rather than through NSCC (known as ex-clearing). The service automates trade matching and confirmation, and also gives firms real-time access to track, manage and resolve their failed obligations.

OW's automated, real-time capabilities stand in stark contrast to the highly manual and error-prone processes, including phone calls and faxes, that financial firms used in the past to manage these transactions. In addition, OW's repository will serve as a central storage for failed trading activity in the U.S. marketplace for equities, corporates, municipals and unit investment trust securities until settlement.

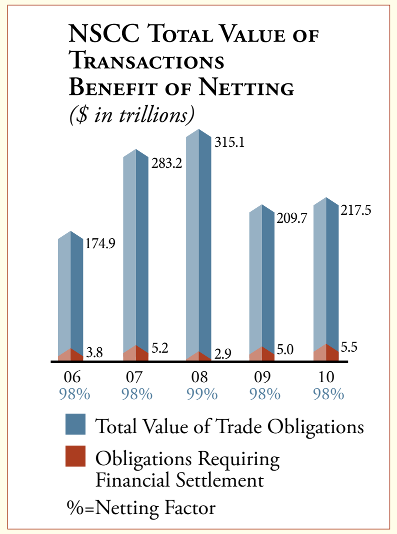
Supporting Cost-Effective Regulatory Compliance

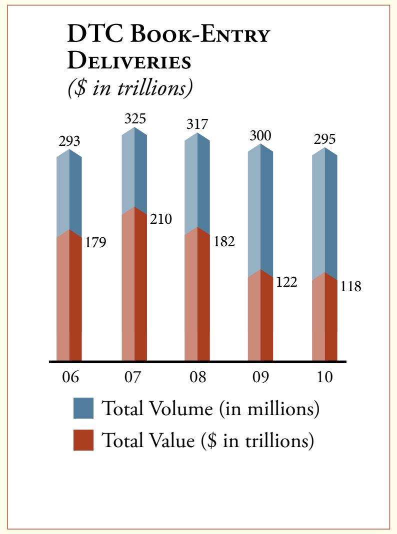
Developing solutions to help firms comply with regulations in a more cost-effective and efficient manner also emerged as a key priority in 2010. To this end, DTC developed an automated service for regulators to request position reports of firms to provide third-party verification of their holdings during an audit or examination. The service creates a cost-effective method for regulators to independently compare the assets that a firm reports to have with their actual holdings at DTC, helping to protect the industry from the systemic risks posed by "Madoff-like" acts of fraud.

In another example of leveraging the infrastructure to help the industry meet their regulatory obligations, DTCC Solutions launched the enhanced Cost Basis Reporting Service (CBRS) to help solve the technology and reporting challenges faced by the industry to meet a January 1, 2011, federal mandate that requires financial intermediaries to pass cost basis information among one another when assets move among firms. The enhanced CBRS platform, which acts as a central communications hub, transmits cost basis information among broker/dealers, transfer agents, issuers, mutual fund companies and custodian banks in a secure electronic environment, reducing the cost of compliance and improving overall processing efficiencies.

Promoting Liquidity Best Practices

DTC implemented a comprehensive, multi-part plan in 2010 to move billions of dollars back into the Federal Reserve System earlier in each trading day. DTC leveraged its technology to create tools for firms to more efficiently withdraw their excess Settlement Progress Payments (SPP) and Principal and Interest (P&I) allocations before the end-of-day settlement. Two critical components of the plan were maximizing available capital by extending the window for firms to request their excess funds and establishing a new Push Profile service to automate their withdrawal.





Strengthening ACATS

NSCC completed a redesign of the clearance and settlement systems that support the Automated Customer Account Transfer Service (ACATS) in 2010, in response to an evaluation of how the system performed during the financial crisis. The redesign added new customer protection provisions and other enhanced measures, including the ability to identify ACATS assets as they move through CNS, to more effectively safeguard the industry in the event of the failure of a large, inter-connected financial firm.

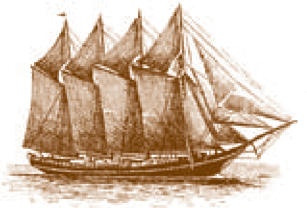
Leading the Way to Mitigate Systemic Risk

As part of the transformation of risk management at DTCC, NSCC formalized an action plan in 2010 to analyze and further mitigate risk in the clearance and settlement process. Among the noteworthy initiatives that NSCC may advance in 2011 are:

- **Accelerated Trade Guarantee (ATG):** NSCC continues to work closely with regulators and customers in preparation for accelerating its trade guarantee from midnight the day after the trade is executed (T+1) to near-real time for all CNS-eligible equity, corporate bond and municipal bond transactions. Accelerating the guarantee will significantly mitigate the counterparty risk that firms currently face, and provide greater certainty for market participants that their trades will be completed in the event of a firm default.
- **CNS for Value:** DTC is exploring moving to a delivery-versus-payment (DVP) system for the settlement of CNS obligations. The initiative is designed to mitigate the systemic risk that results from liquidity demands on NSCC in the event of a large firm default. A DVP system would allow DTC to set debit caps that would protect NSCC from incurring a liquidity shortfall. In addition, a DVP system would allow members' NSCC net CNS credits to offset their DTC debits as they complete to promote settlement netting and transparency.
- **Post-Trade Risk Management (PTRM):** NSCC expects to move forward with plans for a new industry-wide risk management solution that will empower NSCC members to monitor their correspondents' trading exposure across the entire U.S. equity marketplace and set position and value limits on trading activity. The service will also notify members of breaches or near breaches of the predefined limits.
- **Money Market Instruments (MMI):** DTC is taking a leadership role in the SIFMA MMI Blue Sky Task Force to develop solutions that will mitigate the credit risk that Issuing and Paying Agents (IPAs) face as a result of current industry funding practices. The Task Force is reviewing a series of short-term solutions, as well as longer-term structural and system changes, that would address systemic risk issues.

ZHENG HE | 1405

EIGHTY-SEVEN YEARS BEFORE CHRISTOPHER COLUMBUS, ADMIRAL ZHENG HE HAD ALREADY EMBARKED ON HIS FIRST EXPLORATORY VOYAGE TO ESTABLISH THE PRESENCE AND POWER OF THE MING DYNASTY.



Columbus commanded three ships and about 130 crewmen; Zheng He had 317 ships and 28,000 crewmen and soldiers under his command. Columbus would lead four expeditions in search of a passage to China; Zheng He led seven expeditions to more than 37 countries.

These legendary voyages created trading links from Taiwan to the Persian Gulf. Admiral He explored territories all across Southeast Asia, Arabia and East Africa, doling out gifts of gold, silver, porcelain and silk to chiefs and potentates along the way. On his return, he brought back trophies, spices and exotic treasures, including ivory, ostriches, zebras, camels and giraffes, from more than 30 kingdoms.

A highly skilled navigator, Zheng He described his "travel into uncharted waters, taking him to places not on the map and challenged by ocean waves rising in the sky." Many believe Zheng He's exploits may be the inspiration for *The Seven Voyages of Sinbad the Sailor.*

At DTCC, we are also traveling in uncharted waters to meet the changing expectations of our regulators and customers to further mitigate risk, and we're undertaking a top-to-bottom transformation in how DTCC thinks about risk, how we manage risk and how we plan to address risk. This is a huge challenge, but not a complete change of course. DTCC's core mission has always been, first and foremost, to bring greater safety and soundness to our entire industry.

Enhancing Risk Mitigation

Clearance & Settlement — Fixed Income

FICC FORGED AHEAD ON SEVERAL INITIATIVES TO HELP REDUCE RISK AND COSTS FOR THE INDUSTRY.

The value of trading in U.S. markets for government bonds and other fixed income instruments rebounded sharply in 2010 after declining 13% in 2009. For example, trading in U.S. Treasury securities and government agency issues, which make up the world's largest and most active market, climbed by some 22% over 2009 — once again surpassing the quadrillion-dollar threshold. Despite the prolonged slump in the housing market across the U.S., low interest rates helped push trading values and volumes in mortgage-backed securities higher in 2010. Buoyed by the flow of new issues floated by municipalities seeking to take advantage of continuing low interest rates as well as the federal government's Build America Bonds program, the trading volume for municipal securities likewise climbed in 2010.

While maintaining its seamless processing of all this trading activity throughout the year, DTCC's Fixed Income Clearing Corporation (FICC) also worked successfully to prepare for the launch of its new joint venture company, New York Portfolio Clearing (NYPC), and its new central counterparty clearinghouse for mortgage-backed securities, subject to regulatory approval. At the same time, FICC was able to bring some long-sought transparency to over-the-counter fixed income markets, to continue remodeling major parts of its processing platform, and to broaden its risk management scope and techniques.

Greater transparency, coupled with far more efficient use of capital, underlies the creation of NYPC, the revolutionary joint venture DTCC and NYSE Euronext created in 2010 to take advantage of the natural offsets between trades in cash and futures markets. With its launch in 2011, NYPC expects to reduce customer costs substantially by combining into one pot the margin required for fixed income trades in the cash markets with the margin firms pay for derivatives trades.

Peter J. Murray | Managing Director, Scotia Capital

Chris Crocitto | Vice President, Interest Rate Products Bonds and Mortgages, Goldman Sachs

Joseph L. Hoermann | Senior Vice President, Repo Desk, Tullett Prebon Securities Inc.

Likewise set to begin operation, pending regulatory approval, is FICC's central counterparty for mortgage-backed securities trading. Following extensive testing of the CCP model in 2009-2010, FICC is continuing in 2011 to expand the membership of its production pilot CCP. Now supported by an innovative liquidity facility that provides for back-up portfolio purchases and funding from members in the case of a default, the new CCP is expected to lower costs and reduce risk substantially in mortgage-backed securities markets.

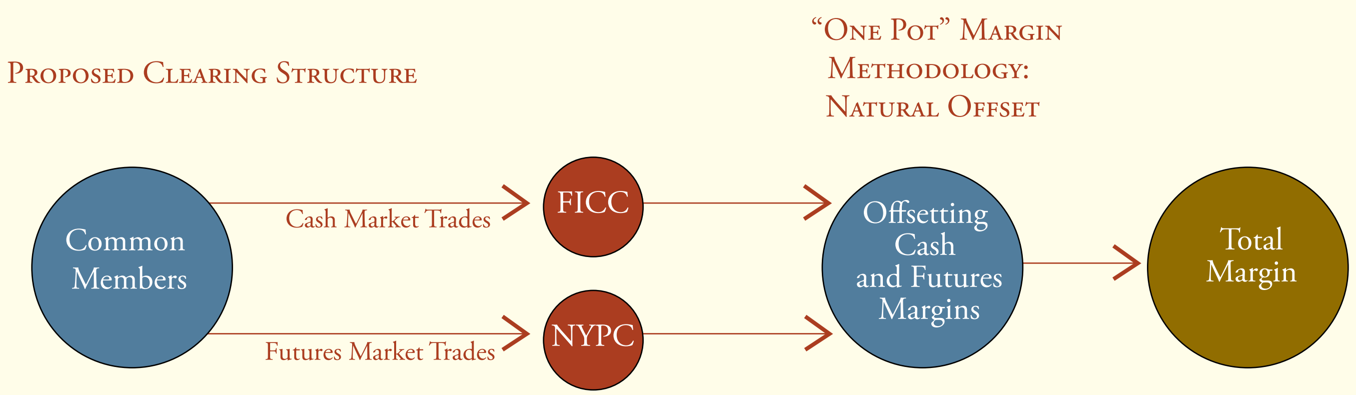
As part of a concerted push for greater market transparency, FICC began in 2010 to capture and publish data gleaned from its processing of general collateral finance repurchase agreements (GCF Repo®). Now updated daily and charted on the DTCC GCF Repo Index™, the data has opened a much-anticipated window onto pricing and transaction volume in this highly active, over-the-counter, multi-billion-dollar repo market.

An ongoing FICC initiative in 2010 was the upgrading of its technology platform to meet rising volumes, improve efficiency and reduce operational risk. Because the value of a single fixed income trade can run in the multi-million-dollar range, the need for efficient, flexible, error-free technology to clear the trades is critical.

Throughout 2010, FICC also continued to consult with industry groups and regulatory authorities on its proposal to make "buy-side" trading firms such as hedge funds and registered investment companies eligible to participate in the economies of scale and risk reductions its central counterparty provides for government securities trading. FICC's aim is to obtain regulatory approval for an expansion of its membership before the end of 2011.

Market Rebound Helps Fuel Higher Trading Volumes Reflecting increased confidence within the economy's corporate sector and a rising stock market, the value of trades in U.S. Government securities rose substantially in 2010, climbing to $1.1 quadrillion, a 22% increase over the $905.1 trillion traded the previous year. The average value of government securities trades FICC cleared each day also expanded, rising to $4.4 trillion from $3.6 trillion in 2009, a jump of 22% during a year in which the U.S. Federal Reserve effectively removed a large number of Treasury securities from the market under its policy of "Quantitative Easing." While trade value in traditional delivery-versus-payment repurchase (or repo) agreements remained relatively flat during 2010, the value of trades FICC compared for its General Collateral Finance (GCF Repo®) product expanded by 15% to $198.2 trillion from $172.2 trillion in 2009.

The Value Proposition of New York Portfolio Clearing (NYPC)



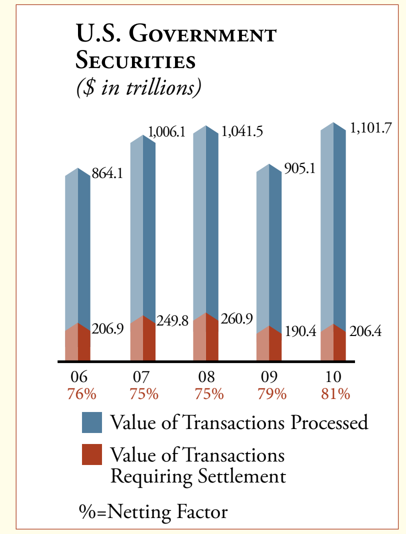
Mortgage-backed securities also experienced expanded trading in 2010 — both in volume and value — over the totals for 2009. FICC clears and nets trades of mortgage-backed securities issued in the secondary market by U.S. government agencies or government-sponsored enterprises such as Fannie Mae and Freddie Mac, which together floated $1.3 trillion in new mortgage securities in 2010. Trading volume rose by more than a third during the year, climbing to 3.18 million from 2.37 million transactions in 2009, while value expanded 10% to $104.2 trillion from $94.8 trillion. Through its netting process, FICC succeeded in reducing the par value of the mortgage-backed securities trades it handles by more than 95%, which means it was able to give its customers quick access to billions of dollars that would otherwise have been tied up, sometimes for weeks, in the trade settlement process.

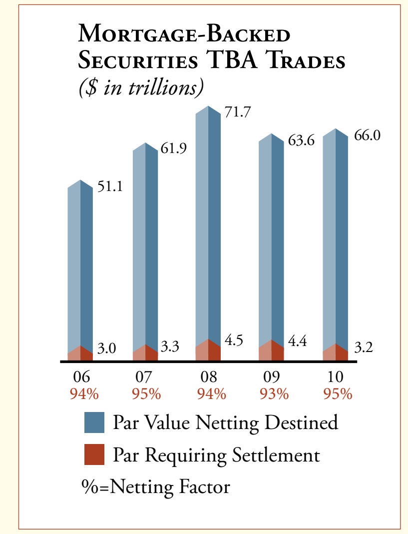
Other fixed income instruments saw trading volume rise in 2010 as well. Driven by new issues coming to market under the federal government's Build America Bonds program, and later by investor concern about state and municipal financial obligations, trading in municipal bonds climbed to 7.4 million transactions in 2010, an increase of 8.9% over the 6.8 million trades recorded in 2009. Trading in the shares of unit investment trusts rose 22% to 2.15 million in 2010 from 1.76 million transactions in 2009. Corporate bond trading, which saw a surge in 2009 as companies issued new paper to take advantage of the historically low interest rates, expanded moderately in 2010. The value of trades rose by 3.2% to $3.29 trillion versus $3.19 trillion in 2009.

Building a New Processing Engine Critical to FICC's future is its ability to continue generating economies of scale for its customers while handling higher processing volumes, a more diverse participant base and potential new financial instruments. To ensure having sufficient processing capacity, FICC is now moving into the third year of its long-term plan to renovate its core processing systems.

In 2010, FICC began testing its new platform for processing mortgage-backed securities trades and pool netting. In 2011, testing of the new systems designed to handle clearing for the multi-billion-dollar market in government securities is slated for completion. By mid-2012, FICC plans to have all its system renovations concluded. Meanwhile, work has now started on a long-term strategic information technology plan that will allow FICC to operate a single system for all its participants and offer even greater economies of scale.

NYPC's "One Pot" Approach to Controlling Margin Costs NYPC anticipates that its novel "one pot" margin approach will completely change the industry's longstanding way of doing business and sharply reduce excess margin expenses for its customers. As a joint venture between NYSE Euronext and DTCC, the new company was created to reduce margin costs by taking advantage of the correlation between cash market trades cleared and settled at DTCC's Fixed Income Clearing Corporation (FICC) and hedges made with offsetting futures markets trades on NYSE Liffe US, the U.S. derivatives exchange of NYSE Euronext.





For FICC's Government Securities Division participants, the launch of NYPC will usher in an intraday margin call and a corresponding supplementary funds-only settlement cycle. In preparation for the new procedures, FICC held numerous workshops with customers in 2010. Meanwhile, FICC has initiated preliminary talks with other exchanges and clearinghouses about making its one pot approach available to them as well, either by having them clear trades directly through NYPC, or by operating as limited-purpose participants. Because it combines cash market and derivative trading positions, NYPC also offers regulatory authorities a unique view of risk exposure from a single vantage point across asset classes.

Reducing Risk for Tri-Party Repo Transactions For several years now, an industry-wide Tri-Party Repo Infrastructure Reform Task Force, which includes executives from FICC, has been grappling with concerns about the high intraday credit risks posed by industry procedures for processing tri-party repo transactions. In 2010, the Federal Reserve Bank of New York issued a white paper on the problem and asked for industry comment. Drawing on the white paper and industry feedback, the task force plans to make recommendations in 2011 to change market procedures. FICC anticipates that, based on the suggestions put forward by the task force, it may have to alter some of its longstanding procedures, but the result is likely to be a sharp reduction of intraday risk for its participants.

The Central Counterparty Solution for Mortgage-Backed Securities For several years now, FICC has worked with its customers to develop and test a new central counterparty (CCP) clearinghouse that can reduce risk in mortgage-backed securities transactions. Through the CCP, FICC will be able to lower risk by offering guaranteed settlement, while pool netting will lower risk by reducing settlement activity and thus eliminating the exchange of billions of dollars that would otherwise have to take place in order for the trades to be completed. In a market that saw trading in mortgage-backed securities surpass $104 trillion in 2010, having a CCP to guarantee trade completion is a widely accepted goal.

In 2010, to bolster the CCP's financial flexibility, FICC developed an innovative approach — a "capped contingency liquidity facility" — that allows it to tap into liquid funding in the case of a market crisis. Through the facility, FICC can create overnight repos with each of its solvent member firms so that the funding needed to offset the transactions of a failed firm can be distributed across the FICC membership rather than tied to an expensive, long-term line of credit. In addition, to bolster its risk management, FICC will conduct hourly portfolio risk reviews and require more margin intraday, if necessary.

With the addition of the innovative liquidity facility and closer daily risk monitoring — and after more testing — FICC is fully prepared, subject to regulatory approval, to launch the CCP, at last bringing a trade guarantee to the U.S. mortgage-backed securities market.

VASCO DA GAMA 1498

PORTUGUESE EXPLORER VASCO DA GAMA DID WHAT NO ONE ELSE HAD BEEN ABLE TO DO BEFORE HIS TIME: HE FOUND A RELIABLE SEA ROUTE TO INDIA BY MAKING THE LONG VOYAGE AROUND THE HORN OF AFRICA.

Until his feat, Europeans thought the trip impossible, and assumed the Indian Ocean was not connected to any other sea. Because of da Gama's determination, the Portuguese succeeded in breaking the Venetian monopoly on Europe's spice trade.

As the commander of the first ships to sail directly from Europe to India, da Gama took great risk by sailing into waters previously unknown to Europeans. Throughout the journey, he and the crews of his four ships encountered looting and piracy among Arab merchant ships. Finally, the fleet arrived successfully in India in May, 1498. Fifteen months later, despite the loss of two ships on the voyage back, da Gama returned in triumph to Portugal with cargo valued at more than 60 times the cost of the trip, far exceeding the king's expectations.

Just as Vasco da Gama essentially sailed off the map to explore a sea route linking trade between countries on different continents, DTCC connects global trading parties to help foster growth across diverse customer segments and asset classes. We link thousands of broker/dealers, institutional investors, mutual fund companies, hedge funds, transfer agents, underwriters, custodian banks, marketplaces and exchanges, technology vendors, insurers and others, providing connectivity and reliability to the financial markets.

Enhancing Risk Mitigation

Asset Services

DTCC STREAMLINES AND AUTOMATES THE SETTLEMENT OF SECURITIES HELD IN CUSTODY.

Throughout 2010, The Depository Trust Company (DTC) worked to reduce risk and boost efficiencies for its customers and the industry by settling more than $273.8 trillion in securities trades, implementing a new methodology for processing principal and income payments and moving ahead on its reengineering initiative for corporate actions and underwriting.

As the depository for DTCC, DTC streamlines and automates the settlement and servicing of securities it holds in custody. At year-end 2010, the value of securities held at DTC stood at $36.5 trillion, up 8% from $33.9 trillion in 2009, and the number of securities at the depository increased slightly to just over 3.6 million. Total securities settled in 2010 were down 9% to $273.8 trillion from $299.4 trillion in 2009. These instruments include equities, corporate and municipal debt, asset-backed securities, exchange-traded funds and money market instruments, and include securities from the U.S. and 121 other countries and territories.

The depository also handles the initial processing, distribution and settlement of new issues, including more than 99% of all municipal issues in the U.S. In 2010, the number of new issues dropped by 8% to 36,665 from 40,067 in 2009, and the value of the new issues dropped 2% to $2.33 trillion from $2.38 trillion.

Promoting Liquidity Best Practices In 2010, DTC collected and allocated more than $21.9 trillion in entitlements to customers, a slight increase over 2009. To further reduce risk in the collection and allocation, and to help ensure that shareholders and bondholders receive their funds on time, DTC worked to implement a new method for processing principal and interest payments (P&I) on the more than 3.5 million securities it services.

The new processing method, which took effect in February 2011, allocates only those P&I payments that have been made on time and identified with the correct CUSIP. This replaces a longstanding industry practice where DTC allocated virtually all payments on their scheduled payment dates, including even those that were late or without the specific CUSIP number.

DTC worked with customers, issuers and paying agents throughout 2010 to help prepare them for the processing change and to show them why this change, involving billions of dollars, was so important for reducing risk in the industry.

Corporate Actions Reengineering DTC processes virtually all corporate actions affecting equities and corporate and municipal bonds in the U.S., so the multi-year reengineering initiative of its corporate actions processing platform remains a top priority. By upgrading and replacing many of the 60 legacy systems that currently support corporate actions, DTCC will create a platform capable of handling increasingly sophisticated types of securities, both domestic and international. The reengineering will be phased in over several years, with the goal of retiring all legacy file formats on or before 2015.

In 2010, the depository made substantial progress on the Corporate Actions Reengineering initiative. With the publication of detailed technical documents, specifications and standardized messages, it laid the groundwork for a corporate actions pilot in early 2011 that will test the new ISO 20022 (International Organization for Standardization) corporate actions announcement messages as well as a new browser interface for corporate actions users.

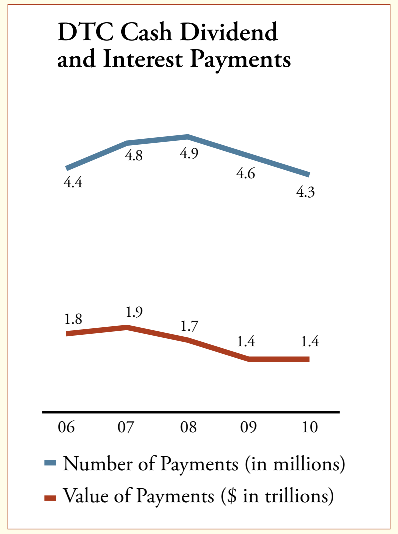
DTC developed the new messages in collaboration with SWIFT, a global provider of secure financial messaging services and the ISO 20022 Registration Authority. ISO 20022 provides the financial services industry with a common platform for the development of messages in a standardized syntax.

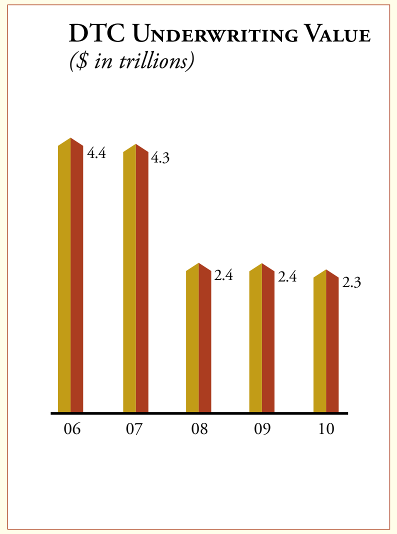
Testing for the browser will cover announcements for all event types across distributions, redemptions and reorganizations. Going forward, the browser eventually will incorporate the entire corporate action lifecycle, including elections, instructions and payments. It will replace dozens of platforms that customers use today and allow them to manage

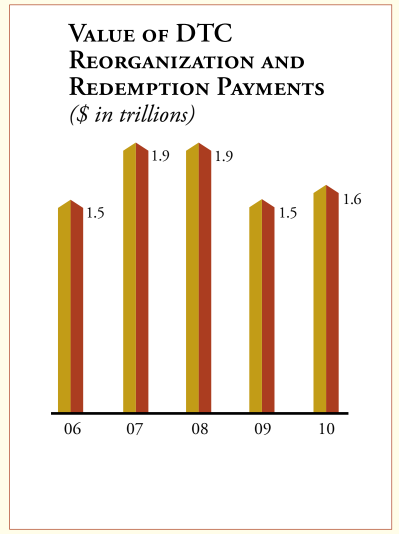
Julia Sutton Global Head of Customer Accounts and Onboarding, RBC Capital Markets

Thomas H. Donan Managing Director, Operations, TD Ameritrade

Karoline Kane Executive Director, Global Loan Operations, J.P. Morgan







THE MULTI-YEAR REENGINEERING OF DTC'S CORPORATE ACTIONS PROCESSING PLATFORM REMAINS A TOP PRIORITY.

all corporate action events through the entire lifecycle on one platform, helping them boost efficiencies and reduce risk.

One of the major events of 2010 for the Global Corporate Actions Validation Service (GCA VS) was the release of the business case for corporate actions automation in the United States issued jointly by DTCC, SWIFT and XBRL US. The business case, developed with key stakeholders from across the corporate actions processing supply chain — issuers, intermediaries and investors — documented the existing announcement process, highlighted current problems and provided recommendations to address those issues, which will reduce costs and risks involved in rekeying corporate actions announcements.

The solutions proposed in the business case were two-fold: first, recommending use of the ISO 20022 international message standard for corporate actions announcements in the financial community, and second, the use of eXtensible Business Reporting Language (XBRL) tagging of key information by issuers when creating the corporate action offering documents in existing announcements of corporate actions by issuers.

New Underwriting Platform DTC continued reengineering its underwriting platform, called the UW SOURCE, in 2010 when the third phase covering corporate debt issues began testing in the third quarter. Customers transitioned to the new system by year-end, and the system became mandatory on January 1, 2011.

DTC implemented UW SOURCE in phases starting with the municipal underwriting system in 2008, followed by the corporate equities system in 2009. UW SOURCE automates the underwriting process and provides for direct electronic communication with DTC, helping to eliminate paper and the errors that come with manual processing.

Avox Acquisition A key element of DTCC's plan to offer data services to its customers was completed late in 2010 with the acquisition of London-based Avox Limited from Deutsche Börse, which held the majority of Avox's shares.

Avox played a key role in an alliance between DTCC and SWIFT to compete for the global legal entity identifier (LEI) sought by the new Office of Financial Research (OFR) within the U.S. Treasury Department. DTCC plans to leverage Avox's capabilities and expertise to maintain the key LEI data required by the OFR, while using SWIFT's BIC identifying code as the standard internationally for LEIs. An industry decision on the LEI code supplier is expected in the first half of 2011. Having a standard LEI used internationally will help regulators better see and manage systemic risks by better tracking the activities and risks of individual entities within a parent company.

Syndicated Loans Syndicated loans involve multiple lenders for each borrower with an agent bank acting as the liaison, transmitting information back and forth between parties. Until Loan/SERV, the DTCC service that is helping automate and streamline the processing of syndicated loans, began operations in 2008, the loan process was essentially manual, with millions of faxes going out into the market each month. Today, the Loan/SERV reconciliation services enable agent banks and lenders to view and reconcile loans at all levels, from commitment and transaction level down to the individual contracts and fees, on a daily basis.

Loan/SERV will continue to expand globally in 2011 as new agent banks come online to service new investment funds and lenders and additional volume from existing clients. DTCC also will pilot a cash settlement service called Cash on Transfer with a number of global agents, trading desks and administrators. This service will provide the global syndicated loan market with its first delivery-versus-payment platform where cash settles simultaneously with the change in legal ownership of the asset recorded by agent banks. Cash on Transfer will handle more than 50 currencies.

Issuer Outreach DTCC began reaching out to issuers in 2010 to provide a greater understanding of the important role it plays in their businesses and alert them to the broad range of services DTCC offers them and their service providers. While corporations and other issuers may have only a passing knowledge of DTCC, many of them interact with DTCC — both directly and indirectly — on a daily basis, using the Underwriting Services, Direct Registration System or the Dividend Services. Issuers also rely on DTCC's Security Position Reports, which give them the information they need to contact their shareholders directly. In 2011, DTCC will continue to work with issuers, educating them about DTCC overall and other DTCC offerings of benefit to them, including Tax Services.

Tax Benefits Through its TaxRelief℠ service, DTCC's Global Tax Services continued to deliver foreign tax relief benefits to its customers totaling $2.4 billion in 2010, up from $1.7 billion in 2009. TaxRelief enables customers to secure withholding tax relief on cross-border dividend and interest payments from securities such as American Depositary Receipts (ADRs), global shares, foreign ordinaries and foreign fixed income securities. In 2010, DTCC expanded this service to provide tax benefits for holders of Spanish commercial paper, Italian bonds, certain ADRs of Filipino, Dutch and Danish companies, and offered tax relief benefits to non-U.S. investors in Finnish American Depositary Receipts (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. Commercial Paper is a short-term debt instrument or money market security issued at a discount and usually maturing within 270 days. Bonds are not always issued at a discount and are issued to finance longer-term projects. Commercial Paper generally is subject to the same tax rules that apply to other long-term debt instruments.

AMERIGO VESPUCCI | 1507

ITALIAN EXPLORER, MERCHANT AND CARTOGRAPHER AMERIGO VESPUCCI FIRST SET OFF IN 1497 TO RECORD WHAT HE HOPED WOULD BE A FASTER, MORE DIRECT WESTERN TRADE ROUTE TO THE INDIES.

Over seven years and several voyages, Vespucci mapped the eastern coastline of South America as far south as today's Rio de Janeiro, and discovered the mouth of the Amazon River. He came to realize that the land mass he found was not the fabled Indies, but a vast new continent. This was a controversial idea in his day, since most people, including Columbus, believed ships setting out from Europe were headed to East Asia. In 1507, when German mapmakers produced a world map that used Vespucci's charts, they used the Latin version of Amerigo's name to label this new world: they called it America.

DTCC set out in 2003 in uncharted waters to capture and map out the little-known trade flow of the over-the-counter derivatives market, particularly credit default swaps, in the new world of global finance. Today, DTCC's effort has transformed this vast and uncertain securities landscape into a more predictable, transparent and risk-averse market space.

Amerigo Vespucci understood that by charting and looking at the data, beyond current assumptions, the world in which we operate may be vastly more dynamic and easier to navigate. Likewise, DTCC's Trade Information Warehouse and Equity Derivatives Reporting Repository now ensure that customers and regulators around the world have a single point of unfettered access to critical, underlying trade details on virtually all CDS transactions, providing a very detailed map for overseeing risk and avoiding the fragmentation of data that threatens risk.

OTC Derivatives

DTCC PLAYS A PROMINENT ROLE IN BRINGING SAFETY AND PUBLIC UNDERSTANDING TO THE GLOBAL TRADE OF CDS CONTRACTS.

For market participants and service providers in the global over-the-counter (OTC) derivatives market, 2010 was a watershed year as regulators on both sides of the Atlantic considered sweeping financial markets reforms. At the center of this broad dialogue on enhancing transparency and mitigating risk in the marketplace were the issues of migrating OTC derivatives trades into central counterparty clearinghouses (CCPs) and reporting transactions into trade repositories.

At the end of 2010, the gross notional value of the 2.24 million legally confirmed CDS contracts worldwide registered in DTCC's trade repository was approximately $25.5 trillion, up about 1.6% from $25.1 trillion at the beginning of the year. CDS contracts registered in the repository on January 1, 2010, totaled nearly 2.25 million. An additional 105,000 of more customized, bilateral contracts, worth approximately $3.7 trillion in gross notional value, was also maintained in the repository, which is operated through DTCC's Warehouse Trust Company LLC (Warehouse Trust) subsidiary.

The total number of credit events such as bankruptcies and insolvencies managed through the Warehouse's lifecycle event processing service declined to 19 in 2010 versus 50 in 2009, reflecting the perception of generally greater market stabilization last year. The total value of the net funds transferred between sellers to buyers of protection related to these credit events was $7.23 billion compared to $17.7 billion in 2009. Total successor events such as reorganizations or renaming of companies increased 6.9% to 138 from 129 in 2009.

DTCC's Warehouse Trust also facilitated the calculation, netting and central settlement of approximately $219 billion in net payment obligations in nine currencies in 2010 in conjunction with its settlement agent partner, CLS Bank International, the operator of the world's largest multi-currency cash settlement system. This figure represents a 33% decline in the net $328 billion centrally settled the previous year.

Evolving Into a Regulated Entity DTCC first entered the OTC derivatives market with the launch of Deriv/SERV in 2004. With trading of OTC derivatives instruments growing at breakneck speed, market participants turned to DTCC to help improve their operational efficiency and infrastructure, at a time when transaction processing was predominantly performed manually. The launch of Deriv/SERV's electronic service helped the OTC derivatives community respond quickly to regulators' concerns globally

Rajesh Navalkha | Managing Director, Global Head OTC Derivatives and Margining Operations, Citigroup

Stuart McClymont | Managing Director, Global Head of Market Initiatives & Business Architecture, Deutsche Bank

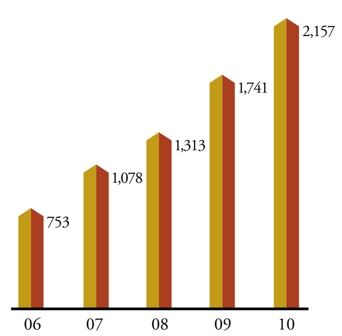
regarding the soundness of its historically paper-based processing methods. Today, nearly all CDS transactions are being matched, confirmed and captured in an automated environment, according to industry trade group, the International Swaps and Derivatives Association (ISDA®). The Deriv/SERV matching and confirmation service is now a part of MarkitSERV, a company jointly owned by DTCC and Markit.

DTCC launched its Trade Information Warehouse in November 2006, in collaboration with industry members and regulators, to operate and maintain the centralized global electronic database and post-trade processing infrastructure for CDS contracts throughout their multi-year lifecycle. Virtually all CDS contracts are located and maintained in the Warehouse's repository, providing regulators and the public with the ability to view market exposure and assess risk from a central vantage point. Its customer base includes all the major OTC derivatives dealers and more than 2,100 buy-side market participants in 62 countries. Corporate and sovereign contracts registered in the repository represent 90 countries.

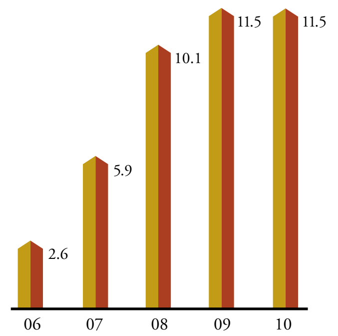
Oliver Stuart | Managing Director, Morgan Stanley

In March 2010, the Trade Information Warehouse became a U.S. regulated entity through DTCC's establishment of Warehouse Trust, a member of the U.S. Federal Reserve System that is also overseen by the New York State Banking Department. Regulation of Warehouse Trust is a major advance in furthering legislative, regulatory and industry objectives to bring greater transparency and added risk mitigation to the global markets.

Deriv/SERV Customers
(number at year end)



Deriv/SERV Transactions Processed
(in millions)



Operating Warehouse Trust as a regulated entity is also aimed at helping harmonize regulatory oversight to share OTC derivatives data among authorities and banking supervisors across national borders.

Recognizing the importance of a global industry solution for repository services that also responds to local and regional requirements, DTCC launched the European-based DTCC Derivatives Repository Limited (Derivatives Trade Repository) in August 2010. By maintaining identical CDS data sets on two different continents, this move is intended to help ensure information is available to regulators globally, regardless of events and circumstances taking place in one location or another. The Derivatives Trade Repository, which is a U.K. Financial Services Authority-regulated service company, also operates DTCC'S Equity Derivatives Reporting Repository (EDRR).

Global Collaboration and Cooperation

DTCC supports the concept that regulators, no matter where they are located, should be ensured unfettered access to the relevant OTC derivatives information they need to fulfill their regulatory mission and assess risk exposure in this global market.

Throughout 2009 and 2010, DTCC responded to more than 100 ad hoc requests from dozens of regulators worldwide for counterparty information residing in its repository, pertinent to these regulators' respective areas of jurisdiction. DTCC has also worked closely with global organizations such as the 40+ authorities and central banking supervisors that comprise the OTC Derivatives Regulators Forum (ODRF), as well as the international financial authorities that make up the Financial Stability Board, to develop and gain consensus on a global framework for the release of OTC derivatives data with regulators.

Earlier this year, DTCC launched an automated portal to provide regulators worldwide with direct, on-line access to global CDS data registered in its central repository, based on the global data sharing guidelines provided in June 2010 by the ODRF. The first such global regulatory service in the financial market, the portal was created to provide access to more detailed data in a timely and seamless manner, without any preferential treatment across geographic jurisdictions. With 19 regulators initially live on the service at the January launch, the portal demonstrates the value that can be gained from centralizing OTC derivatives data and how regulatory oversight can be harmonized among multiple international jurisdictions.

Increasing Market Transparency from a Centralized Database

DTCC also expanded its weekly reporting of CDS data on its Web site throughout the year, further increasing public transparency on the market. DTCC began disseminating weekly aggregate data on the gross and net notional values and number of contracts for the top 1,000 corporate and sovereign CDS and CDS indices outstanding in November 2008. In July 2010, the reports expanded to include information such as the type of market and sector for each single-named reference entity.

It also began publishing trading activity for the top 1,000 single-named reference entities as an extension of a market report on trading levels first released in June 2010. These reports are intended to help market participants assess which contracts might have sufficient liquidity to be eligible for CCP guarantees. Further enhancements will continue to be made to enrich the data for asset types, such as indices and tranches.

Supporting Other Asset Classes

DTCC's equity derivatives repository, EDRR, went live in August 2010 with all 14 global market dealers live on the platform. DTCC was selected by major market participants to build the service following a competitive process led by ISDA. The EDRR represents the industry's efforts to strengthen its operational infrastructure and improve transparency across all major OTC derivatives asset classes.

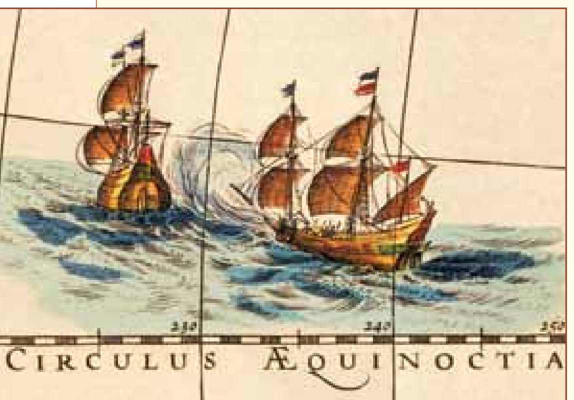
EDRR's central registry holds key position data, including product types, notional value, open trade positions, maturity and currency denomination for participants' transactions, as well as counterparty type. The service currently supports options; equity, dividend, variance and portfolio swaps; CFD (contracts for difference); accumulators and a final category covering other structured products. By aggregating and maintaining the data, DTCC's EDRR is able to generate reports that keep industry participants and regulators up to date on outstanding notional values and positions, as well as other position-related information.

In December, DTCC also launched its automated OTC derivatives equity cash flow matching and netting service (CFM), again with all 14 major dealers live on the platform. The first automated system of its kind, the new service aims to facilitate seamless and timely settlement of OTC equity derivatives transactions.

DTCC is also assessing extending the benefits of its repository services to a wider range of OTC derivatives asset classes. With legislators and regulators considering the need to establish additional trade repositories across multiple OTC derivatives products, DTCC sees great value in leveraging the expertise and knowledge it has gained in building these types of services for CDS and OTC equity derivatives. DTCC remains open to working with the industry and regulators to develop complementary services that will further enhance risk mitigation and transparency in the market.

REGULATORS, NO MATTER THEIR LOCATION, SHOULD BE ENSURED ACCESS TO THE OTC DERIVATIVES INFORMATION THEY NEED.

THE DEPOSITORY TRUST & CLEARING CORPORATION

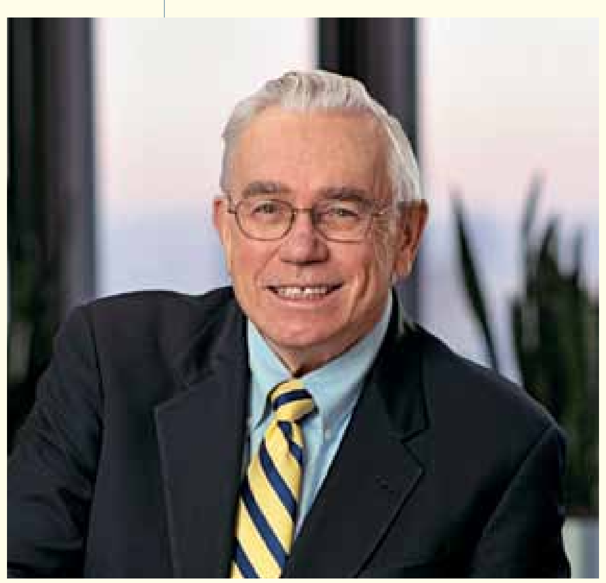


DTCC IS CREATING NEW WAYS OF WORKING GLOBALLY, WHICH BENEFIT INVESTORS AROUND THE WORLD.

AVOX DTCC acquired Avox Limited from Deutsche Börse in 2010, which held the majority of Avox's shares. Avox, headquartered in the U.K., provides an automated, centralized corporate database resource with readily accessible information on the legal name, address, corporate hierarchies, immediate and ultimate parent, industry sector codes, company identifiers, and applicable regulator information. This information is needed by financial services companies to support a variety of operational, risk management and regulatory compliance activities, including know your customer (KYC) and anti-money laundering (AML) reporting.

Collaboration with Chilean Depository (DCV) In 2010, DTCC strengthened its relationship with the Depósito Central de Valores, S.A. (DCV) of Chile by making a 10% equity investment in DCV and joining the DCV Board.

Joseph Spillane | Chief Executive Officer, Industrial and Commercial Bank of China Financial Services LLC



Jennifer Furmidge | Executive Director, Globeclear Product, J.P.Morgan

At the same time, DTCC and DCV entered into a Relationship Agreement with the objective to leverage the technology and expertise of both organizations to expand offerings and capabilities of DCV and DTCC in Latin America. This will allow both organizations to take advantage of local market knowledge to develop broader offerings in Chile and throughout Latin America, while reducing risk and lowering costs.

Global Corporate Actions (GCA) The Global Corporate Actions Validation Service (GCA VS) provides a centralized source of "scrubbed" corporate action announcement information on global securities. GCA VS had another successful year in 2010, processing 972,000 corporate actions from more than 200 countries for 50 customer firms, as well as handling the announcements of some 9.5 million scheduled payments on fixed income issues. GCA VS added additional coverage to its service, including structured securities issued and maintained by the Federal Reserve Bank, scheduled payments on global fixed income securities and unit trusts, and listed equity derivatives from a number of major exchanges.

European Central Counterparty Limited (EuroCCP) DTCC's European Central Counterparty Limited (EuroCCP) in 2010 expanded its capabilities across Europe, adding new services such as institutional clearing for over-the-counter equities for prime brokers, and entering new markets such as Hungary and the Czech Republic. It also became the first European equities CCP to offer European firms such services for trades in U.S. stocks. Since beginning operations in 2008, EuroCCP has provided high-quality, at-cost equities CCP services on a pan-European basis, helping drive clearing costs down by around 80% across Europe. It currently clears trades in 19 markets, including more than 4,000 equities issues in Europe, and 110 listed Depositary Receipts. Dedicated to providing premium customer service, EuroCCP was named *Financial News'* Clearing House of the Year for 2010. EuroCCP is regulated by the U.K.'s Financial Services Authority and is headquartered in London.

Supporting the Global Funds Market
Recognizing investors' increased appetite for cross-border funds, DTCC began leveraging its successful Mutual Fund Services in 2010 to support the organization's commitment to the global funds market. The multi-currency settlement capability, which awaits regulatory approval, will offer settlement in euros and British pounds sterling, and will give customers access to the tremendous efficiencies that Fund/SERV® delivers to the U.S. market. Offered through a U.K.-based DTCC subsidiary called DTCC Solutions Worldwide Ltd., the cross-border service will fill a longstanding void in global funds processing.

Syndicated Loan Processing: Loan/SERV
Loan/SERV, the DTCC service that is helping automate and streamline the processing of syndicated loans, experienced major growth in both the U.S. and Europe in 2010. Loan/SERV now links more than 2,400 investment funds and bank lenders in 39 countries with eight leading global agent banks, helping to reduce costs and mitigate risk in the global loan market. At year-end, syndicated loans totaling almost $1.3 trillion in 11 currencies were being tracked and serviced by agent banks using Loan/SERV.

OMGEO 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. Transaction volume through Omgeo's U.S. domestic trade confirmation service, Omgeo TradeSuite, was 221 million in 2010, down 8% from 240 million confirmations in 2009. However, volumes of U.S. fixed income allocations on Omgeo OASYS, a U.S. domestic trade allocation and acceptance service, increased to 5.6 million from 4.4 million in 2009. Omgeo OASYS allocation volumes increased slightly to 64.8 million in 2010 from 64.4 million in 2009. For Omgeo Central Trade Manager, the central matching platform for domestic and cross-border trades, transaction volumes increased 8% to 55.4 million in 2010 from 51.2 million in 2009.

Relationships with Global Infrastructure Organizations DTCC has a range of links and relationships with CSDs and CCPs worldwide, and actively participates in several global industry organizations. Currently, 12 non-U.S. depositories maintain accounts at DTC to support DTC-eligible issues for their members. DTC also operates accounts at three other depositories supporting non-U.S. issues for DTC participants. DTCC also is expanding its relationships with major post-trade infrastructure organizations around the world, signing Memoranda of Understanding that aim to expand cooperation and information sharing.

JACQUES CARTIER | 1534

TALENTED NAVIGATOR JACQUES CARTIER WAS A PIONEER IN HIS TIME, BRAVING UNKNOWN WATERS IN THE SERVICE OF KING FRANCIS I OF FRANCE TO FIND A FASTER ROUTE TO EAST ASIA'S LUCRATIVE TRADE MARKETS.

With only 60 men, Cartier sailed from Newfoundland's coast and followed the route of his fellow Breton fishermen in 1534 in pursuit of the Northwest Passage. Once past the fishing grounds, Cartier sailed off the map and, in an astonishing 20 days, found his way down the present-day Gulf of St. Lawrence. He claimed this land for the king and named it Canada, a name derived from the word *kanata*, which meant "village" in the region's native Iroquoian language.

On a second voyage two years later, he and his crew made their way down the St. Lawrence River as far as today's Montreal. A third voyage, several years later, helped to lay the foundation for French colonization of Canada — or New France. And although he never found the western passage to Asia, Cartier was the first European to penetrate North America along its northeastern coast, and he confirmed that this land was not part of Asia but rather a "new world."

DTCC continues to explore new opportunities in the new world of global financial markets, across new markets and new asset classes, where it can help customers automate, standardize and offer the streamlined benefits of centralized processing, mitigation of risk and lower cost.

Wealth Management Services

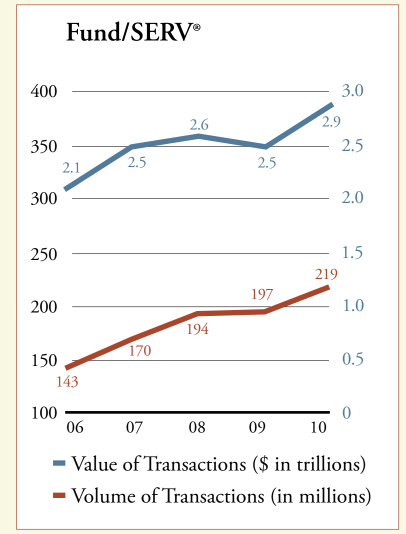
EXPANDING BEYOND ITS TRADITIONAL MUTUAL FUND SERVICES, DTCC HAS WORKED WITH THE INDUSTRY TO DEVELOP OPERATIONAL INNOVATIONS.

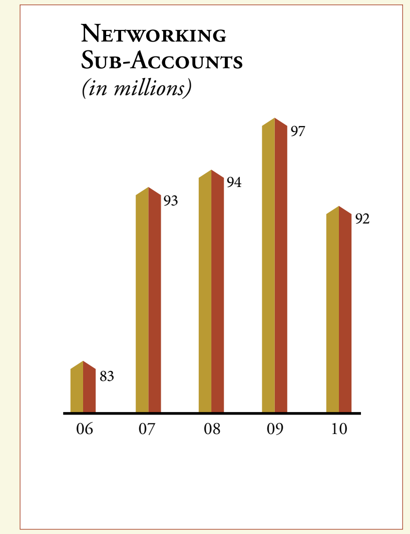
DTCC's Wealth Management Services business charted a steady course in 2010, navigating environmental challenges including changing distribution models, new regulation and increased demands from regulators and investors to strengthen risk management and deliver greater transparency. Anchored by the strength of its Mutual Fund Services offering, the business is tackling these and other challenges, continuing to increase operational efficiency and lower costs for customers in the mutual funds, managed accounts and alternative investment products markets.

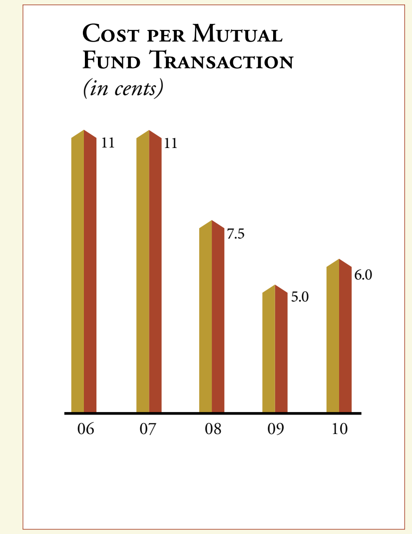
Leveraging Efficiencies to Protect New Markets For more than two decades, DTCC's Wealth Management Services business has worked closely with industry partners to transform the mutual funds industry. Today, the business is reaching beyond its flagship Mutual Fund Services offering, putting its proven capabilities and partnerships to work to transform the managed accounts and alternative investment products sectors.

In 2010, DTCC's Managed Accounts Service (MAS), which delivers end-to-end connectivity and information exchange among sponsors, investment managers and their service providers, experienced a market in transition. As investors search for comprehensive advisory solutions that generate income and provide principal protection, they are migrating away from product-specific investments toward comprehensive multi-product income solutions, such as unified managed accounts.

To address this changing landscape, DTCC introduced products in the MAS market that support the development and growth of the entire managed accounts sector while leveraging the same efficiencies and scalability that DTCC has brought to other key market segments. In addition to a web-based portal that simplifies access to the MAS platform, DTCC is developing a next-generation solution for unified managed accounts and model portfolios aimed at facilitating communication between program sponsors and their investment managers.







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

With overall usage of alternative investments increasing among institutional investors and advisors, adoption of AIP increased dramatically this year, bringing new partners on board to help centralize investment data, reduce risks and increase operating margins for participants in the growing alternative investments marketplace.

Several of the largest distributors and their product-sponsor partners went live on the system in 2010 with more than 40 prospective clients actively testing AIP at year-end, including hedge funds, hedge fund administrators, non-traded REIT sponsors, transfer agents and broker/dealers. This uptick in adoption illustrates the confidence the market has in AIP's ability to deliver industry standards, controls and efficiencies to promote market growth. DTCC expects 2011 to be another strong year for AIP.

Core Mutual Fund Services: Year in Review Celebrating its 25th anniversary in 2011, Fund/SERV®— the industry standard for processing and settling a broad range of investment funds, linking fund companies with their distribution partners — continues to deliver reliable support for the enormous transaction volumes in the market.

DTCC's National Securities Clearing Corporation (NSCC) reported steady volume growth for its cornerstone mutual fund service, Fund/SERV, which grew to 1,051 users in 2010. Transaction volume rose 11% to 219 million in 2010 from 197 million in 2009, while the value of transactions processed totaled $2.9 trillion in 2010, up

NSCC HAS INCREASED THE ACCURACY OF 529 PLAN DATA WHILE PROVIDING GREATER TRANSPARENCY.

18% from $2.4 trillion in the prior year. On an average daily basis, transactions grew to 864,000 in 2010, up 11% from 781,000 in 2009.

Adapting to a growing trend toward omnibus accounting, NSCC expanded the functionality of its Networking architecture in 2010 to meet customers' demands for greater transparency, reconciliation and communication services. Networking allows funds and distributors to exchange account-level information, reconcile their records and provide their clients with fund investment activity reports. As a result of the omnibus processing trend, in 2010, the service supported 91.8 million subaccounts, a 5% decrease from the 97 million recorded in 2009. Overall, Networking activity increased by 8% to 12 billion records in 2010, up from 11 billion in 2009. Enhancements planned for 2011 and 2012 will further support this business by offering delivery and settlement of invoices between broker/dealers and their omnibus fund partners.

The Fund/SERV platform also provides much-needed operational efficiency to 529 college savings plans. In 2010, NSCC took steps to simplify 529 Plan processing by expanding the functionality of Fund/SERV and Networking. The year's enhancements enabled parties to capture information, including the beneficiary's Social Security number and address, and to calculate cost basis and earnings-to-date dollar amounts. By standardizing and centralizing this information, NSCC has increased the accuracy of the data while providing greater transparency required for state and IRS reporting.

Another enhancement to Fund/SERV is a new third-party provider membership category that allows financial intermediaries in the U.S. and globally to access Mutual Fund Services on behalf of their clients via a single connection, eliminating the need for multiple NSCC memberships and technology interfaces.

Reflecting changing marketplace trends, volumes in NSCC's Commission Settlement service, which streamlines and simplifies commission payments between fund companies and firms, increased 25% to 2.6 billion transactions in 2010 from 2.1 billion in 2009.

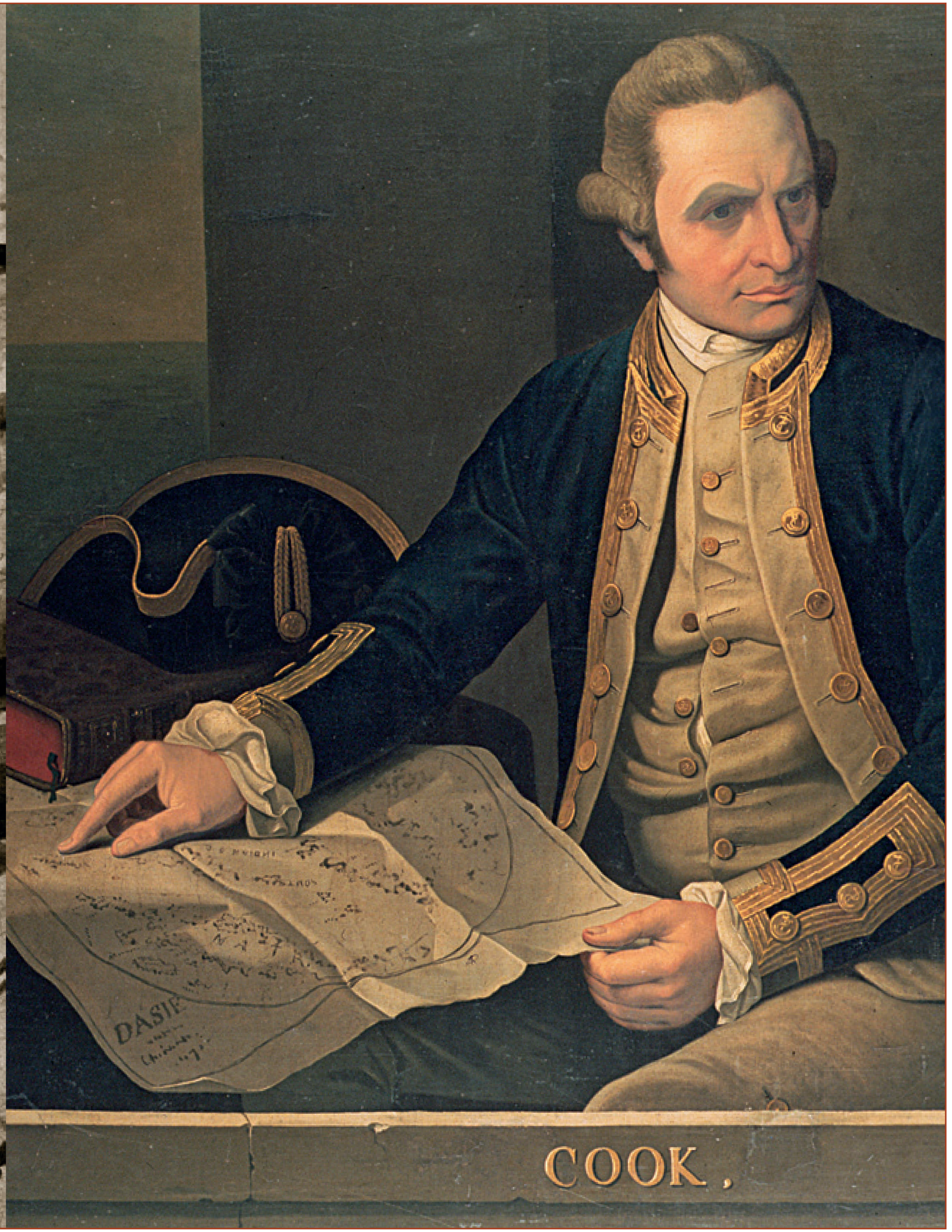
Roger Paradiso Morgan Stanley Smith Barney Managing Director, Director/ Chief Investment Officer, Private Portfolio Group

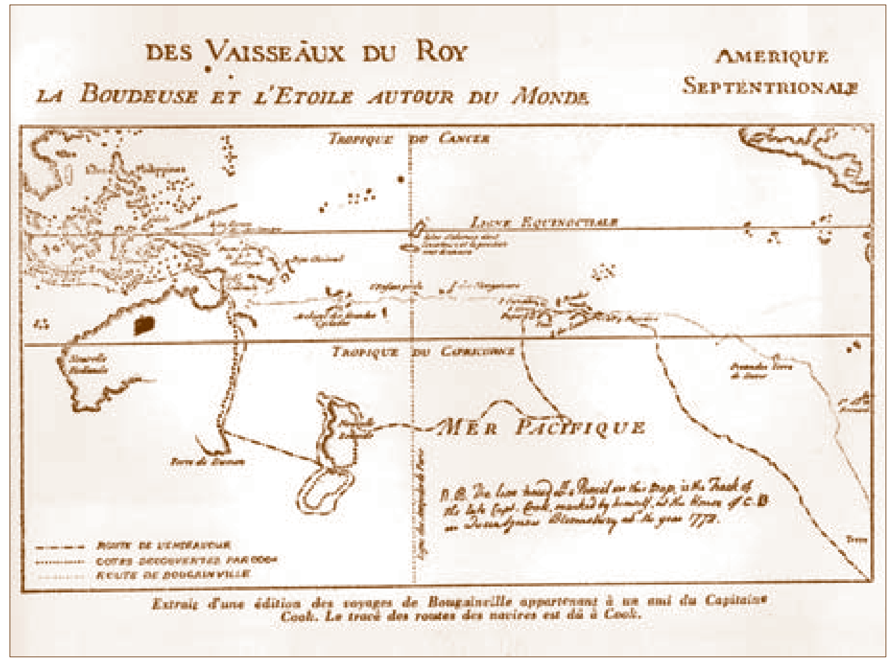
Al Rubin Vice President, Legg Mason

Achieving Data Excellence NSCC's Mutual Fund Profile Service (Profile) gives this sector of the industry its first automated, centralized data repository, which enables fund companies to populate a single source to communicate information to all their distribution partners. The total number of securities in Profile rose 11% to 64,400 in 2010, up from 57,800 in 2009.

Created by and for the industry, Profile reached a point of data excellence in 2010. The year's enhancements to Profile's security issue database and web interface enabled users to easily enter and maintain fund information, increasing the overall data quality available to the industry. Underscoring customers' confidence in the data, more than 135 fund companies had populated Profile with pertinent data, and more than 105 distributors had access to the data by the end of 2010.

JAMES COOK | 1768





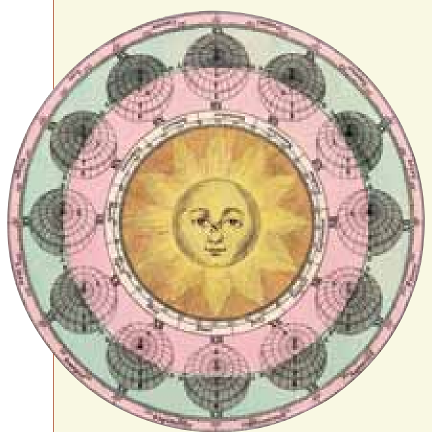
IN TODAY'S WORLD OF GPS DEVICES, MARITIME WEATHER REPORTS AND COMPUTER-GENERATED MAPS, JAMES COOK'S SKILL AS A NAVIGATOR IS MINDBOGGLING.

In 1768, with little more than an hourglass and knotted ropes to measure his ship's speed, plus a sextant and almanac to steer by the stars, Cook sailed nearly 10,000 miles from England to a remote island in the Pacific no more than 20 miles wide. He also sailed to Tahiti. From there, and in two subsequent voyages of discovery, he became the first to circumnavigate the globe. He later traveled throughout the Pacific, from Eastern Australia to the West Coast of North America, where he searched well up into Alaska for the elusive Northwest Passage.

Cook was meticulous in examining, measuring, recording and taking samples of nearly everything he saw. His maps were amazingly accurate, and his experiments helped to change life at sea. For example, Cook was among the first to experiment with sauerkraut and other vitamin C-rich foods to prevent scurvy.

James Cook's explorations helped Europeans fill in the blanks on world maps of their time. Similarly, DTCC is working rigorously, with SWIFT, XBRL US and others, to chart a course to adopt more common messaging and data tagging standards globally, such as ISO 20022 and XBRL for corporate actions. DTCC is committed to the shared industry goal to relentlessly pursue standardization and the greater efficiencies that will result from a global approach.

Insurance & Retirement Services



DTCC OFFERS STREAMLINED PROCESSING AND COMPLIANCE-DRIVEN SOLUTIONS FOR CARRIERS AND THEIR DISTRIBUTION PARTNERS.

With its suite of automated, centralized services, DTCC's Insurance & Retirement Services (I&RS) reduces regulatory and operational risk and provides greater connectivity, enabling customers to more efficiently sell, process and service insurance products.

By linking a growing community of firms — now numbering over 400, including insurance carriers, distributors that market insurance products, and the technology vendors that offer services enabling companies to connect — the I&RS business is working to support and grow the market for annuities and life insurance.

Growing Usage and Transaction Volume

Even as fixed annuity sales dropped significantly in the first half of 2010, I&RS continued to post record volumes as firms further embraced automation to mitigate risk and enhance transparency. Growing product adoption and recovering sales through the second half of the year generated more than 9.04 billion total transactions through I&RS, a 16% increase over the previous year's total of 7.79 billion. The value of insurance applications, premiums and commissions processed by the business also grew to almost $33 billion, a 10% increase from $30 billion in 2009.

- **Positions & Valuations,** the most comprehensive contract information in the industry, transmits annuity and life insurance contract details from carriers to distributors. In 2010, the service processed 4.4 billion records, compared to nearly 4 billion in 2009, an 11% increase.
- **Volume in Financial Activity Reporting,** a service that reports on account transactions throughout the life of a contract, grew to 65.5 million transactions, up 13% over the 2009 total of 58 million.
- **Licensing & Appointments (LNA),** which automates the transfer of an agent's licensing and appointment status between carriers and distributors, peaked at 5 million transitions in 2010, up 7% from 4.7 million in 2009.
- **Commissions,** an automated system that transmits commission information from carrier to distributor and provides same-day money settlement, grew to almost 90 million transactions, up 10% from just under 82 million transactions in 2009.

Information and Intelligence

With its automated, compliance-ready services, I&RS has worked to develop several new intelligence services that can potentially help carriers and distributors more efficiently provide regulators with the information required to achieve their transparency goals, and help firms make better business decisions.

In 2010, DTCC began building and testing a new Web-based analytic and reporting service that will aggregate data from its daily annuity transaction processing, including net inflows and outflows. The resulting information can provide distributors, investment managers and carriers with details on their own business performance, as well as the ability to perform benchmarking against the larger industry and peer groups, based on transactional flows coming through DTCC. With access to this timely business information, insurance firms can more accurately analyze market and product dynamics. Late in 2010, the analytic reporting service was piloted with 14 participating firms. Based on their feedback and input from an active advisory panel, the service will be further refined in 2011.

Also in 2010, DTCC began developing and testing Insurance Data Solutions (IDS), a centralized repository for data such as profile and prospectus information, which supports pre-sale, issue, and post-issue processing and supervision. Working in tandem with established I&RS services like LNA, IDS will offer upload, storage, inquiry and download for such industry data as product profile, producer licensing and appointments, fixed interest rates, asset pricing and underlying funds.

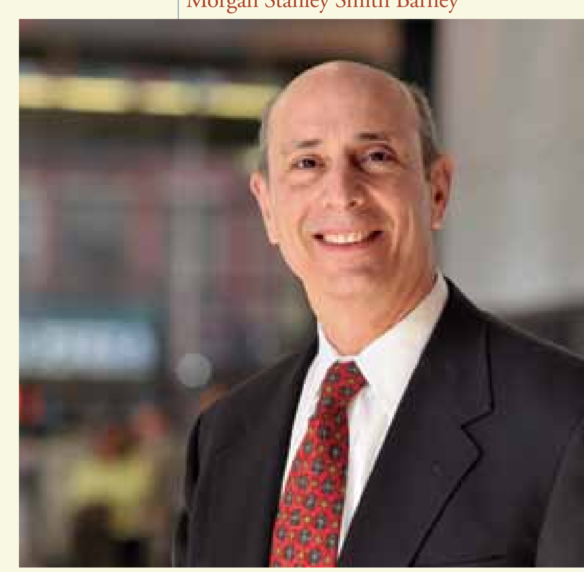
Based on customer requests, I&RS began developing enhancements in 2010 to LNA that will help firms comply with some of the new state-level regulations from the National Association of Insurance Commissioners (NAIC) regarding producer training. These enhancements, which will help centralize the verification of completed mandated training, will roll out in early 2011.

Responding to the Needs of the Industry

For the insurance industry, which has traditionally relied on costly and time-consuming manual processing methods, the immense task of modernizing practices has been a huge

Stephen J. Abramo First Vice President, Individual Policy Services, New York Life

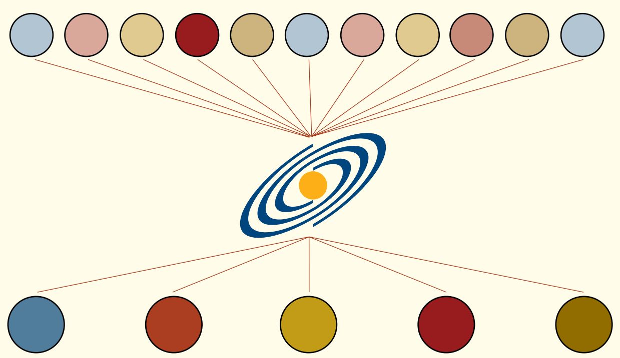
Frank P. Zafran Managing Director, Morgan Stanley Smith Barney



DTCC's Insurance & Retirement Services Model

Automated processing solutions connect all trading partners through one hub

Carriers



Distributors

challenge. I&RS has built consensus and a strong user community by listening to customers and maintaining a dynamic dialogue for planning, development and implementation of the services that firms need.

To better support an evolving industry, I&RS launched the Senior Advisory Board (SAB) three years ago as an interactive forum for exchanging ideas. With a membership consisting of senior executives from major insurance carriers and distributors, representing the largest firms within their business segments, the SAB continues to provide I&RS with invaluable high-level guidance on long-term strategic goals and new initiatives.

Pricing Strategies to Drive Product Adoption During this period of sustained pressure on profits across the industry, I&RS remains mindful of customers' balance sheets, with a disciplined focus on cost controls, productivity and collaborative development.

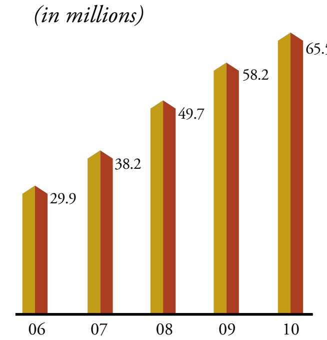
In 2010, I&RS promoted greater product adoption among firms by continuing to sponsor bundled pricing strategies, offsetting growth-category products and services with a billing credit toward other core products and services. By year end, I&RS bundled pricing returned almost $1 million directly to customers, as well as contributed to the dramatic adoption of IFT Access.

Industry Leadership for Automation and Standardization I&RS continued to gain recognition in 2010 as a catalyst and leader for automation and standardization throughout the industry.

In May, I&RS was honored with an "Early Adopter Accomplishment" award by ACORD for Replacement Processing, a new system that will help insurance carriers and their distributors when investors want to transfer — or, as it is called in the industry, "replace" — their insurance holdings. The system will eliminate many of the costly and complex manual tasks involved with replacement processing for carriers, and will keep distributors updated on their pending replacement contracts with participating trading partners.

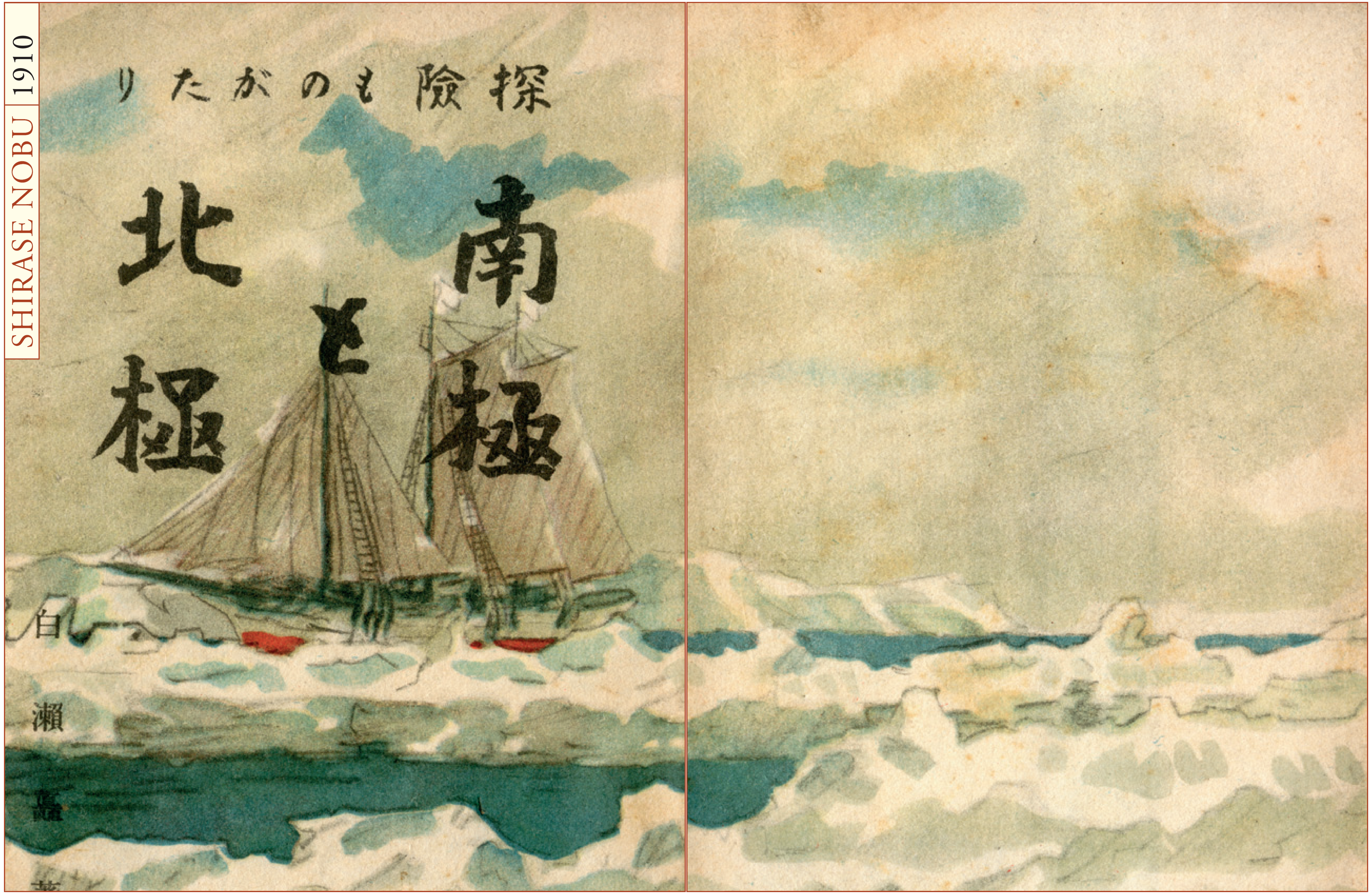
I&RS' continued advocacy for industry data standards was also recognized in 2010 as the record layouts of DTCC's standard fixed file formats were formally included in the ACORD Life, Annuity and Health standard. DTCC made these copyrighted record layouts freely available and open to the industry over seven years ago. Now, as part of the ACORD library, these layouts are truly a recognized industry standard.

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



DTCC PROVIDES IMMENSE SCALE AND CONNECTIVITY TO THE INDUSTRY TO AUTOMATE, STANDARDIZE AND CENTRALIZE TRANSACTION PROCESSING, MONEY SETTLEMENT AND INFORMATION EXCHANGE.

SHIRASE NOBU | 1910



AT ALMOST FIFTY YEARS OLD, SHIRASE NOBU, A LIEUTENANT IN THE JAPANESE ARMY, SET SAIL FROM TOKYO IN COMMAND OF THE FIRST JAPANESE EXPEDITION IN THE GREAT RACE TO REACH THE SOUTH POLE.

He was competing against the Norwegian polar explorer, Roald Amundsen, and British Antarctic pioneer, Robert Falcon Scott.

In December 1910, Nobu and his crew headed south in a small, 100-foot vessel. Battered by severe storms and icebergs, they were forced to retreat to Australia for another try the next year. By the time he set out on his second attempt, Nobu thought he was probably too far behind Amundsen and Scott.

When he reached the Ross Ice Shelf, however, Nobu knew he still had a chance. He formed an efficient "dash patrol" with seven other men, and used dogsleds to catch up to his competitors. Nine days and nearly 160 miles later, however, they found themselves trapped in terrible blizzard conditions. Amundsen then became the first person to reach the South Pole and Scott was a close second. Nobu and his patrol survived the pounding storm and returned safely to their ship, unlike Scott and his men, who perished.

In June 1912, Japan gave a hero's welcome to the crew for their valiant efforts. Their historic voyage spanned more than 30,000 miles of ocean and they were the first Japanese to set foot on Antarctica. Their legacy is that, to this day, Japanese-commissioned science and research expeditions continue to work in the Antarctic region.

The determination and spirit of Shirase Nobu is an inspiration to all who face adversity. The stakes are high in the world of financial services and the only constant is change. At DTCC, our unique at-cost, user-owned, user-governed model ensures we are singularly focused on issues of risk and cost. When it counts the most, DTCC's history underscores our commitment to protect both our members and the integrity of the financial system itself.

2010 DTCC Board of Directors

Neeraj Sahai, *Managing Director, Global Business Head — Securities and Fund Services, Citi*

Michael C. Bodson, *Chief Operating Officer, The Depository Trust & Clearing Corporation*

Louis G. Pastina, *Executive Vice President, NYSE Operations, NYSE Euronext*

Donald F. Donahue, *Chief Executive Officer, The Depository Trust & Clearing Corporation*

Richard G. Taggart, *Senior Vice President, Head Of Global Operations, AllianceBernstein L.P.*

Robin A. Vince, *Managing Director, Head of Operations, Goldman Sachs & Co.*

David A. Weisbrod, *Managing Director, JPMorgan Chase Bank, NA*

Christopher Concannon, *Partner and Executive Vice President, Virtu Financial LLC*

Art Certosimo, *Senior Executive Vice President, BNY Mellon*

Lori Hricik, *Former Chief Executive Officer and Head of JPMorgan Treasury Services*

Derek Ross, *Former Partner at Deloitte U.K.*

Stephen C. Daffron, *Managing Director and Global Head of Operations, Technology and Data, Morgan Stanley*

John C. Parker, *President, Business Services Group, Wells Fargo Advisors, LLC*

Gary H. Stern, *Former President and Chief Executive Officer of the Federal Reserve Bank of Minneapolis*

William B. Aimetti, *President, The Depository Trust & Clearing Corporation*

Gerard S. LaRocca, *Managing Director and Chief Administrative Officer, Americas, Barclays Capital*

Robert Kaplan, *Executive Vice President, State Street Bank & Trust Co.*

Mark Alexander, *Chief Information Officer and Head of Technology and Operations for Global Wealth and Investment Management, Bank of America Merrill Lynch*

Stephen Luparello, *Senior Executive Vice President, Regulatory Operations, FINRA*

The 2010 DTCC Board is composed of 19 directors. Of these, thirteen directors are representatives of clearing agency participants, including international broker/dealers, custodian and clearing banks, and investment institutions; two of this group are designated by DTCC's preferred shareholders, NYSE Euronext and FINRA. For the first time, three directors are from non-participants — specifically Lori Hricik, Derek Ross and Gary H. Stern. The remaining three directors are the chairman and chief executive officer, president, and chief operating officer of DTCC.

Independent Auditors' Report

Deloitte.

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

We have audited the accompanying consolidated balance sheets of The Depository Trust & Clearing Corporation and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the accompanying 2009 consolidated financial statements have been restated.

As discussed in Note 3 to the consolidated financial statements, the Company adopted new accounting standards in 2009 related to the accounting and financial statement presentation for non-controlling interests and accounting for uncertainty in income taxes.

Deloitte + Touche LLP

April 21, 2011
New York, NY

Consolidated Balance Sheets

December 31, *(Dollars in thousands, except share data)*	2010	2009 As Restated (See Note 2)
Assets:		
Cash and cash equivalents	$14,199,434	$14,418,767
Investments in marketable securities	298,231	614,647
Accounts receivable	170,220	163,843
Participants' fund	18,200,889	21,545,520
Fixed assets, less accumulated depreciation of $639,133 and $552,329 at December 31, 2010 and 2009, respectively	236,088	240,543
Deferred income taxes, net	78,821	114,835
Equity method investments	281,093	292,138
Other assets	483,020	451,465
Total assets	33,947,796	37,841,758
Liabilities and shareholders' equity:		
Liabilities:		
Accounts payable and other liabilities	1,165,118	1,084,719
Payable to participants	1,214,653	1,313,498
Long-term debt and other borrowings	387,028	383,653
Clearing fund:		
Cash deposits	12,290,305	12,890,432
Other deposits	18,200,889	21,545,520
Total liabilities	33,257,993	37,217,822
Commitments and contingent liabilities (Note 12)		
Shareholders' equity:		
Preferred Stock		
Series A, $.50 par value – 10,000 shares authorized, issued (above par) and outstanding	300	300
Series B, $.50 par value – 10,000 shares authorized, issued (above par) and outstanding	300	300
Common stock, $100 par value – 28,500 shares authorized, 23,655 shares issued and outstanding	2,366	2,366
Paid in capital	12,671	12,671
Retained earnings:		
Appropriated	257,240	203,880
Unappropriated	425,844	395,859
Treasury stock	(42)	(42)
	698,679	615,334
Accumulated other comprehensive loss, net of tax: Defined benefit pension and other plans	(151,658)	(133,019)
Foreign currency translation adjustment	(6,966)	(8,588)
Net unrealized (loss) gain on derivatives and other	(252)	209
Accumulated other comprehensive loss	(158,876)	(141,398)
Non-controlling interests	150,000	150,000
Total shareholders' equity	689,803	623,936
Total liabilities and shareholders' equity	$33,947,796	$37,841,758

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

Consolidated Statements of Income and Comprehensive Income

For the year Ended December 31, *(Dollars in thousands)*	2010	2009 As Restated (See Note 2)
Revenues:		
Trading services	$560,416	$577,666
Custody services	204,219	202,882
Network services	15,609	14,838
Other services	55,212	51,855
Interest income	43,143	52,189
Equity in net income of equity method investments	69,983	51,198
Gain on investment in MarkitSERV, LLC	–	222,992
Total revenues	948,582	1,173,620
Refunds to participants	(25,854)	(35,324)
Net revenues	922,728	1,138,296
Expenses:		
Employee compensation and related benefits	473,361	511,172
Information technology	103,662	95,802
Professional, clearance and other services	149,503	123,469
Occupancy	54,809	53,969
Interest expense	25,625	23,612
Other general and administrative	22,902	21,056
Expense reimbursements	(53,988)	(39,840)
Total expenses	775,874	789,240
Income before taxes	146,854	349,056
Provision for income taxes	63,269	116,371
Net income	83,585	232,685
Net income attributable to non-controlling interests	240	246
Net income attributable to DTCC	83,345	232,439
Other comprehensive (loss) income, net of tax:		
Defined benefit pension and other plans		
DTCC	(17,887)	62,987
DTCC's share of Omgeo LLC	(752)	–
Foreign currency translation adjustments		
DTCC	2,372	1,495
DTCC's share of Omgeo LLC	(402)	(3,950)
DTCC's share of MarkitSERV LLC	(348)	(714)
Net unrealized (loss) gain on derivative instruments and other		
DTCC	(252)	–
DTCC's share of Omgeo LLC	(209)	352
Other comprehensive (loss) income	(17,478)	60,170
Comprehensive income	66,107	292,855
Comprehensive income attributable to non-controlling interests	240	246
Comprehensive income attributable to DTCC	$65,867	$292,609

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

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands)	Preferred Stock Series A	Preferred Stock Series B	Common Stock	Paid in Capital	Retained Earnings Appropriated	Retained Earnings Unappropriated
Balance at December 31, 2008, as previously reported	$300	$300	$2,366	$12,671	$94,067	$315,031
Tax restatement adjustment, See Note 2						(4,587)
Balance at December 31, 2008, as restated, See Note 2	300	300	2,366	12,671	94,067	310,444
Cumulative effect change due to adoption of uncertain tax positions					(1,747)	(35,464)
Balance at January 1, 2009, as restated and revised	300	300	2,366	12,671	92,320	274,980
Net Income 2009	–	–	–	–	111,806	120,879
Non-controlling interests	–	–	–	–	(246)	–
Issuance of DTC Preferred Stock	–	–	–	–	–	–
Defined benefit pension and other plans						
DTCC (net of taxes of $47,922)	–	–	–	–	–	–
Foreign currency translation adjustment						
DTCC	–	–	–	–	–	–
DTCC's share of Omgeo LLC	–	–	–	–	–	–
DTCC's share of Markit LLC						
DTCC's share of Omgeo LLC net unrealized gain on derivative instruments and other	–	–	–	–	–	–
Balance at December 31, 2009	300	300	2,366	12,671	203,880	395,859
Net Income 2010	–	–	–	–	53,600	29,985
Non-controlling interests	–	–	–	–	(240)	–
Defined benefit pension and other plans						
DTCC (net of taxes of $10,792)	–	–	–	–	–	–
DTCC's share of Omgeo LLC	–	–	–	–	–	–
Foreign currency translation adjustment						
DTCC	–	–	–	–	–	–
DTCC's share of Omgeo LLC	–	–	–	–	–	–
DTCC's share of MarkitSERV LLC						
Derivatives instruments						
DTCC (net of taxes of $175)	–	–	–	–	–	–
DTCC's share of Omgeo LLC	–	–	–	–	–	–
Balance at December 31, 2010	$300	$300	$2,366	$12,671	$257,240	$425,844

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

(Dollars in thousands)	Treasury Stock	Accumulated Other Comprehensive Income (Loss) Net of Tax: Defined Benefit Pension and other Plans	Foreign Currency Translation Adjustment	Unrealized (loss) / gain on derivative instruments and other	Non-controlling Interests	Total Shareholders' Equity
Balance at December 31, 2008, as previously reported	($42)	($196,006)	($5,419)	($143)	$125,000	$348,125
Tax restatement adjustment, See Note 2						(4,587)
Balance at December 31, 2008, as restated, See Note 2	(42)	(196,006)	(5,419)	(143)	125,000	343,538
Cumulative effect change due to adoption of uncertain tax positions						(37,211)
Balance at January 1, 2009, as restated and revised	(42)	(196,006)	(5,419)	(143)	125,000	306,327
Net Income 2009	–	–	–	–	–	232,685
Non-controlling interests	–	–	–	–	–	(246)
Issuance of DTC Preferred Stock	–	–	–	–	25,000	25,000
Defined benefit pension and other plans						
DTCC (net of taxes of $47,922)	–	62,987	–	–	–	62,987
Foreign currency translation adjustment						
DTCC	–	–	1,495	–	–	1,495
DTCC's share of Omgeo LLC	–	–	(3,950)	–	–	(3,950)
DTCC's share of Markit LLC	–	–	(714)	–	–	(714)
DTCC's share of Omgeo LLC net unrealized gain on derivative instruments and other	–	–	–	352	–	352
Balance at December 31, 2009	(42)	(133,019)	(8,588)	209	150,000	623,936
Net Income 2010	–	–	–	–	–	83,585
Non-controlling interests	–	–	–	–	–	(240)
Defined benefit pension and other plans						
DTCC (net of taxes of $10,792)	–	(17,887)	–	–	–	(17,887)
DTCC's share of Omgeo LLC	–	(752)	–	–	–	(752)
Foreign currency translation adjustment						
DTCC	–	–	2,372	–	–	2,372
DTCC's share of Omgeo LLC	–	–	(402)	–	–	(402)
DTCC's share of MarkitSERV LLC	–	–	(348)	–	–	(348)
Derivatives instruments						
DTCC (net of taxes of $175)	–	–	–	(252)	–	(252)
DTCC's share of Omgeo LLC	–	–	–	(209)	–	(209)
Balance at December 31, 2010	($42)	($151,658)	($6,966)	($252)	$150,000	$689,803

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

For the Year Ended December 31, *(Dollars in thousands)*	2010	2009 As Restated (See Note 2)
Cash flows from operating activities:		
Net Income	$83,585	$232,685
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets	86,804	89,007
Net premium amortized on investments in marketable securities	1,109	2,996
Deferred tax charge	36,014	55,020
Distributions from equity method investments, net of earnings	20,762	(7,719)
Impairment of internally developed software	–	976
Gain on investment in MarkitSERV, LLC	–	(222,992)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(6,377)	(825)
(Increase) in equity method investments	(9,717)	(2,642)
(Increase) in other assets	(14,553)	(35,118)
Increase in accounts payable and other liabilities	60,549	23,677
(Decrease) in payable to participants	(98,845)	(619,238)
(Decrease) in participants' fund cash deposits	(600,127)	(4,429,193)
Net cash used in operating activities	(440,796)	(4,913,366)
Cash flows from investing activities:		
Business acquisition, net of cash received	(17,002)	–
Maturities of investments in marketable securities	813,000	231,000
Purchases of investments in marketable securities	(497,693)	(614,470)
Purchases of fixed assets	(82,349)	(88,762)
Net cash provided by (used in) investing activities	215,956	(472,232)
Cash flows from financing activities:		
Payments to non-controlling interests	(240)	(246)
Issuance of preferred stock to non-controlling interests	–	25,000
Proceeds from notes payable issuance	24,905	149,126
Capitalized leases	–	12,200
Principal payments on debt and capital lease obligations	(21,530)	(39,816)
Net cash provided by financing activities	3,135	146,264
Effect of foreign exchange rate changes on cash and cash equivalents	2,372	(3,169)
Net decrease in cash and cash equivalents	(219,333)	(5,242,503)
Cash and cash equivalents, beginning of year	14,418,767	19,661,270
Cash and cash equivalents, end of year	$14,199,434	$14,418,767
Supplemental disclosures:		
Income taxes paid, net of refunds	$46,639	$100,536
Interest paid	$24,875	$24,578

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

December 31, 2010 and 2009

1. Business and Ownership:

Subsidiaries: The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports various operating subsidiaries including The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited and Avox Limited (Avox), collectively the "Company" or "Companies." The members of DTCC's subsidiaries are collectively referred to as participants.

DTC is a limited purpose trust company under New York State banking law and a member of the Federal Reserve System. It provides central securities depository, settlement and related services to members of the securities, banking and other financial industries.

NSCC is a clearing agency registered with the U.S. Securities and Exchange Commission (SEC) that provides various services to members of the financial community, consisting principally of securities trade comparison, netting, clearance, settlement and risk management services.

FICC is a clearing agency registered with the SEC that provides various services to members of the government and mortgage-backed securities markets, consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification.

DTCC Deriv/SERV LLC provides matching, confirmation and payment processing services and a global contracts repository to perform netting and money settlement services for the over-the-counter derivatives market.

DTCC Solutions LLC provides technology services that help financial institutions manage the rapid growth, high risk and costs of corporate action transactions.

EuroCCP is a Recognized Clearing House in the United Kingdom regulated by the Financial Services Authority (FSA). The Company is a central counterparty to support pan-European securities trading.

DTCC Solutions Worldwide Limited is an authorized payment institution in the United Kingdom regulated by the FSA. The Company provides processing of non-U.S. Dollar settlements for offshore mutual funds.

Avox validates and maintains business entity reference data, including corporate hierarchies, registered address information, industry sector codes and company identifiers. On July 1, 2010, the Company acquired the outstanding shares of Avox in an all cash transaction. Pursuant to ASC 805 *Business Combinations*, the consideration of $17,775,000 paid by the Company for the outstanding shares of Avox has been measured by reference to the fair value of the Avox business at the acquisition date. The transaction was accounted for as a purchase business combination, resulting in $4,396,000 of Goodwill. Technology and customer relationships acquired, totaling $9,095,000, are being amortized over a ten-year life and a twelve-year life, respectively. In addition, a trade name valued at $3,248,000 and a non-compete agreement valued at $31,000 were acquired, and are not being amortized. Net assets of $1,005,000 were acquired. The acquisition was not material to the Company's operations, financial position or cash flows.

Equity Method Investments: The Company has three equity method investments.

Omgeo LLC (Omgeo) is a joint venture with Thomson Reuters Corporation (Thomson). Omgeo uses the institutional trade-processing infrastructures of DTCC and Thomson to provide seamless global trade management and straight-through processing. The carrying value of DTCC's investment in Omgeo included in equity method investments totaled $44,570,000 and $46,516,000 at December 31, 2010 and 2009, respectively, and represents 50% of Omgeo's net book value.

MarkitSERV, LLC (MarkitSERV), formed on September 1, 2009, is a joint venture with Markit Group Holdings Limited (MGHL). It engages in derivative transaction processing, confirmation, novation, and other related services for firms that conduct business on the over-the-counter derivatives market. The carrying value of DTCC's investment in MarkitSERV included in equity method investments totaled $233,436,000 and $248,376,000 at December 31, 2010 and 2009, respectively, and reflects DTCC's 50% ownership of MarkitSERV. (See Note 2)

New York Portfolio Clearing LLC (NYPC) is a joint venture with NYSE Euronext. NYPC was established in September 2009 to serve as a derivatives clearing organization. The Company is registered with the Commodity Futures Trading Commission (CFTC). The carrying value of DTCC's investment in NYPC included in equity method investments totaled $3,087,000 and ($2,754,000) at December 31, 2010 and 2009, respectively, and reflects DTCC's 50% ownership of NYPC. The Company had no operations in 2010 or 2009.

Non-Controlling Interests: Under a plan adopted by the Board of Directors, each participant of DTC is required to own shares of its Series A Preferred Stock. The preferred stock does not reduce the funds available in the event of a DTC participant's failure to settle. The ownership of DTC preferred stock is reported as non-controlling interests in the consolidated financial statements. There was $150,000,000 of DTC Series A Preferred Stock outstanding as of December 31, 2010 and 2009 (1,500,000 shares at a par value of $100 per share). Dividends are accrued quarterly based on the earnings of the funds. In December 2010, DTC's authorized series A preferred stock was increased by 1,750,000 shares bringing the total to 3,250,000 authorized shares, or $325,000,000. None of the newly authorized shares have been issued.

2. Restatement of Consolidated Financial Statements:

Subsequent to the issuance of its 2009 consolidated financial statements, the Company identified accounting errors relating to (i) how it accounted for MarkitSERV, a joint venture with MGHL, which was established on September 1, 2009, and (ii) the determination of certain deferred income tax liabilities pertaining to the Company's investment in Omgeo.

In 2009, the Company accounted for the MarkitSERV transaction using the equity method of accounting per ASC 323 – *Investments, Equity Method and Joint Ventures*, and, as such, recorded its investment at book value, as well as the related equity pick-up for the period September 1 to December 31, 2009.

Based on the Company's subsequent review of the transaction, it was determined that MarkitSERV was ultimately controlled by MGHL. As a result, the Company has restated its 2009 consolidated financial statements to record a one-time non-cash gain on the sale of the contributed businesses and a corresponding increase in the carrying value of its investment, reflecting the Company's proportion of the market value of MarkitSERV. Consistent with the results of a market valuation performed by a third party, the Company has determined that the fair value of MarkitSERV at the transaction date was $486,400,000. The amortization of the fair value of the identified intangible assets contributed by both the Company and MGHL were adjusted, effective with the transaction date.

The impact of the restatement related to MarkitSERV on the Company's 2009 consolidated financial statements was:

(1) Recording the removal of technology assets contributed to MarkitSERV at the transaction date, and reversing the amortization on these assets that had been incorrectly recorded in the period September 1 to December 31, 2009, as they had not been removed from the books as part of the original transaction. The net book value of such assets at the transaction date was $15,229,000, and the related amortization recorded in that period was $2,817,000 as reflected in Compensation and Benefits, where the amortization was recorded. The net impact was a $12,412,000 adjustment to fixed assets.

(2) Adjusting the amount previously recorded as the equity method pick-up to reflect the amortization of intangible assets valued at the transaction date of $9,621,000.

(3) Recording a gain on the sale of its businesses of $222,992,000, as follows:

Company share of the fair value of MarkitSERV	$243,200,000
Less: net book value of contributed technology	(15,229,000)
Less: amount previously recorded as investment	(4,979,000)
Gain on the sale of businesses	$222,992,000

(4) Increasing the carrying value of the Company's investment in the joint venture by $227,886,000, as follows:

Company share of the fair value of MarkitSERV	$243,200,000
Less: amount previously recorded as investment	(4,979,000)
Less: equity method pick-up adjustment	(9,621,000)
Less: accumulated other comprehensive income adjustment *	(714,000)
Increase in carrying value of the joint venture	$227,886,000

** The Company also recorded additional accumulated other comprehensive loss reflecting the impact of foreign currency translation in MarkitSERV.*

(5) Recording a decrease in deferred income taxes, net, and a corresponding amount to provision for income taxes, of $88,277,000 related to the gain.

The Company also concluded that an error existed in its previously issued financial statements relating to accounting for deferred tax assets and liabilities, as it did not record the appropriate deferred income tax liability pertaining to its investment in Omgeo. The error resulted in an overstatement of unappropriated retained earnings at December 31, 2008 of $4,587,000. Therefore, the Company has reduced its unappropriated retained earnings at December 31, 2008, in its consolidated statement of changes in shareholders' equity, with a corresponding decrease in deferred income taxes, net.

The following table sets forth the effect of the restatements on the Company's consolidated balance sheet as of December 31, 2009.

Consolidated Balance Sheet

As of December 31, 2009 (Dollars in thousands)	As Previously Reported	Reclass*	Adjustments	As Restated and Reclassified
Assets				
Fixed assets, less accumulated depreciation	$252,955	$–	($12,412)	$240,543
Deferred income taxes, net	207,699	–	(92,864)	114,835
Equity method investments	–	64,252	227,886	292,138
Other assets	515,717	(64,252)		451,465
Total assets	37,719,148	–	122,610	37,841,758
Shareholders' equity				
Retained earnings – Unappropriated	272,535	–	123,324	395,859
Foreign currency translation adjustment	(7,874)	–	(714)	(8,588)
Accumulated other comprehensive loss	(140,684)	–	(714)	(141,398)
Total shareholders' equity	501,326	–	122,610	623,936
Total liabilities and shareholders' equity	$37,719,148	$–	$122,610	$37,841,758

** See Note 3 Basis of Presentation.*

The following table sets forth the effect of the restatements on the Company's consolidated statements of income and comprehensive income for the year ended December 31, 2009.

Consolidated Statements of Income and Comprehensive Income

For the year ended December 31, 2009 (Dollars in thousands)	As Previously Reported	Adjustments	As Restated
Revenues			
Equity in net income of equity method investments	$60,819	($9,621)	$51,198
Gain on investment in MarkitSERV, LLC	–	222,992	222,992
Total revenues	960,249	213,371	1,173,620
Net revenues	924,925	213,371	1,138,296
Expenses			
Employee compensation and related benefits	513,989	(2,817)	511,172
Total expenses	792,057	(2,817)	789,240
Income before income taxes	132,868	216,188	349,056
Provision for income taxes	28,094	88,277	116,371
Net Income	104,774	127,911	232,685
Other comprehensive income, net of tax – Foreign currency translation adjustments – DTCC's share of MarkitSERV LLC	–	(714)	(714)
Other comprehensive income (loss)	60,884	(714)	60,170
Comprehensive income	165,658	127,197	292,855
Comprehensive income attributable to DTCC	$165,412	$127,197	$292,609

The following table sets forth the effect of the restatements on the Company's consolidated statement of cash flows for the year ended December 31, 2009.

Consolidated Statement of Cash Flows

For the year ended December 31, 2009 (Dollars in thousands)	As Previously Reported	Reclass*	Adjustments	As Restated and Reclassified
Cash flows from operating activities				
Net income	$104,774	$–	$127,911	$232,685
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization of fixed assets	91,824	–	(2,817)	89,007
Deferred tax (benefit) charge	(33,257)	–	88,277	55,020
Distributions from equity method investments, net of earnings (previously titled DTCC's Share of Omgeo LLC's distributions, net of earnings)	(4,583)	–	(3,136)	(7,719)
Gain on investment in MarkitSERV, LLC, net of cash contributed	–	–	(222,992)	(222,992)
Changes in operating assets and liabilities:				
Decrease (increase) in equity method investments	–	(16,113)	13,471	(2,642)
(Increase) in other assets	(51,231)	16,113	–	(35,118)
Net cash used in operating activities	(4,914,080)	–	714	(4,913,366)
Effect of foreign exchange rate changes	($2,455)	$–	($714)	($3,169)

** See Note 3 Basis of Presentation.*

3. Summary Of Significant Accounting Policies:

Basis of Presentation: The consolidated financial statements include the accounts of DTCC and its subsidiaries. Inter-company balances and transactions are eliminated in consolidation.

The Company reclassified its equity method investments to report them separately. These amounts were previously included in other assets on the consolidated balance sheets. Prior year amounts were adjusted to conform to the current presentation.

Cash and Cash Equivalents: The Companies report overnight reverse repurchase agreements, commercial paper and money market accounts as cash equivalents. Cash and cash equivalents include deposits with financial institutions, reverse repurchase agreements, commercial paper and money market accounts.

Reverse repurchase agreements provide for the Companies' delivery of cash in exchange for securities having a fair value which is at least 102% of the amount of the agreements. Custodians designated by the Companies that are participants take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts which approximate fair value and totaled $7,788,042,000 and $6,528,933,000 at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the counterparties to these agreements were ten and eight major financial institutions that are participants, respectively.

Overnight investments made in commercial paper are stated at amounts that approximate fair value totaling $859,955,000 and $2,680,113,000 at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the issuers of the commercial paper were two major U.S. bank holding companies that are participants, respectively.

Money market accounts with participants are used to sweep any remaining funds available and are stated at amounts that approximate fair value. Overnight investments made in money market accounts totaling $3,144,390,000 and $2,678,173,000, including $35,345,000 and $40,232,000 representing deposits received from participants to facilitate their compliance with customer protection rules of the SEC, are also included in cash equivalents at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the money market balance was with four major financial institutions that are participants, respectively.

Investments in Marketable Securities: U.S. Treasury securities and investment grade corporate notes are recorded at amortized cost and are considered to be held-to-maturity securities. The contractual maturities, carrying value and fair value of these securities at December 31, 2010 and 2009, are as follows:

	Carrying Value			Market Value		
(Dollars in thousands)	U.S. Treasury Securities	Corporate Notes	Total	U.S. Treasury Securities	Corporate Notes	Total
2010						
Due in one year or less	$297,224	$–	$297,224	$315,045	$–	$315,045
Due in more than one year	–	1,007	1,007	–	1,083	1,083
Total	**$297,224**	**$1,007**	**$298,231**	**$315,045**	**$1,083**	**$316,128**
2009						
Due in one year or less	$613,636	$–	$613,636	$613,667	$–	$613,667
Due in more than one year	–	1,011	1,011	–	1,067	1,067
Total	**$613,636**	**$1,011**	**$614,647**	**$613,667**	**$1,067**	**$614,734**

Accounts Receivable: Accounts receivable consist of the following at December 31, 2010 and 2009:

(Dollars in thousands)	2010	2009
Due from participants for services	**$75,818**	$63,212
Cash dividends, interest and related receivables	**13,252**	27,718
Taxes receivable and other	**81,150**	72,913
Total	**$170,220**	$163,843

Stock dividends receivable are not recorded in the consolidated financial statements.

Fixed Assets: Fixed assets consist of the following at December 31, 2010 and 2009:

(Dollars in thousands)	2010	2009
Fixed asset cost:		
Leasehold improvements	**$153,032**	$152,331
Furniture and equipment	**213,097**	196,686
Software	**435,990**	360,352
Leased property under capital leases	**37,487**	47,800
Buildings and improvements	**31,394**	31,482
Land	**4,221**	4,221
Total cost	**875,221**	792,872
Accumulated depreciation and amortization:		
Leasehold improvements	**113,124**	102,046
Furniture and equipment	**183,625**	168,807
Software	**302,338**	245,382
Leased property under capital leases	**34,168**	30,996
Buildings and improvements	**5,878**	5,098
Total accumulated depreciation and amortization	**639,133**	552,329
Net book value	**$236,088**	$240,543

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

Software Capitalization: Internal and external costs incurred in developing or obtaining computer software for internal use are capitalized in accordance with generally accepted accounting principles and are amortized on a straight-line basis over the estimated useful life of the software, generally three years. General and administrative costs related to developing or obtaining such software are expensed as incurred.

Capitalized costs related to software that was either developed for internal use or purchased, totaling $75,638,000 and $25,272,000 in 2010 and 2009, respectively are included in software in the table above. The amortization of capitalized software costs was $56,956,000 in 2010 and $59,201,000 in 2009. The depreciation of other fixed assets was $29,848,000 in 2010 and $30,782,000 in 2009.

There were no impairment charges in 2010. In 2009, certain assets totaling $15,229,000 were contributed to MarkitSERV and there was an impairment charge of $976,000. There were no fixed asset disposals in 2010 or 2009.

Depreciation and Amortization: Depreciation and amortization is reported in the expense classifications to which the charges are allocated on the consolidated income statement, including employee compensation and related benefits, information technology, occupancy, and other general and administrative.

Goodwill and Intangible Assets: Goodwill represents the excess of the purchase consideration over the fair value of net assets acquired and is recorded in other assets.

Acquired software intangible assets are amortized on a straight-line basis over their estimated useful lives. Customer relationship assets are amortized on an accelerated basis based upon management's estimate of future economic benefit to be realized. The estimated useful lives of acquired software and customer relationship intangible assets are 10 and 12 years, respectively.

Goodwill and intangible assets are reviewed annually for impairment. There was no impairment in 2010 or 2009.

Income Taxes: Deferred tax assets and liabilities are reported in deferred income taxes, net, in the consolidated balance sheets and represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the tax authorities.

Refunds to Participants: The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. The earnings on these investments are included in interest

income. The amounts that were passed through to participants are included in refunds to participants. Such earnings totaled $25,376,000 and $31,946,000 in 2010 and 2009, respectively. Further, the Board of Directors determines the amount, if any, of discount to be paid to participants each year. There were no discounts in 2010 and there were discounts of $2,402,000 in 2009.

DTC also has a policy to provide participants a monthly refund of interest earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such refunds totaled $478,000 in 2010 and $976,000 in 2009.

Securities on Deposit: Securities held in custody by DTC for participants are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to participants. Short positions occasionally exist in participants' securities balances. Such short positions are valued and collateralized daily by participants' cash, aggregating 130% of the short position. DTC's obligation to return such amounts to participants is reflected in payable to participants. At December 31, 2010 and 2009, short positions amounted to $37,283,000 and $32,951,000, respectively.

Financial Instruments and Fair Value: The carrying value of all financial instruments, which are short term in nature, approximates fair value.

Revenue Recognition: Revenue is generally recognized as services are rendered. The majority of revenues are based on activities that are captured daily and billed on a monthly basis. Interest income is recorded on an accrual basis.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Management makes estimates regarding the collectability of receivables, the outcome of litigation, the realization of deferred taxes, the recognition of uncertain tax positions, the valuation of equity method investments, the impairment of goodwill and intangibles, and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates.

Foreign Currency: Assets and liabilities denominated in foreign currencies are translated at rates of exchange prevailing on the dates of the consolidated balance sheets. Revenues and expenses are translated at average rates of exchange during the year. Gains or losses on foreign currency transactions are included in the consolidated statements of income and comprehensive income. Gains or losses on translation of the financial statements of foreign subsidiaries, when the functional currency is other than the U.S. dollar, are reflected as a separate component of equity and included in comprehensive income.

Fair Value Measurements: The framework for measuring fair value is established in Accounting Standards Codification (ASC) Topic 820 *Fair Value Measurement and Disclosures*. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three-tier hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value are described as follows:
Level 1 – Financial assets and liabilities whose values are based on unadjusted, quoted prices for identical assets or liabilities in an active market.
Level 2 – Financial assets and liabilities whose values are based on quoted prices in inactive markets, or whose values are based on models - but the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets.

b) Quoted prices for identical or similar assets or liabilities in non-active markets.

c) Pricing models whose inputs are observable for substantially the full term of the asset or liability.

d) Pricing models whose inputs are derived principally from or corroborated by observable market data by correlation or other means for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value of financial assets and liabilities are presented in accordance with established guidelines.

Management believes that the carrying value of all financial instruments, which are short-term in nature, approximates fair value.

Non-Controlling Interests: Non-controlling interests represent participant ownership of DTC's Series A preferred stock and are presented as equity in the consolidated balance sheet. The consolidated statements of income and comprehensive income present net income before non-controlling interests and the net income attributable to non-controlling interests to report the net income attributable to DTCC.

Guarantees: The Companies disclose their obligations as guarantor, including indirect guarantees of indebtedness of others.

Derivatives and Hedging: The Company uses cash flow hedges for risk management purposes to hedge the exposure to variability in cash flows from floating-rate debt. All free-standing derivatives, including swaps, are recorded on the consolidated balance sheet at fair value.

Hedge accounting is applied when a derivative is highly effective at reducing the risk associated with the hedged exposure and the risk management objective and strategy are documented. Hedge documentation identifies the derivative hedging instrument, the asset or liability and type of risk hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. Derivatives that are not designated as hedges are marked to market through the consolidated income statement.

To assess effectiveness, the Company uses the hypothetical derivative method as noted within FASB ASC Topic 815 *Derivatives and Hedging*. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income or loss ("OCI") and recognized in the consolidated income statement when the hedged cash flows affect earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item. The ineffective portions of cash flow hedges, if any, are immediately recognized in the consolidated income statement. If a hedge relationship is terminated, the value of the derivative recorded in accumulated other comprehensive income or loss ("AOCI") is recognized in the consolidated income statement when the cash flows that were hedged affect earnings.

Recent Accounting Pronouncements:

Financing Receivables: In July 2010, the Financial Accounting Standards Board amended the accounting guidance for receivables as it relates to the disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires disclosure of credit quality indicators, past due information, and modifications of financing receivables. For nonpublic entities, these disclosures are effective for annual reporting periods ending on or after December 15, 2011. The Company is evaluating the impact this amendment will have on its consolidated financial statements.

Uncertain Tax Positions: In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-06 Income Taxes (Topic 740) – Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities which amended ASC Subtopic 740-10, Income Taxes – Overall (formerly FIN 48). The revised guidance was effective for periods ending after September 15, 2009. As discussed in Note 9 to the consolidated financial statements, the Company's adoption of ASU 2009-06 resulted in a reduction of $37.2 million to its retained earnings effective January 1, 2009.

FASB Accounting Standards Codification: In July 2009, the FASB issued accounting guidance to establish the FASB Accounting Standards Codification (ASC or Codification) to become the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. All other accounting literature not included in the Codification is now considered non-authoritative. The Codification did not change current U.S. GAAP. References to authoritative U.S. GAAP literature in the Company's consolidated financial statements and the notes in this report have been updated to include the new Codification.

Consolidation: In June 2009, the FASB issued guidance on issues related to variable interest entities (VIE) (originally issued as SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)"). The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIE's and in determining which party is deemed the primary beneficiary. The guidance requires continuous assessment of an entity's involvement with such VIE. The guidance was effective as of the beginning of the first fiscal year that began after November 15, 2009 and early adoption was prohibited. The guidance did not impact the Company's consolidated financial statements.

Non-Controlling Interests: In December 2007, the Financial Accounting Standards Board (FASB) issued guidance on non-controlling interests in consolidated financial statements (originally issued as SFAS No. 160 and now referred to as ASC 810) on the accounting and financial statement presentation for non-controlling (minority) interests. The guidance requires reporting entities to present non-controlling interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and non-controlling interests. The guidance applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which are applied retrospectively for all periods presented. The Company adopted the guidance effective January 1, 2009, and, as a result, (a) with respect to the consolidated balance sheets, non-controlling interests was renamed as such and reclassified as a component of shareholders' equity, (b) with respect to the consolidated statements of income and comprehensive income, net income is now presented before non-controlling interests and the consolidated statements of income and comprehensive income now nets to net income attributable to DTCC.

4. Intangible Assets:

A summary of intangible assets and accumulated amortization at December 31, 2010, included in other assets on the consolidated balance sheets, is as follows:

(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Customer relationships	$8,043	$560
Non-compete agreement	31	31
Total	$8,074	$591
Unamortized intangible assets:		
Trademarks	$3,248	n/a

A summary of amortization expense for the year ended December 31, 2010 is as follows:

(Dollars in thousands)	Customer Relationships	Non-Compete Agreement	Total
Amortization expense	$560	$31	$591

At December 31, 2010, the future estimated amortization expense is as follows:

(Dollars in thousands)	Amount
2011	$1,243
2012	894
2013	795
2014	709
2015	634
Thereafter	3,208
Total future estimated amortization	$7,483

There were no intangible assets at December 31, 2009.

5. Participant and Clearing Funds:

The Companies' rules require participants to maintain deposits related to their respective activities based on calculated requirements, which were $20,388,495,000 and $21,871,964,000 at December 31, 2010 and 2009, respectively. The deposits are available to secure participants' obligations and certain liabilities of the Companies, should they occur. All deposits of cash and securities are recorded on the consolidated balance sheets.

A summary of the total clearing fund deposits held at December 31, 2010 and 2009, including $10,102,699,000 and $12,563,988,000, respectively, in excess of the calculated requirements follows:

(Dollars in thousands)	2010	2009
Cash	**$12,290,305**	$12,890,432
Other Deposits:		
U.S. Treasury and Agency securities, at fair value	**18,200,889**	21,545,520
Total	**$30,491,194**	$34,435,952

Other deposits include U.S. Treasury Securities of $12,987,305,000 and $11,766,897,000 categorized as Level 1 assets and $5,213,584,000 and $9,778,623,000 categorized as Level 2 assets, as of December 31, 2010 and 2009, respectively.

6. Transactions with Related Parties:

DTCC has agreements with Omgeo, MarkitSERV, and NYPC to provide various support services and office facilities. Charges under these agreements, which are included in expense reimbursements and accounts receivable, are as follows:

	Charges		Receivables	
(Dollars in thousands)	**2010**	2009	**2010**	2009
Omgeo	**$29,980**	$30,702	**$2,887**	$2,936
MarkitSERV	**20,592**	6,223	**1,510**	7,111
NYPC	**2,789**	2,318	**4,378**	2,979
Total	**$53,361**	$39,243	**$8,775**	$13,026

DTCC has a commitment to contribute up to $15,000,000 to NYPC to meet operational needs. As of December 31, 2010, DTCC had contributed $11,000,000. In addition, DTCC has an agreement with Omgeo whereby, if Omgeo reduces or terminates certain services it receives from DTCC or its affiliates, Omgeo will pay extraction costs as specified in the agreement.

7. Payable to Participants:

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

Cash dividends, interest, reorganization and redemption payables of $1,138,521,000 at December 31, 2010, and $1,212,634,000 at December 31, 2009, are included in payable to participants. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

Payable to participants also includes settlement accounts payable, deposits received from NSCC participants to facilitate their compliance with customer protection rules of the SEC, deposits received from DTC participants to collateralize their short positions and any unpaid discounts. These payables totaled $76,132,000 at December 31, 2010, and $100,864,000 at December 31, 2009.

8. Pension and Other Postretirement Benefits:

DTCC has a non-contributory defined benefit pension plan covering substantially all full-time employees of the Companies. The pension plan is qualified under section 401(a) of the Internal Revenue Code. Pension benefits under the plan are determined on the basis of an employee's length of service and earnings. The funding policy is to make contributions to the plan that meet or exceed the minimum funding standards under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended. DTCC also maintains a 401(h) account to fund the retiree medical plans.

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

In accordance with FASB guidance on employers' accounting for defined benefit pension and other postretirement plans, DTCC recorded a charge of $28,679,000 on a pre-tax basis offset by a deferred tax benefit of $10,792,000 resulting in a net charge of $17,887,000 to the accumulated other comprehensive loss account to report the funded status of the defined benefit pension and other postretirement benefit plans, thereby decreasing shareholders' equity in 2010. The increase in the obligation was mainly due to a decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount, partially offset by the impact of an increase in the plan assets. The net decrease in shareholders' equity represents an amount not yet recognized as pension expense.

The effect of this standard in 2009 was a credit of $110,909,000 on a pre-tax basis offset by a deferred tax charge of $47,922,000 resulting in a net credit of $62,987,000 to the accumulated other comprehensive loss account, thereby increasing shareholders' equity. The decrease in the obligation was primarily the result of an increase in the value of the plan's assets and a decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount.

Fair Value of Pension and Other Benefit Plan Assets:

Following are the descriptions and valuation methodologies used for assets measured at fair value.

Mutual funds: This category includes actively managed investments in U.S. large cap growth, value and small cap equity securities, and international equity securities. It also includes an equity index fund that tracks the performance of the S&P 500 Index. The fair value represents the net asset value (NAV) of the shares held by the plan at year-end.

Group annuity contract: This category represents a pooled interest in an actively managed bond portfolio. The fair value is based on the balance in the account at year-end.

Pooled investment fund: This category represents an actively managed bond portfolio benchmarked to a broad U.S. bond market index. The fair value of the fund is determined by the fund manager based on the purchase price and redemption price of the units as of the close of each day the fund manager is open for business.

Short term investments: This category is designed to provide safety of principal, daily liquidity and a competitive yield by investing in high quality money market instruments. It is valued at the NAV of the shares held by the plan at year end, which approximates fair value.

Hedge fund: This category represents a pooled hedge fund-of-funds. The fund valuation is based on the NAV of the underlying funds provided by the fund managers as of year-end.

The following table sets forth a summary of changes in the fair value of the plan's level 3 assets for the year ended December 31, 2010:

Level 3 Assets

(Dollars in thousands)	Group Annuity Contract	Hedge Fund
Balance, December 31, 2008	$16,060	$7,989
Purchases, sales and settlements	4,768	(3,807)
Realized/unrealized gains (losses)	840	(1,182)
Balance, December 31, 2009	21,668	3,000
Purchases, sales and settlements	(20,107)	(1,159)
Realized/unrealized gains (losses)	780	(1,503)
Balance, December 31, 2010	$2,341	$338

The following table shows the components of the funded status as of December 31, 2010 and 2009, including the classification of plan assets in accordance with the three-tier fair valuation hierarchy.

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2010**	2009	**2010**	2009
The estimated transition obligation, actuarial loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are as follows:				
Transition obligation	$–	$–	$40	$40
Actuarial loss	13,597	9,244	1,455	1,398
Prior service cost	1,637	1,637	(7,790)	(7,538)
Benefit obligation at end of year:				
Qualified plan	739,904	$654,251	$–	$–
Other plans	128,415	119,878	72,870	65,484
Total benefit obligation at end of year	868,319	774,129	72,870	65,484
Fair value of plan assets at end of year	556,932	457,754	7,279	8,076
Funded status	($311,387)	($316,375)	($65,591)	($57,408)

Pension asset fair value levels at December 31, 2010

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Mutual funds	$349,137	$–	$–	$349,137
Short term investments	–	117	–	117
Pooled investment funds	–	204,999	–	204,999
Group annuity contract	–	–	2,341	2,341
Hedge fund	–	–	338	338
Pension assets at fair value	**$349,137**	**$205,116**	**$2,679**	**$556,932**

Pension asset fair value levels at December 31, 2009

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Mutual funds	$415,880	$–	$–	$415,880
Short term investments	3,943	–	–	3,943
Pooled investment funds	–	13,263	–	13,263
Group annuity contract	–	–	21,668	21,668
Hedge fund	–	–	3,000	3,000
Pension assets at fair value	**$419,823**	**$13,263**	**$24,668**	**$457,754**

Other benefit plan assets of $7,279 at December 31, 2010 and $8,076 at December 31, 2009 are all mutual funds in the level 1 category.

Amount not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss:				
Prior service cost	($5,524)	($7,160)	$44,452	$52,253
Accumulated loss	(253,014)	(232,677)	(22,674)	(20,456)
Transition obligation	–	–	(80)	(120)
Accumulated other comprehensive loss	(258,538)	(239,837)	21,698	31,677
Cumulative net periodic benefit cost				
In excess of employer contributions	(52,849)	(76,538)	(87,289)	(89,085)
Net amount recognized at year-end	($311,387)	($316,375)	($65,591)	($57,408)

The accumulated benefit obligation for all defined benefit plans was $763,256 at December 31, 2010.

Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.55%	6.07%	5.41%	5.98%
Rate of compensation increase	3.56%	4.25%	n/a	n/a
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:				
Discount rate	6.07%	6.13%	5.98%	6.08%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase	3.56%	4.25%	n/a	n/a
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year			8.13%	8.37%
Rate to which the cost trend rate is assumed to decline				
(the ultimate trend rate)			4.50%	4.50%
Year that the rate reaches the ultimate trend rate			2029	2029

DTCC's actual pension plan weighted-average asset allocations at December 31, 2010 and 2009, by asset category are as follows:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2010**	2009	**2010**	2009
Equity securities	**63%**	61%	**60%**	60%
Debt securities	**37%**	38%	**40%**	40%
Alternative investments	**–**	1%	**–**	–
Total	**100%**	100%	**100%**	100%

To develop the expected long-term rate of return on assets assumptions, DTCC considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8.0% long term rate of return on assets assumption. The actual historical rate of return achieved by these assets exceeded the 8.0% assumption. Based on DTCC's target asset allocation guidelines, 57% to 63% of the plan assets are to be invested in equity securities, 32% to 38% in fixed income securities (including guaranteed investment contracts) and up to 10% in alternative investments.

Details of the components of net periodic benefit cost and other changes recognized in other comprehensive income (loss) are as follows:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2010**	2009	**2010**	2009
Components of net periodic benefit cost				
Service cost	**$32,503**	$29,819	**$2,175**	$3,678
Interest cost	**45,705**	42,721	**3,790**	5,822
Expected return on plan assets	**(40,467)**	(38,477)	**(603)**	(629)
Amortizations				
Prior service cost	**1,637**	1,637	**(7,802)**	273
Transition obligation	**n/a**	n/a	**40**	524
Actuarial loss	**9,591**	6,818	**1,244**	13
Settlement loss	**2,345**	2,649	**–**	–
Net periodic benefit cost	**51,314**	45,167	**(1,156)**	9,681
Other changes recognized in other comprehensive income				
Prior service cost (credit) arising during the period	**n/a**	n/a	**n/a**	(53,726)
Net gain (loss) arising during the period	**32,273**	(49,207)	**3,461**	3,937
Amortizations				
Transition obligation	**n/a**	n/a	**(40)**	(524)
Prior service cost	**(1,637)**	(1,637)	**7,802**	(273)
Actuarial and settlement loss	**(11,936)**	(9,467)	**(1,244)**	(12)
Net other changes in other comprehensive income (loss)	**18,700**	(60,311)	**9,979**	(50,598)
Total recognized in other comprehensive income (loss)	**$70,014**	($15,144)	**$8,823**	($40,917)

The Companies contributed $65,000,000 to the benefit plan in 2010 and expect to contribute approximately $55,000,000 during 2011. Funding in 2009 was $28,400,000. There were no participant contributions to the plans in 2010 or 2009. During 2010, benefit payments totaled $30,181,000 for the pension plan and $2,391,000 for the other plans. In 2009, the amounts were $29,733,000 and $1,820,000, respectively. Settlement losses relate to the early retirement of executives who elected lump sum and periodic payments.

The amounts expected to be paid or (received) in the next five years are as follows:

(Dollars in thousands)	Pension	Employer Benefit Payments	Medicare Subsidy Receipts
2011	$44,429	$3,308	($34)
2012	51,308	3,384	($34)
2013	38,597	3,612	($34)
2014	34,020	3,747	($34)
2015	41,460	3,997	($33)
Totals	$209,814	$18,048	($169)

9. Income Taxes:

DTCC and its subsidiaries file a consolidated federal income tax return and combined New York State and New York City income tax returns with the exception of DTC, which files separate New York State and New York City income tax returns. DTCC and its subsidiaries file unitary, combined, and separate income tax returns in various other states and non-U.S. jurisdictions. The components of the Company's income tax provision (benefit) for the years ended December 31, 2010 and 2009, are as follows:

(Dollars in thousands)	**2010**	2009
Current income taxes:		
Federal	**$9,829**	$47,426
State and local	**7,024**	13,922
Deferred income tax (benefit):		
Federal	**33,771**	57,816
State and local	**12,645**	(2,793)
Provision for income taxes	**$63,269**	$116,371

The 2010 effective tax rate differs from the 35% federal statutory rate mainly due to state and local taxes, permanent differences between financial statement income and taxable income, and adjustments to deferred tax balances. Deferred tax balances include adjustments made to reflect estimated recoverable amounts in future years.

The components of deferred tax assets and (liabilities) at December 31, 2010 and 2009, are as follows:

(Dollars in thousands)	2010	2009
Employee benefit related	**$203,085**	$247,075
Rent	**5,399**	5,757
Depreciation and amortization	**15,190**	18,371
Capitalization of software developed for internal use	**(58,419)**	(46,559)
Investment tax basis difference - MarkitSERV	**(81,037)**	(88,277)
Sale and leaseback costs and other	**(5,397)**	(21,532)
Net deferred income tax asset	**$78,821**	$114,835

The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established. During 2010, the Company restated its 2009 consolidated financial statements to record a one-time non-cash gain on the sale of certain businesses as further discussed in Note 2. The related deferred tax liability is reported as investment tax basis difference in the table above.

On January 1, 2009, the Companies implemented the provisions of FASB-issued Financial Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes," (codified primarily in FASB ASC Topic 740, Income Taxes), resulting in a reduction to retained earnings of $37.2 million. This reduction is comprised of a $33.8 million increase in the liability for unrecognized tax benefits ("UTBs") and accrued interest of $4.5 million ($3.4 million net of tax). As of the date of implementation and after the impact of recognizing the increase in liability noted above, the Company's UTBs totaled $46.6 million. During 2010, the Company decreased UTBs by $5.4 million. As of December 31, 2010, UTBs totaled $41.2 million. The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its consolidated statement of operations. During 2010, the Company accrued interest related to UTBs of $0.6 million. As of December 31, 2010, the amount of accrued interest recorded in the Company's balance sheet related to UTBs was $6.4 million.

The Company is subject to U.S. federal income tax as well as income tax in various state and local and non-U.S. jurisdictions. Federal income tax returns filed for the tax years 2007 through 2009 remain subject to examination by the IRS. New York State income tax returns for 2000 through 2007 are currently under examination, and 2008 and 2009 remain open to examination. New York City income tax returns for 2007 through 2009 remain open to examination.

For the current ongoing audits related to open tax years, the Company estimates that it is possible that the balance of UTBs could decrease in the next twelve months as a result of the effective settlement of these audits, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible that new issues might be raised by tax authorities which might necessitate increases to the balance of UTBs. As the Company is unable to predict the timing of conclusion of these audits, the Company is unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

10. Long-Term Debt:

Long-term debt at December 31, 2010 and 2009, consists of the following:

(Dollars in thousands)	2010	2009
Industrial Development Agency Bonds	**$205,302**	$205,302
Bond payable	**24,905**	-
Notes payable	**152,642**	169,704
Capital lease obligations	**4,179**	8,647
Total	**$387,028**	$383,653

Long-term debt is carried at the remaining principal balance of the obligations. As of December 31, 2010, the carrying value of such long-term debt was $387,028,000 and had a fair value of approximately $368,726,000.

As of December 31, 2010 and 2009, DTC had a payable to the New York City Industrial Development Agency (IDA). There is a corresponding investment in IDA bonds included in other assets. Interest expense related to the IDA payable was $15,398,000 in both 2010 and 2009. These bonds mature in 2012.

Notes payable include secured borrowings totaling $3,400,000 from two insurance companies at a fixed rate of 4.62%. The notes are secured by property, plant and equipment. Principal and interest payments are due semi-annually on March 15 and September 15 of each year through 2012. Interest expense related to these notes totaled $243,000 in 2010 and $274,000 in 2009. In addition, notes payable include unsecured borrowings totaling $20,526,000 from an insurance company to finance the acquisition of real estate, at a fixed rate of 5.03%. Principal payments are due annually on December 15 of each year through 2023. Interest payments are due semi-annually on June 15 and December 15 of each year through the same period. Interest expense related to these notes totaled $1,112,000 in 2010 and $1,191,000 in 2009.

Notes payable also include a DTC private placement from two insurance companies totaling $91,126,000 at fixed rates of 5.59% and 5.63%. Interest payments are due semi-annually on April 15 and October 15 of each year through 2016. Interest expenses related to the private placement totaled $5,110,000 in 2010 and $2,683,000 in 2009. In addition, notes payable includes a DTC borrowing from a bank totaling $37,590,000 at a fixed rate of 4.94%, secured by certain equipment. Principal and interest payments are due semi-annually on June 30 and December 30 of each year through 2013. Interest expense on this loan totaled $2,401,000 in 2010 and $1,464,000 in 2009. Three of the lenders are participants of NSCC.

Principal payments due on long-term debt over the next five years from 2011 to 2015 are $19,716,000, $226,019,000, $11,785,000, $3,959,000 and $4,039,000, respectively. DTC will receive proceeds of $205,302,000 in 2012 on the maturity of the IDA bonds, which will fund a corresponding amount of the 2012 payment.

On December 17, 2010, NSCC entered into a Recovery Zone Facility Bond arrangement with the Hudson County Improvement Authority, with a principal balance of $24,905,000. The debt has a variable interest rate that is equal to the sum of the LIBOR index rate plus 1.65%, multiplied by a factor of 68%, and matures on December 1, 2020. The debt's interest rate as of the date of the financial statements is 1.30%. Repayment of the debt will commence on February 1, 2011, therefore, as of the date of the consolidated financial statements, the entire balance was outstanding. The Hudson County Improvement Authority has the ability to call the debt immediately due and payable if the Company fails to pay in accordance with the terms of the debt agreement or fails to comply with the other provisions stipulated in the agreement.

NSCC entered into a swap arrangement to hedge against variability in the future cash flows on the floating rate payments under the bond arrangement. The rate on the swap is fixed at 3.12% until December 1, 2020 when the swap terminates. Management has concluded that the hedge is effective. At December 31, 2010, the fair value of the swap resulted in a loss of $427,000. The loss is offset by a deferred tax benefit of $175,000, and the net impact of $252,000 is reported as other comprehensive loss in the consolidated statement of changes in shareholder's equity. There were no undesignated derivatives at December 31, 2010 or 2009.

As of December 31, 2010, the Company was in compliance with applicable debt covenants.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2010, the balance was $4,179,000 and future minimum payments including interest, which are due through 2011, totaled $4,247,000.

11. Shareholders' Equity:

Appropriated retained earnings represent an amount that is available for the satisfaction of losses arising out of the clearance and settlement of transactions, should they arise (see Note 12). Such amount of retained earnings is excluded from the calculation of book value per share for purposes of capital stock transactions of DTCC.

At December 31, 2010 and 2009, there were 11 shares in treasury stock.

12. Commitments and Contingent Liabilities:

NSCC's CNS system interposes NSCC between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of the later of midnight of T+1 or midnight of the day they are reported to the membership as compared/recorded. Since all trades submitted to NSCC are matched, the failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the involved participants through the settlement process. At the close of business on December 31, 2010, open positions due to NSCC aggregated $1,487,377,000 ($998,044,000 at December 31, 2009). When a participant does not deliver securities due on the settlement date, the SEC approved Stock Borrow Program (SBP) is used to complete its delivery obligations to the extent that participants have made shares of that issue available for loan. As of December 31, 2010, NSCC completed delivery of $285,254,000 in securities through the SBP ($241,906,000 at December 31, 2009), leaving $1,202,123,000 in open delivery obligations due to participants ($756,138,000 at December 31, 2009). NSCC's borrowing from the SBP does not relieve a participant's obligation to deliver the securities to NSCC. In addition, the settlement of trades is generally scheduled to occur three days after the trade date. As of December 31, 2010, trades totaling $41,900,000,000 were scheduled to settle over the next three settlement days ($39,800,000,000 as of December 31, 2009). These amounts were subsequently settled.

FICC's netting system for its Government Securities Division (GSD) interposes FICC between netting GSD participants for eligible trades that have been netted. The guarantee of net settlement positions by FICC results in potential liability to FICC. Guaranteed positions that have not yet settled are margined and marked-to-market daily. Margin deposits are held by FICC and marks are debited from and credited to the responsible participants through the funds-only settlement process, and are included in cash and cash equivalents and clearing fund cash deposits on the consolidated balance sheet. At December 31, 2010, the gross amount of guaranteed positions due from netting GSD participants to FICC, which are scheduled to settle on or before January 3, 2011, approximated $344,799,815,000 and the amount scheduled to settle after January 3, 2011 approximated $365,840,380,000. There is an equal amount due to certain other GSD participants from FICC after consideration of deliveries pending to FICC. The comparable amounts at December 31, 2009 were $289,563,897,000 and $289,555,947,000, respectively. These amounts were subsequently settled.

The Companies lease office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2010. Rent expense under these leases was $19,222,000 in 2010 and $19,713,000 in 2009. In 2009, DTCC signed leases for office space commencing in 2012 and 2013.

At December 31, 2010, future minimum rental payments under all non-cancelable leases, including the new commitments, are as follows:

(Dollars in thousands)	Amount
2011	$24,238
2012	21,289
2013	12,283
2014	17,422
2015	17,478
Thereafter	318,239
Total minimum rental payments	$410,949

At December 31, 2010, DTC maintained a committed line of credit of $1,900,000,000 with 24 major banks that are primarily participants to support settlement. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBO rate, or the lender's cost of funds, for that day, plus 1.375%. In addition, to support processing of principal and income payments, DTC maintains a committed $50,000,000 credit line with a participant. DTC also maintains uncommitted credit lines totaling CAD 150,000,000 with a participant to support Canadian settlement. Further, a $50,000,000 shared uncommitted credit line with NSCC and DTCC is maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under any of these credit facilities in 2010 or 2009.

At December 31, 2010, NSCC maintained a committed line of credit of $4,757,000,000 with 24 major banks that are primarily participants to provide for potential liquidity needs. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBO rate, or the lender's cost of funds, for that day, plus 1.375%. In addition, a $50,000,000 shared uncommitted credit line with DTC and DTCC is maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under these credit facilities in 2010 or 2009.

The Company also has put/call arrangements related to its equity method investments that would require it to make payments in connection with the acquisition of certain assets or ownership interests, such as a venture partner's interest. For put options where payment obligations are outside the control of the Company, the earliest period in which payment can be made is 2011. The agreements do not call for guaranteed minimum payments and the value is determined through negotiation between the parties as specified by the agreement terms. The Company does not expect to incur an obligation to make any payments in that period.

The Companies are involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on the Company's consolidated financial position, operations or cash flows.

13. Off Balance-Sheet Risk and Concentrations Of Credit Risk:

In the normal course of business the Companies are exposed to credit risk. NSCC and FICC guarantee certain obligations of their participants under specified circumstances (see Note 12). All trading activities handled by DTC are settled through its end-of-day net settlement process. If a participant fails to fulfill its settlement obligation, DTC is also exposed to credit risk. Exposure to credit risk at DTC, NSCC and FICC is mitigated by requiring participants to meet established financial standards for membership, verifying their compliance with other financial standards, monitoring their financial status and trading activity, requiring participants to meet daily mark-to-market obligations and requiring participants to provide participant fund deposits in the form of cash, marketable securities and eligible letters of credit (see Note 4).

Collateralization controls and net debit caps are employed by DTC to protect participants against the inability of one or more participants to pay for their settlement obligations.

DTC's collateralization controls prevent the completion of transactions that would cause a participant's net debit to exceed the total available collateral in its account. This assures that a participant that fails to pay for its settlement obligation will have sufficient collateral in its account to liquidate in the event it was insolvent. DTC's net debit cap controls limit the net settlement debit that each participant can incur to an amount, based upon activity level, which is less than DTC's total liquidity. This helps ensure that DTC will have sufficient liquidity to complete settlement should any single participant fail to settle.

If a participant fails to fulfill its settlement obligations to NSCC and/or FICC and these subsidiaries cease to act on behalf of the participant, that participant's guaranteed security receive and deliver obligations would be liquidated and that defaulting participant's margin and mark-to-market deposits, including participant fund deposits, would be applied to satisfy any outstanding obligation and/or loss. NSCC, FICC and DTC have a multilateral netting contract and limited cross-guaranty agreement with The Options Clearing Corporation (OCC) under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that they have excess resources of the defaulting participant. NSCC and OCC also have an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant's failure. Further, DTC and NSCC have a netting contract and limited cross-guaranty agreement which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized. Finally, if a deficiency still remains, the companies would then assess the balance of the deficiency in accordance with their Rules.

As discussed in Note 1, because DTC, NSCC and FICC provide various services to members of the financial community, these subsidiaries have a significant group concentration of credit risk. Their participants may be impacted by economic conditions affecting the securities industry and the debt-issuing countries. Such risk is mitigated in a number of ways, as described above.

14. Other Matters:

The Companies incurred severance expenses totaling $3,510,000 in 2010 that are included in employee compensation and related benefits. There was a similar expense of $10,648,000 in 2009.

On September 19, 2008, a Trustee was appointed, under the Securities Investor Protection Act ("SIPA"), to administer and liquidate the business of Lehman Brothers Inc. ("LBI"). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. ("Barclays"), which assets did not, however, include the accounts that LBI maintained at National Securities Clearing Corporation ("NSCC"), Fixed Income Clearing Corporation ("FICC") and The Depository Trust Company ("DTC").

As a result, the Trustee, Barclays and DTCC, on behalf and for the benefit of NSCC, FICC and DTC (collectively, the "Clearing Agency Subsidiaries") entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the close out of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify and hold harmless DTCC, each of NSCC, FICC and DTC, and their officers, directors, employees, owners, agents and representatives against any and all losses, claims, damages, expenses (including legal fees) or liabilities that any of them may incur as a result of winding down and closing out the respective accounts, which guaranty is limited to a $250,000,000 cash deposit (the "Cash Deposit") it provided for that purpose.

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of LBI's Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remains after the close out of the LBI Accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee.

The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the Trustee.

At year-end, the DTCC and its subsidiaries held aggregate funds of $630,972,000 and securities of $158,615,000 including the Cash Deposit, Clearing and Participant Fund balances, and proceeds from winding down and closing out the respective accounts. Payments of $4,551,761,000 have already been remitted to the Trustee.

Management is not currently expecting to assess losses against retained earnings or to the participants of the Clearing Agency Subsidiaries as a result of the liquidation of the LBI accounts.

15. Subsequent Events:

The Company evaluated events and transactions occurring after December 31, 2010 through April 21, 2011, the date these consolidated financial statements were issued, for potential recognition or disclosure in these financial statements.

On January 5, 2011, DTCC and Markit North America (Markit NA) entered into an Asset Purchase Agreement in which the Company sold certain assets comprising its Messaging Business to Markit NA. The transaction will be accounted for as a sale of a business in accordance with ASC 805 *Business Combinations*.

On February 1, 2011, the CFTC approved NYPC's registration as a Derivatives Clearing Organization. As of March 2, 2011, both the SEC and the CFTC have approved the cross-margining arrangement between the Government Securities Division of FICC and NYPC. On January 6, 2011 and March 17, 2011, DTCC made additional capital contributions of $4,000,000 and $5,000,000, respectively, to NYPC. The Company commenced operations on March 21, 2011.

2010 DTCC Senior Management

Executive Leadership Team

Donald F. Donahue
Chief Executive Officer

William B. Aimetti
President

Michael C. Bodson
Chief Operating Officer, DTCC; Chief Operating Officer and President of DTC, NSCC and FICC; Chairman, EuroCCP and MarkitSERV

John J. Colangelo
Managing Director, Operations, Business Reengineering and Client Services

Jacob Feuchtwanger
Managing Director and Chief Information Officer

Douglas J. George
Managing Director and Chief Risk Officer

Ellen Fine Levine
Managing Director, Chief Financial Officer and Treasurer

Anthony Portannese
Managing Director, Human Resources

Larry E. Thompson
Managing Director and General Counsel

Management Committees*

Anthony J. Alizzi
Managing Director, Corporate Services and Environment, Health and Safety

Paula S. Arthus
Managing Director, Relationship Management

Peter J. Axilrod
Managing Director, New Business Development

Charles Kevin Barry
Managing Director, IT Administration

Ann E. Bergin
Managing Director and General Manager, Wealth Management Services

Adam J. Bryan
Managing Director and General Manager, Insurance & Retirement Services

Diana Chan
Chief Executive Officer, EuroCCP

Susan Tysk Cosgrove
Managing Director, Equities Clearance & Settlement

Robert Garrison
Managing Director, Chief Development Officer

Stuart Z. Goldstein
Managing Director, Corporate Communications & Public Affairs

Andrew I. Gray
Managing Director, Core Product Strategy and Management

Neil T. Henderson
Managing Director, International Clearance & Settlement

William M. Hodash
Managing Director, Business Development

Kurt P. Holweger
Managing Director, Operations

Patrick C. Kirby
Managing Director, Asset Services

Ahmet E. Kocagil
Managing Director, Head of Global Risk Analytics

Cheryl T. Lambert
Managing Director, Asset Services, Business Reengineering and Quality

Stewart Macbeth
Managing Director and Chief Executive Officer, Trade Information Warehouse

Isaac Montal
Managing Director and Deputy General Counsel

Mihal Nahari
Managing Director and Chief Compliance Officer

Anne T. Noonan
Managing Director and Chief Systemic Risk Officer

Robert Palatnick
Managing Director and Chief Technology Architect

Stephen Pecchia
Vice President and Deputy General Auditor

Robert Peiffer
Managing Director and General Auditor

Nikki Poulos
Managing Director, FICC General Counsel and DTCC Chief Privacy Officer

Murray C. Pozmanter
Managing Director, Fixed Income Clearance & Settlement

Oscar A. Raposo
Managing Director, Financial Planning & Analysis

Lois J. Radisch
Managing Director and DTCC Senior Counsel

James E. Spangler
Vice President and Deputy General Auditor

Matthew P. Stauffer
Managing Director, Underwriting, Quality and Customer Service

Merrie Faye Witkin
Managing Director and DTCC Deputy General Counsel

* These executives served on at least one of the following committees: Business Planning Committee, Service Delivery Policy and Planning Committee, and Management Risk Committee.

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