

THE VALUE

The Depository Trust & Clearing Corporation

OF

Annual Report 2005

INFRASTRUCTURE

OUR PURPOSE

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

OUR MISSION

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

OUR VALUES

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

	CLEARANCE AND SETTLEMENT	ASSET SERVICES	GLOBAL ASSET SOLUTIONS	OTC DERIVATIVES	MUTUAL FUNDS	INSURANCE		
2005	EQUITIES, CORPORATE AND MUNI BONDS	GOVERNMENT SECURITIES TRANSACTIONS	MORTGAGE-BACKED SECURITIES TRANSACTIONS					
TRANSACTION VALUE	\$130.7 trillion	\$874.3 trillion	\$75.6 trillion	\$31.2 trillion	N/A	N/A	\$1.7 trillion	\$13 billion
TRANSACTION VOLUME	6.6 billion	25.5 million	1.65 million	2.6 million securities on deposit	826,400 corporate action events	3.5 million payment transactions processed	117.8 million	45.2 million
BUSINESS OVERVIEW	<p>DTCC's subsidiary, National Securities Clearing Corporation, provides clearing and settlement, risk management, central counterparty services and a guarantee of completion for all street-side trades involving equities, corporate and municipal debt, money market instruments, American Depositary Receipts, exchange-traded funds, unit investment trusts, mutual funds, insurance products and other securities. NSCC also nets trades and payments among its participants, reducing the volume of securities and payments that need to be exchanged by an average of 97% each day. NSCC generally clears and settles trades on a T+3 basis.</p> <ul style="list-style-type: none"> • NSCC awarded S&P's highest credit rating, AAA/A-1+ 	<p>The Government Securities Division (GSD) of the Fixed Income Clearing Corporation, a subsidiary of DTCC, provides real-time trade matching, clearing, risk management and netting for trades in U.S. Government debt issues, including repurchase agreements or repos. Securities transactions processed by FICC's Government Securities Division include Treasury bills, bonds, notes, zero-coupon securities, government agency securities and inflation-indexed securities.</p> <ul style="list-style-type: none"> • FICC awarded S&P's highest credit rating, AAA/A-1+ 	<p>The Mortgage-Backed Securities Division of the Fixed Income Clearing Corporation, a subsidiary of DTCC, provides real-time automated and trade matching, trade confirmation, risk management, netting and electronic pool notification to the mortgage-backed securities market.</p> <p>Key participants in this market are mortgage originators, government-sponsored enterprises, registered broker/dealers, institutional investors, investment managers, mutual funds, commercial banks, insurance companies and other financial institutions.</p>	<p>DTCC's subsidiary, The Depository Trust Company (DTC), established in 1973, was created to reduce costs and provide clearing and settlement efficiencies by immobilizing securities and making "book-entry" changes to ownership of the securities. It provides settlement services for all NSCC trades and for institutional trades, which typically involve money and securities transfers between custodian banks and broker/dealers.</p> <p>In addition to settlement services, DTC brings efficiency to the securities industry by retaining custody of almost 2.6 million securities issues worth about \$31.2 trillion, including securities issued in the United States and more than 100 other countries.</p> <ul style="list-style-type: none"> • DTC awarded S&P's highest credit rating, AAA/A-1+ 	<p>DTCC's Global Corporate Action (GCA) Validation Service, operated by the DTCC subsidiary company, Global Asset Solutions LLC, simplifies announcement processing by providing a centralized source of "scrubbed" information about corporate actions, including tender offers, conversions, stock splits, and nearly 100 other types of events for equities and fixed-income instruments traded in Europe, Asia-Pacific and the Americas.</p> <p>For banks, broker/dealers and other financial institutions, the GCA Validation Service transforms the way corporate action announcements are managed globally by eliminating redundant operations and technology, and by reducing the high fixed costs associated with this labor-intensive processing.</p>	<p>DTCC Deriv/SERV LLC provides automated matching and confirmation services for over-the-counter (OTC) derivatives contracts, including credit, equity and interest rate derivatives. It also provides payment matching and bilateral netting services. Deriv/SERV's customer base, which includes both dealers and buy-side firms, is the largest of any post-trade service provider in the OTC derivatives marketplace.</p> <p>Initially built to automate credit default swaps matching and confirmation, Deriv/SERV has already been an important driver in increasing electronic confirmation rates, while lowering the risk and cost of labor-intensive, paper-based processing.</p> <p>DTCC is expanding Deriv/SERV to offer "one-stop" servicing for OTC derivatives, from affirmation of the trade at the trader's desk, to confirmation and matching, payment processing, and a trade information warehouse.</p>	<p>Mutual Fund Services, provided by DTCC's subsidiary, National Securities Clearing Corporation, are acknowledged industry standards for processing fund transactions, communicating account-related information, and linking fund companies with their growing network of distribution firms. In addition to Fund/SERV[®], which automates purchases, registrations, redemptions and settlement of these transactions, the suite of services offers the industry solutions for coordinating account information between funds and firms, and processing defined contribution transactions. Other capabilities include settling commission payments; transferring accounts between firms, and assets in IRAs between fund companies, and providing real-time account-inquiry functionality.</p> <p>Because of their reputation, risk-mitigating features and flexibility, Mutual Fund Services have become key to supporting the industry's growing compliance needs.</p> <p>Mutual Fund Services also provide money settlement of transactions in same-day funds through the Fedwire system.</p>	<p>Insurance Services, provided by DTCC's subsidiary, National Securities Clearing Corporation, are helping to commoditize and mainstream life insurance and annuities. The services include processing of annuity applications, payments of initial and subsequent premiums, financial activity reporting, positions, asset pricing, commission payments, licensing and appointments, and others.</p> <p>The aim of the business is to automate and provide seamless end-to-end communication between insurance carriers and distributors for the sale, processing and money settlement of all types of insurance products nationwide.</p>
SERVICES AVAILABLE	<ul style="list-style-type: none"> • Automated Customer Account Transfer Service (ACATS) • Custom Index Share Processing • Continuous Net Settlement (CNS) • Inventory Management System (IMS) • Money Market Instruments • Processing Trade Reporting and Confirmation • Real-Time Trade Matching • Reconfirmation and Pricing Service • Settlement Services • Stock Borrow Program 	<ul style="list-style-type: none"> • Auction Takedown • Fail Netting • GCF Repo Services • Government Securities Net Settlement Services • Real-Time Trade Matching / RTTM Web • Repurchase Agreements 	<ul style="list-style-type: none"> • Electronic Pool Notification Services • Mortgage-Backed Securities Clearing Services • Real-Time Trade Matching 	<ul style="list-style-type: none"> • Custody & Safekeeping Services • Data Delivery • Deposit & Withdrawal Services • Direct Registration Service • Dividend & Reorganization Services • Proxy Services • Restricted Securities Family of Services • Underwriting Services 	<ul style="list-style-type: none"> • Global Corporate Action Validation Service 	<ul style="list-style-type: none"> • Credit Default Swaps Matching and Confirmation • Equity Derivatives Matching and Confirmation • Interest Rate Derivatives Matching and Confirmation • Payment Matching, and Bilateral Netting 	<ul style="list-style-type: none"> • ACATS-Fund/SERV • Commission Settlement • Defined Contribution Clearance & Settlement • Fund/SERV[®] • Fund/SPEEDSM • Global Update • Mutual Fund Profile Service • Networking • Transfer of Retirement Assets 	<ul style="list-style-type: none"> • Annuity Applications • ACATS/IPS • Financial Activity Reporting (FAR) • InsurExpress[®] • Licensing and Appointments • Positions and Valuations • Subsequent Premiums
WEB SITES	http://www.nsc.com	http://www.ficc.com	http://www.ficc.com	http://www.dtc.org	http://www.dtcc.com/gca	http://derivserv.dtcc.com	http://funds.dtcc.com	http://insurance.dtcc.com

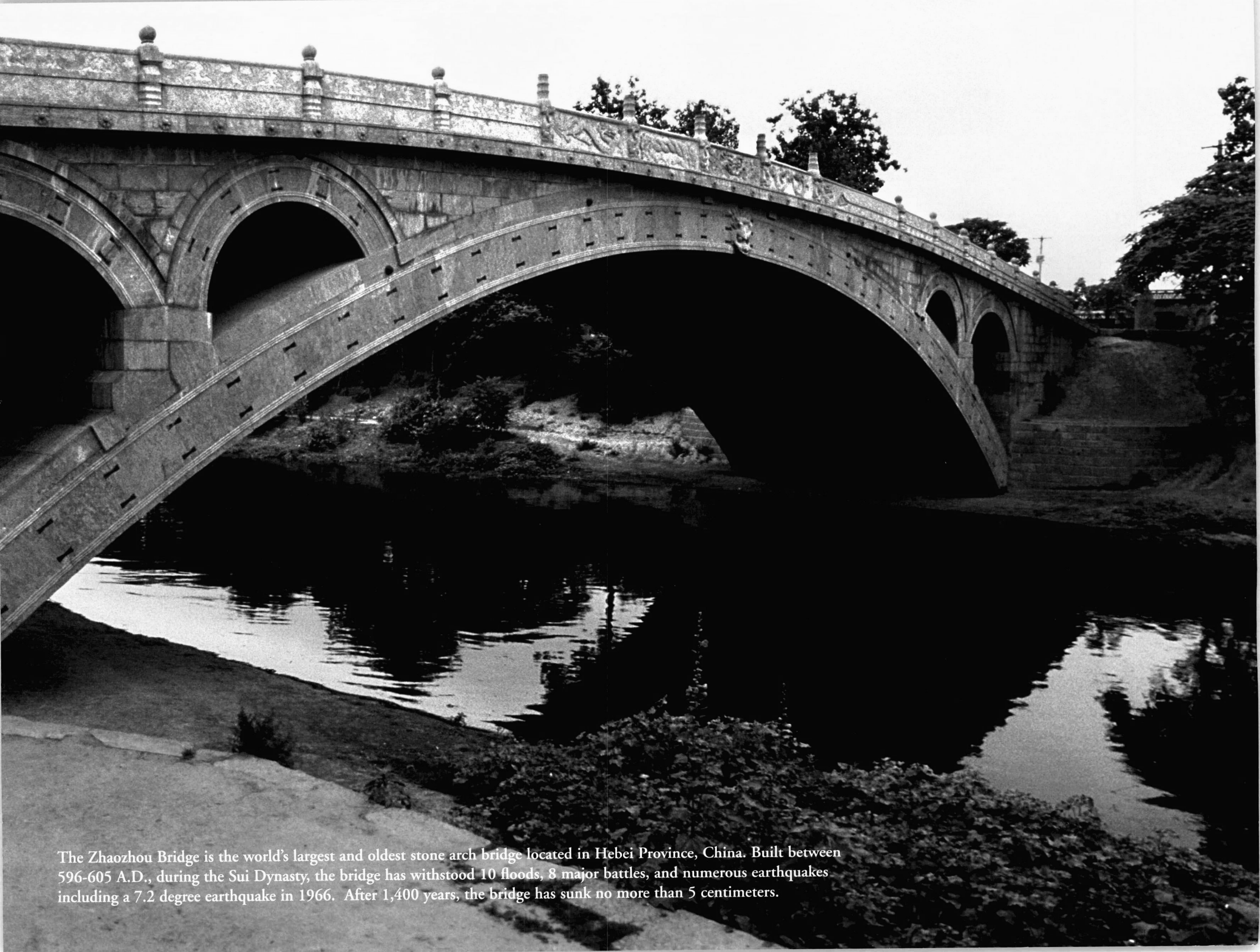
FOR CENTURIES, cities around the world have evolved along great rivers to allow for the movement of goods and people. As these urban centers expanded and grew, bridges provided the critical infrastructure to extend the reach of cities and serve as a gateway to trade and the growth of capital.

In time, architects and engineers would appreciate the growing importance of standards to protect against the risk of failure. And the sight of a bridge began to capture the imagination of what was possible in the world, when great divides were closed and pathways created to link trading parties.

Our annual this year pays homage to some of these inspiring bridges.

It's not easy to see the algorithms and computer code that allow DTCC to settle in excess of **1.4 QUADRILLION** dollars in securities transactions each year, or to visualize the resiliency of a self-healing telecom network that ensures uninterrupted connectivity to thousands of financial firms in the U.S. and overseas, or to know that a dedicated group of people are working quietly behind the scenes to ensure the safety and soundness of our financial markets.

Today, the value of infrastructure is increasingly critical as financial firms look to extend their reach globally. DTCC remains committed to linking new trading parties, facilitating the growth of new markets — and helping build a virtual bridge to the future.



The Zhaozhou Bridge is the world's largest and oldest stone arch bridge located in Hebei Province, China. Built between 596-605 A.D., during the Sui Dynasty, the bridge has withstood 10 floods, 8 major battles, and numerous earthquakes including a 7.2 degree earthquake in 1966. After 1,400 years, the bridge has sunk no more than 5 centimeters.

DEAR STAKEHOLDER:

As the pace of change in technology innovation, industry consolidation and globalization accelerates, DTCC and our customers must be even faster on our feet to successfully maneuver on a playing field that demands better, quicker and more from us. And if we think competition has been fierce and challenging in the last 10 years, competition is now growing exponentially on a year-by-year basis, to the extent that it is forcing convergence of products, services and delivery mechanisms within financial services — and across other industries as well.

Increasingly, in this rapidly changing environment, companies are looking to gain a competitive advantage by joining forces with non-traditional partners. Recent announcements by some major financial firms to outsource their asset management activities are one example.

But in the midst of this accelerating change, there is one constant. The financial services industry can count on the value provided by the industry's infrastructure to help automate and standardize processes, link trading parties, minimize risk, reduce cost and facilitate the continuing growth our customers are striving to achieve.

We think that using the analogy of world-famous bridges in this year's annual report is quite appropriate, considering the structural safety and soundness that DTCC provides to our capital markets, supporting the trading and settlement of more than \$1.4 quadrillion in securities transactions in 2005. The analogy is equally descriptive of the virtual bridges we're working to create by automating linkages to expand and leverage efficiencies in new market segments, such as over-the-counter derivatives, insurance and alternative investment products.

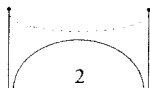
As consolidation and globalization occur simultaneously, DTCC is increasingly serving customers around the world. Our goal, above all, is

to provide customers with high-quality and quick-to-market solutions that can address their needs — whether we build them, buy them or partner with others to deliver them.

You'll find a gatefold on DTCC's strategic partnerships and alliances later in this annual report. It underscores our commitment to working with others. The fact that we are the biggest infrastructure organization in the world is not sustainable if we aren't totally focused on putting the needs of customers first. We welcome service organizations reaching out to DTCC, where business knowledge and technology advantage can add value to the breadth of capabilities we can jointly offer to our customers.

DTCC PROVIDES SAFETY AND SOUNDNESS TO OUR
CAPITAL MARKETS BY SUPPORTING THE TRADING AND
SETTLEMENT OF MORE THAN **\$1.4 QUADRILLION**
IN SECURITIES TRANSACTIONS.

CAPITALIZING ON THE DTCC ADVANTAGE
As a logical solutions provider, DTCC offers two distinct advantages. Our extensive business continuity capabilities ensure an unparalleled level of certainty and resiliency from our telecom network and data recoverability from multiple data centers. The second advantage is our common network that links virtually all key trading parties in



the United States and many overseas. Customers can more easily communicate and lower the cost to access multiple services offered by DTCC over this network, which manages connectivity end-to-end. And the network could be used as a conduit to offer customers services that someone else develops and DTCC sponsors.

Nowhere is the value of infrastructure and a central service provider more evident than in the historic \$528 million in rebates, discounts and interest given back to customers in 2005, and the \$161 million in reductions in our transaction fee schedule for 2006.

Transaction fee rebates and reductions resulting from economies of scale and critical mass are only part of the savings DTCC brings to the industry. Through streamlined and automated payment processing and the netting down of trade obligations requiring financial settlement, DTCC frees up trillions of dollars each year that customers can then use for other investment purposes. Extensive risk mitigation services from DTCC also help the industry avoid potential loss.

DTCC has been reengineering and consolidating major technology platforms across our complex of companies and expanding the use of Internet protocols and applications to both extend the reach of our services and, over time, further reduce cost for customers.

AUTOMATING THE OTC DERIVATIVES MARKET

As our customers look to move beyond the traditional trading in equities, fixed income instruments and mutual funds to more hybrid instruments like over-the-counter (OTC) derivative products, once again, DTCC is creating the virtual bridges to facilitate certainty and enable growth in new market spaces.

Within two short years, working closely with customers, DTCC has leveraged its experience and technology to rapidly deploy services that are significantly addressing the concerns of customers — and regulators — for automation and risk mitigation in the trading of credit default swaps (CDS) and other OTC instruments.

Twenty-three of the largest global dealers and more than 250 buy-side firms now participate in our Deriv/SERV platform, and we expect to double buy-side participation in 2006.

Automated confirmation rates for CDS trades have jumped from 15% to more than 60%, as we have automated the confirmation,

matching and payment processing of these instruments. Deriv/SERV has expanded this support to interest rate and equity derivatives, as well.

But we're not satisfied. Our vision for the industry is much broader. More than a single-lane bridge, our goal is to provide reach, as well as depth, of automation across the spectrum of OTC derivative instruments. In the \$17.3 trillion CDS segment, DTCC is developing a one-stop, centralized, automated environment for the entire lifecycle of these instruments, including affirmation of the trade at the trader's desk, confirmation and matching, payment processing, and a downstream repository or warehouse to maintain the "golden copy" and handle the servicing of these contracts, which can extend over five or more years.

In a market that changes as rapidly as this one, DTCC's capacity to respond quickly has become a distinct competitive advantage. Our technology development efforts have looked more like a high-tech company, with its emphasis on speed to market and continuing efforts to enhance versions of software based on actual customer use and shifts in marketplace emphasis.

Responding to such marketplace shifts throughout the industry is a hallmark of DTCC. Take, for instance, the burgeoning hedge fund community that has become a significant player in our industry. They are finding, as other buy-side community members such as mutual funds have, that DTCC has the ability to help them create efficiency and certainty, and support growth.

DTCC'S OVERALL PERFORMANCE Even as we look to build bridges that link new customer needs to the efficiencies and automation of our infrastructure, DTCC once again posted records in its core business of clearance and settlement in 2005. On a combined basis, our subsidiaries settled securities transactions exceeding the quadrillion-dollar mark for the second consecutive year. This translates into approximately \$5.7 trillion worth of transactions processed each business day in 2005.

Transaction volumes grew across all major business segments: equities processing increased 15%; volume rose 8% for U.S. government securities and 7% for mortgage-backed securities; mutual fund volume was up 14%; and insurance services volume increased 25%.



DTCC's fee-based services generated revenue of \$1.3 billion in 2005, up 16% over 2004. As a result of continued tight expense controls that management implemented in 2005, coupled with record processing volumes, DTCC was able to generate record rebates and fee reductions.

In 2005, the financial soundness of our operating subsidiaries was again validated by Standard & Poor's, which affirmed AAA/A-1+ credit ratings for DTC, NSCC and FICC.

DTCC's ability to contain customer expense resides in a relentless focus on internal costs and process management, together with the use of metrics to set targets and measure progress. We employ a variety of best practices and strategies, including our Six Sigma quality program and our successful pursuit of the capability maturity model integration recognition (CMMI) for standardizing our technology processes, to help us achieve our goals. Proficiency in understanding these metric-driven methodologies has been established as a core skill required of our employees and supported through specific training.

ENHANCING LEGAL AND REGULATORY

COMPLIANCE DTCC is committed to keeping the organization at the forefront of regulatory and compliance issues — and to helping our customers achieve this goal as well. During 2005, we moved decisively to further advance our efforts on these issues with the appointment of two senior executives to lead our enterprise-wide effort on compliance initiatives.

Our goal is to institute a high level of coordination across the organization; identify and document compliance risk in each area of our business; implement new standards, policies and procedures to manage risks; and enhance our tracking and reporting systems.

However, the best-led and most exhaustive compliance tracking will never be enough, if commitment to regulatory and compliance issues is not a value shared by every employee throughout the organization. It simply has to be in our DNA. To that end, we have also implemented a range of efforts to ingrain the compliance culture at DTCC, educating all employees via mandatory training programs, handbooks and a steady stream of compliance-focused communications. Our goal is to empower employees so each understands his or her responsibility to remain vigilant in managing compliance risk and protecting DTCC's reputation.

EXPANDING RISK MANAGEMENT

Our risk management capabilities were put to an unexpected test in 2005 with the collapse of Refco Inc. Working behind the scenes with key market participants and leveraging our central counterparty capabilities, we swiftly implemented a strategy to support Refco Securities LLC's orderly wind-down of its outstanding positions at our various subsidiaries, with the most significant exposure in the fixed income area.

Market confidence in DTCC's ability to successfully navigate the Refco matter was critical to avoiding panic and loss. In 2005, DTCC further enhanced its quantitative risk management efforts by extending our Value at Risk (VaR) methodology to exchange-traded fixed income trades processed through NSCC, and we completed the design of a VaR model for our Fixed Income Group, which will go into production in 2006. DTCC also implemented quarterly stress and back testing for all our clearing corporations, standardizing the methodology and using enhanced testing parameters.

**SUSTAINING BUSINESS CONTINUITY
MOMENTUM** Disaster preparedness remains a priority and in 2005, we formally launched our Southern Business Center (SBC), staffed the operation and now can complete daily settlement and other critical functions from this location.

Business continuity planning, for us, signals a deep-seated transformation of DTCC's infrastructure and culture in ways that manifestly strengthen our ability to support the industry. This includes a keen awareness that the job is never done.

In 2005, we expanded our connectivity testing with major customers and the documentation we provide on testing results. We also extended our review of business continuity capabilities to our critical vendors, to protect against the ripple effect a crisis might cause the industry. And we've taken aggressive steps to widen the scope of our contingency planning to ensure readiness if the avian flu virus becomes a threat.

OUR VISION FOR THE INDUSTRY IS TO CREATE A ONE-STOP, CENTRALIZED, AUTOMATED ENVIRONMENT FOR THE ENTIRE LIFECYCLE OF CREDIT DEFAULT SWAPS.

On the systems front, we worked with the Securities Industry Automation Corporation (SIAC) to complete the insourcing of fixed income applications, well ahead of schedule. This marked the last leg of a multi-year effort to ensure the control and resiliency of critical applications, while reducing cost for the industry.

DTCC is also pioneering new technology, working with a leading technology company, that will significantly compress the lag time for replicating data across long distances required by remote data processing sites, to less than 3 minutes versus approximately 30 minutes today. We expect to deploy this technology by the end of 2006.

**SUPPORTING CUSTOMERS ACROSS THE
INDUSTRY** DTCC's leadership role in serving customers cuts a wide swath across the industry. Examples of key initiatives in 2005 include:

- **FIXED INCOME.** We launched our Real-Time Trade Matching service for municipal bonds, which will support the Municipal Securities Rulemaking Board's mandatory 15-minute price reporting requirement for all municipal bond trades, ensuring greater price transparency and facilitating higher matching rates in the municipal bond market.

We also introduced new membership categories that will extend the safeguards of risk management and streamlined settlement of U.S. government securities to the buy-side community.

- **MUTUAL FUNDS.** New functionality was introduced this past year to several services we offer, in response to regulatory concerns and to facilitate and expand the exchange of information among our customers on breakpoint entitlements or sales discounts that may be due to end-investors. To date, member mutual funds have populated in our Mutual Fund Profile Service roughly 85% of the total number of mutual fund securities eligible for breakpoints, up from 30% in 2004.

- **ALTERNATIVE INVESTMENT PRODUCTS.** The work of a growing advisory committee of customers along with support from hedge funds increased momentum for the launch of an automated platform to address the rapidly growing, but labor-intensive alternative investment product market. We expect this progress will allow us to introduce a service in 2006, subject to regulatory approval, to help centralize and standardize the processing of these instruments.

- **GLOBAL CORPORATE ACTIONS (GCA).** Our GCA Validation Service, which automates and streamlines the complex and risky process of making decisions based on corporate action information from multiple sources of data providers, continued to expand its customer base and volume of events processed. This service was also voted by readers in a *Waters'* magazine poll as the best corporate actions solution.

• **COLLABORATION ACROSS THE AMERICAS.** Taking our more than 20 years of partnership with the Canadian Depository for Securities Ltd. (CDS) to a new level, an enhanced inter-depository link between The Depository Trust Company (DTC) and CDS now enables DTC to settle transactions in Canadian dollars on behalf of its participants. This Canadian dollar link lowers cross-border transaction costs and enables participants to manage their Canadian securities inventories at DTC.

In addition, DTCC co-hosted with The Brazilian Clearing and Depository Corporation a major global conference of central securities depositories from around the world, which focused on settlement and asset servicing issues, standards and best practices.

• **CORE DEPOSITORY SYSTEMS REENGINEERING.** In 2005, we launched a multi-year reengineering project of our underwriting and corporate action processing systems. The reengineering effort, which we're partnering with Tata Consultancy Services (TCS), will replace more than 60 separate legacy systems with a single platform to support customer needs from asset origination through the entire asset servicing lifecycle.

MEETING CUSTOMER EXPECTATIONS DTCC was again given a strong vote of confidence, for the second consecutive year, on the quality of service we provide to the industry. In an independently conducted customer satisfaction survey, customers' overall satisfaction with DTCC remained at the world-class level of 89%. On key areas such as integrity and commitment to quality, we scored 90% and 85% satisfaction, respectively.

While these results, which reinforce the broad customer-centric efforts we have in place, are achieving success, we are anything but complacent about customer satisfaction. On the contrary, from the executive level to the front line, every employee is engaged in helping leverage insights from this customer satisfaction survey and other feedback tools, to formulate new strategies, initiatives and action plans toward improving the customer experience with DTCC.

One example, over the past year, was our mobilization to help customers manage through Hurricane Katrina and its aftermath. We

swiftly enacted steps to help customers impacted by the storm, along with issuers, paying agents and transfer agents, to cope with operational problems, reduce risk and restore business as usual.

OUR BOARD OF DIRECTORS We are grateful to DTCC Board members for their dedication, valued business perspective and the time they devote to our company — and the interests of the industry as a whole. These leaders do much of their work quietly behind the scenes, without compensation or visible recognition. However, all of us are well served and better for the contributions they make as partners in ensuring DTCC's success.

DTCC RECEIVED A STRONG VOTE OF CONFIDENCE, FOR THE SECOND CONSECUTIVE YEAR, WITH AN OVERALL CUSTOMER SATISFACTION RATING OF 89% — AND 90% FOR INTEGRITY.

OUR EMPLOYEES Each year, as I get to this part of my letter, it's always difficult finding an adequate amount of words to capture the depth of energy, pride and commitment that exists at every level of this organization. At DTCC, we are most fortunate not only with the degree of talent and experience of our employees, but also with their determination on an individual basis to do more than a good job. I salute them and I thank them for their efforts throughout the year. They want to make a difference in DTCC's direction and for the industry — and they do.



Jill M. Considine
Chairman & CEO



OUR VISION

TO BE the acknowledged provider of **EXCEPTIONAL QUALITY**, reliability and risk mitigation services, respected for our customer-centric approach, low cost and high integrity.

TO BE an organization that's nimble and **QUICK TO MARKET** with new solutions, leveraging our proven expertise for automating and standardizing processes, creating flexible technology platforms and increasing access through our networked community of users.

TO BE a logical and **VALUED PARTNER** in forming strategic alliances with other service providers and infrastructure organizations worldwide, where collaboration or convergence of capabilities will bring innovation, add value, extend the reach of our services and lower cost for customers.

TO BE a "THOUGHT LEADER" in addressing a wide range of industry issues, including new regulatory and compliance requirements, business continuity planning and resiliency, operational and systemic risk, global communication standards and regulatory harmonization.

TO BE a company with an unshakable commitment to a core set of values and **HIGH ETHICAL STANDARDS** of conduct, that values diversity, and offers a dynamic and empowering environment where employees feel, at the end of the day, their contributions make a difference to the industry.

**STRATEGIC
PARTNERSHIPS
AND
ALLIANCES**

why?

when?

how?



ACCENTURE

By teaming with Accenture's global management and technology experts, DTCC successfully launched its Global Corporate Action Validation Service that generated a new way to manage corporate actions worldwide through an automated and standardized solution.



EMC CORPORATION
Close collaboration with this world leader in information storage and management led to extraordinarily innovative advances to DTCC's business continuity strategy, with long-distance links to multiple data centers that can mirror data across more than 1,000 miles every 15 minutes, and less in the future.

THE CANADIAN DEPOSITORY FOR SECURITIES LTD.

A historically strong relationship was made even stronger through a collaboration between the CDS and DTCC's depository that for the first time provides one unified interface for Canadian and U.S. dollar transactions and will substantially reduce cross-border processing costs for customers.



OXERA

A nontraditional partnership with this economics consultancy resulted in a major study that revealed and measured the magnitude of trading and processing risks of corporate actions. The report has since become a catalyst for global discussion on improving the safety and efficiency of the securities markets.



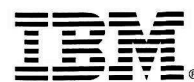
ADP INVESTOR COMMUNICATIONS SERVICES

A comprehensive tax information platform, formed through an alliance with ADP and DTCC, brings to banks and brokerage firms advanced processing capabilities and enhanced compliance for the most intricate tax calculations and reporting.



CISCO SYSTEMS

For the design and implementation of its entire network enterprise, DTCC collaborated with Cisco Systems, a world leader in networked solutions. DTCC used a broad range of Cisco's routers, LAN switches and fiber optic equipment to develop strategic connectivity within the company and to customers through our SMART network.



IBM

DTCC has teamed with IBM on major enhancements to processing capabilities, including the technology to process millions of e-business transactions daily, combining 32 separate operating systems into one platform and augmenting resources to absorb workload spikes and provide emergency processing capacity.



RESTRICTED STOCK SYSTEMS, INC.

DTCC and specialist firm RSS collaborated on a major project to create a family of automated services to transfer, expedite and track restricted securities certificates, estimated at more than \$1 trillion, and handle the removal of restrictions.



TATA CONSULTANCY SERVICES LTD. (TCS)

Partnering with this recognized leader of global technology services, DTCC is reengineering its core systems for securities underwriting and corporate actions into one platform. Capable of handling highly complex securities, the platform will dramatically transform how the system manages information.



MARKETAXESS

DTCC and MarketAxess joined forces to integrate its front-end client to multi-dealer electronic trading system with DTCC's Deriv/SERV credit default swaps matching service, a move that made major inroads toward eliminating trade discrepancies and expediting confirmations.



THOMSON TRANSACTION SERVICES

DTCC and Thomson Transaction Services (formerly Beta Systems), an early architect and service-provider user of DTCC's Insurance Services, created a communications link that has introduced a multitude of distributors to new operational efficiencies and greatly expanded their business opportunities through new connections to major carriers.

TRADEWEB

In association with Thomson Financial, a link created between DTCC Deriv/SERV and TradeWeb has streamlined customers' processing of credit default swap trade confirmations and other post-trade events, bringing fully automated, end-to-end capabilities to this growing market.

CHICAGO MERCANTILE EXCHANGE

As a major participant in FICC's cross-margining program, The Chicago Mercantile Exchange has teamed with the clearing corporation to save joint members more than \$250 million in margin, reinforcing the soundness of the clearing system.



MERCURY

To strengthen DTCC's information technology governance process, DTCC turned to Mercury IT Governance Center, a partnership that has evolved to include resource tracking systems and a prototype for other software tools for managing multiple projects simultaneously across business lines.



AT&T

The ties between DTCC and AT&T are strategic and central to business continuity. Joint projects range from national and global participant connectivity to DTCC's SMART network and a high-speed telecommunications network that replicates data among our multiple data centers.



Competition across numerous industries is growing exponentially and is forcing companies to create competitive advantage by working with nontraditional partners. DTCC is no exception. Our size as the largest post-trade infrastructure organization in the world is no assurance of continued success. We view partnering with other service providers as critical to ensuring our capacity to meet – and exceed customer expectations.



DTCC has pursued a strategy to “buy vs. build” solutions where it would reduce costs, to partner with well-respected technology and telecom companies where this collaboration could bring about innovation, and to create alliances with major consulting companies where their adeptness at helping the financial services industry identify opportunities for greater efficiency can be joined with our expertise, as an infrastructure organization, in bringing high-quality and reliable solutions to market quickly.



DTCC has hundreds of strategic partners, including major companies as well as smaller-sized and specialized software providers. Increasingly, these alliances come about as our strategic partners realize the benefits our common customers can achieve by leveraging DTCC’s networked community that links virtually all trading parties, the efficiencies and cost savings of a central service provider, our expertise and track record for automating and standardizing process for virtually every sector in financial services — and a reputation we are striving for as a firm that values its partners.



BROOKLYN BRIDGE

By far the world's longest suspension bridge when it was completed in 1883, the Brooklyn Bridge so awed people that many were fearful of stepping onto it. Only after P.T. Barnum paraded a herd of 21 elephants across the bridge to demonstrate its safety did more pedestrians venture out on the walkway. Soon, however, it was carrying half a million people a day across the turbulent, tidal waters of New York's East River.

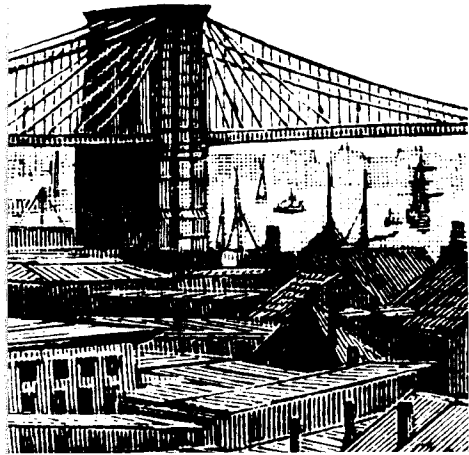
Jutting up 276 feet, the bridge's twin towers were for many years the tallest structures in the entire United States. They had to be high enough to allow sailing ships, which were still common, to pass beneath the roadway. The bridge's massive structure made it the subject of more paintings, engravings, etchings, lithographs and photographs than any man-made structure in America.

Privately financed, it earned revenue for its backers from the trains that regularly crossed the bridge for 60 years. Its economic impact was such that it quickly made Brooklyn the third largest city in America. By 1898, the close ties that had developed between Manhattan and Brooklyn prompted the political push to include the city's other boroughs into the union that is now New York City.

IN MUCH THE SAME WAY that the Brooklyn Bridge functioned to link communities and accelerate their growth, DTCC functions at the hub of the securities industry's infrastructure. It cross-links thousands of broker/dealers, institutional investors, mutual funds, transfer agents, underwriters, custodian banks, marketplaces and exchanges, hedge funds, technology vendors, insurers, regulatory agencies and economic policy makers. And it doesn't require a herd of 21 elephants for industry participants to recognize DTCC's strength, connectivity and reliability when they see it.



CLEARANCE AND SETTLEMENT



EQUITIES, CORPORATE AND MUNI BONDS

Trading volume in United States markets continued to climb in 2005,

reaching new records in both the number of transactions processed as well as the total dollar value.

As the central counterparty for the nation's major exchanges and markets, DTCC clears and settles virtually all broker-to-broker equity, listed corporate and municipal bond and Unit Investment Trust trading in the United States through its National Securities Clearing Corporation (NSCC) subsidiary. Yearly transaction volume processed by NSCC continued to grow in 2005, increasing 15% to 6.6 billion transactions from the 5.8 billion processed in 2004. The total value of transactions processed by NSCC reached \$130.7 trillion, up 30% from \$100.4 trillion in 2004. NSCC also saw the average number of daily transactions rise to 26.2 million from 22.9 million in 2004. The value of these daily transactions reached \$522.9 billion.

NSCC maintains the processing capacity to handle not only average daily trading volumes, but whatever spikes in volume that the marketplaces may experience. On the peak day of October 6, 2005, the number of transactions increased to 36.5 million transactions, 39% higher than the average daily volume. It was the fourth time that the peak daily volume record was broken in 2005.

To reduce risk, increase efficiency and optimize available capital for the financial services industry, NSCC nets down, or reduces, the total number of trade obligations each day requiring financial settlement through its Continuous Net Settlement (CNS) system. On the peak day in 2005, for example, NSCC reduced the value of obligations settling by more than 98% to \$14.7 billion from \$765.6 billion.

While NSCC provides final settlement instructions to its customers each day, the payment and movement of securities ownership occurs at The Depository Trust Company (DTC). In addition to NSCC transactions, DTC settles institutional trades, money market instruments and other financial obligations. As DTCC's depository, DTC also eliminates the movement of securities by providing book-entry deliveries, which transfer the ownership of securities electronically.

Like trading volumes, book-entry deliveries continued to climb in 2005, to 263 million from 243 million deliveries in 2004, up 8%. The value of these deliveries was \$148.2 trillion, up by 24%. Settlement figures for book-entry deliveries also hit record levels on November 16, 2005 when 1,024,004 transactions were processed. The peak day for dollar volume was September 20, 2005, when DTC settled \$976.1 billion, which was due largely to a record level of money market instrument transactions.



Marianne C. Brown
Chief Executive Officer
Securities Industry Automation Corporation

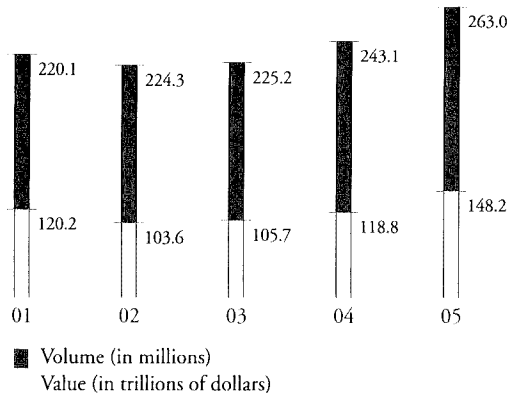


John Brosnan
Managing Director, Head of US Operations
Barclays Capital



Paul J. Brody
Chief Financial Officer
Interactive Brokers Group LLC

DTC BOOK-ENTRY DELIVERIES

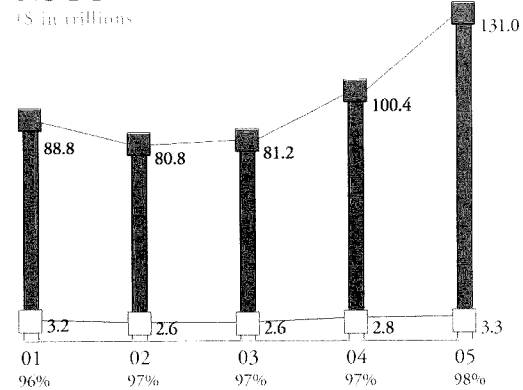


Richard Curran
Managing Director, Cash Securities Operations
Credit Suisse Securities (USA) LLC



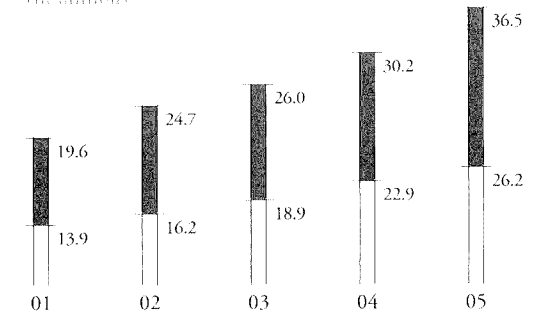
Jane Buyers Russo
Managing Director
JPMorgan Chase Bank

NSCC NETTING
 (\$ in millions)



■ Total Trade Obligations
 ■ Obligations Requiring Financial Settlement
 % = Average Netting factor

NSCC AVERAGE VS PEAK DAY VOLUME
 (in millions)



■ Peak-Day Volume
 ■ Average Daily Volume

BY NETTING DOWN OR REDUCING THE TOTAL NUMBER OF TRADE OBLIGATIONS EACH DAY REQUIRING SETTLEMENT BY **97% ON AVERAGE**, WE HELP THE INDUSTRY REDUCE RISK AND OPTIMIZE CAPITAL.

NEW SMART/TRACK SERVICES Responding to the continuous needs of the industry to increase efficiency and meet regulatory requirements, DTCC leveraged its SMART/Track technology to develop two new Web-based services for processing buy-in notifications and for transmitting vital information between agent lenders and borrowers.

One new service, SMART/Track for Buy-ins, streamlines and accelerates communication of buy-in notifications so that firms can better manage their open buy-ins. Buy-in notices may be submitted when a long broker fails to receive securities on or after settlement day. The broker expecting the securities sends a notice to the delivering broker stating that if securities are not delivered by a certain date, the broker intends to purchase the securities elsewhere and hold the delivering broker liable for any price variation. If the shares are not delivered by the deadline, the long broker can execute the buy-in and submit a notice of buy-in execution. The first phase of the service, introduced in 2005, enables customers to submit buy-in executions for open long

obligations in DTCC's Continuous Net Settlement system (CNS). This reduces the notification turnaround time by eliminating manual steps previously involved in the process. The second phase of this effort will process the more than 2,000 daily CNS buy-in notices of intent — when introduced in the first quarter of 2006. When the final phase of SMART/Track is implemented in 2006, customers will also be able to create, transmit and track non-CNS broker-to-broker buy-in notices.

SMART/Track for Agency Lending Disclosure was also launched in 2005 to facilitate the exchange of information between lenders and borrowers. This service helps ensure greater transparency in agency lending transactions — something that has concerned regulators in recent years and prompted them to call on the industry and DTCC for a solution. Agent lenders lend securities on behalf of their customers, without necessarily disclosing the identity of these customers to the borrower. Without this information, borrowers can't accurately assess credit exposure or comply with capital rules that govern the exposure that a borrower has to a lender, and vice versa.

SETTLING CROSS-BORDER DOLLARS In 2005, DTCC's depository (DTC) leveraged its more than 20-year partnership with The Canadian Depository for Securities Ltd. (CDS) by enhancing an inter-depository link that enables depository customers to settle securities in both U.S. and Canadian dollars at DTC. The link reduces cross-border processing costs and eliminates the need to maintain split inventories, where trades in Canadian dollars settle at CDS and trades in U.S. dollars settle at DTC. DTC customers can now concentrate all U.S. and Canadian security positions in their DTC accounts.

ENHANCEMENTS TO INVENTORY MANAGEMENT In another step toward straight-through processing (STP), DTCC implemented enhancements to its Inventory Management System (IMS), introducing two new recycling profiles. The new profiles enable customers delivering securities to submit their

deliveries in a strict, predetermined order, or allow them to hold all, or a specific group of securities, until the customer is ready to release them. Other IMS enhancements allow customers to route deliveries for secondary authorizations and permit initial public offerings to be processed by IMS for the first time.

SPEEDING ETF INFORMATION DTCC continues to streamline communications between the broker/dealers and Index Receipt agents dealing in Exchange Traded Funds (ETFs), supporting the overnight “create/redeem” process, which enables agents and broker/dealers to adjust ETF portfolios and holdings. ETFs are portfolios of securities designed to track an index, but trade throughout the day like individual stocks. DTCC receives and distributes updated ETF portfolio holdings to market participants at the end of each trading day. In 2005, DTCC introduced a new database design that simplifies and speeds up communications between broker/dealers and agents. The database provides them with information on the total shares outstanding for each ETF, as well as the dividend amount outstanding per ETF, which will assist customers in calculating the net asset value. In addition, DTCC helped launch 48 new ETFs, bringing the U.S. total to more than 200 ETFs with combined assets of \$296 million in 2005 — an increase of 31% over 2004 combined assets.

FIXED INCOME

In 2005, Fixed Income Clearing Corporation (FICC) not only continued to implement its innovative plans to streamline the post-trade infrastructure for government securities and other fixed-income instruments, but also intervened to help avert a market crisis following the collapse of Refco Inc.

AS A CENTRAL COUNTERPARTY, FICC SUCCESSFULLY INTERVENED TO ENSURE AN ORDERLY WIND-DOWN OF REFCO SECURITIES AND AVERT A MARKET CRISIS, FOLLOWING THE COLLAPSE OF REFCO, INC.

Refco, a large trading firm with operations in 14 countries, abruptly declared bankruptcy on October 17. Although Refco Securities LLC — the Refco Inc. subsidiary that was the FICC member — was not covered in the bankruptcy filing, counterparties’ concerns about the solvency of Refco Securities roiled market trading and repo activity. FICC — in its role as a central counterparty — immediately stepped into the U.S. government securities market to reaffirm its guarantee of Refco Securities’ multi-billion-dollar trading positions. FICC worked with Refco Securities, key settlement banks and other major government-securities market participants to provide for the orderly wind-down and transfer of the firm’s trading obligations.

Standard & Poor’s again confirmed its annual top credit rating for FICC in 2005, noting that the company retains the financial safeguards and risk management capabilities needed to serve the expanding markets in which its customers participate.

SUSTAINED MARKET GROWTH The volume of government securities transactions FICC handled in 2005 rose to 25.5 million from 23.5 million in 2004, an increase of 8%. The value of those transactions rose as well, climbing to more than \$874 trillion from \$710 trillion in the previous year, a 23% increase. Continued strong activity in the U.S. housing market also ratcheted up the value of the mortgage-backed securities transactions FICC processed during 2005, driving them to \$75.6 trillion from \$68.7 trillion in 2004, a rise of

10%. On an average day during 2005, FICC processed transactions in U.S. government and mortgage-backed securities worth \$3.7 trillion and, on behalf of NSCC, matched trades in another \$16 billion worth of corporate bonds, municipal bonds and unit investment trusts.

Through its daily netting process, FICC sharply lowers the total number of government and mortgage-backed securities trade obligations that require financial settlement. In 2005, FICC's netting process eliminated three-quarters of all government securities trades, and nearly 95% of all mortgage-backed securities trades requiring settlement. This markedly increased the capital available to the financial services industry while lowering risk and improving efficiency.

RAPIDLY RISING REPO VOLUMES By far the fastest-growing segment of FICC's clearing and netting service in 2005 was its repo business, which involves the sale and subsequent repurchase of government securities through repurchase agreements. Repos now account for 78% of the entire value of transactions entering FICC's netting process for government securities. A large factor contributing to this was the growth in 2005 of General Collateral Finance agreements — created for the industry in 1998 to broaden and simplify collateral requirements. In 2005, the value of GCF transactions entering FICC's netting process increased 55%, to \$267.5 trillion from \$172.2 trillion the previous year.

AUTOMATED NETTING OF FAILS: REDUCING COST AND RISK IN GOVERNMENT SECURITIES TRADING Although the industry's volume of "aging fails" has declined since hitting a peak in 2003, failed positions continue to generate record-keeping problems and risk exposure for firms trading U.S. government securities. In 2005 FICC enhanced its systems to facilitate the netting of participant fails with the clearing corporation. This new service, targeted for mid-2006, will help to alleviate related issues by reducing the number of fails a participant has with FICC in government securities. Each evening a participant's outstanding fails will

OMGEO

With more than 6,000 customers in 42 countries around the globe, Omgeo plays a critical role in the global securities industry as a central information management and processing hub for broker/dealers, investment managers and custodian banks. A joint venture between DTCC and Thomson Financial, Omgeo captures, automates and expedites the flow of information required to process institutional trades after execution up to settlement.

SHARPLY GROWING VOLUMES IN BOTH U.S. AND GLOBAL MARKETS Omgeo achieved a key milestone in the U.S. market in 2005, recording average trading volume that approached one million trades per day, up about 15% from 2004. Customers using Omgeo's full matching services achieved an average match rate of 93% and a same-day affirmation rate as high as 80% — significantly above the industry average of 19% for confirm/affirm users. Improved products and more focused marketing also brought Omgeo remarkable growth in the fixed-income market, where Omgeo OASYSSM processed 1.4 million fixed-income allocations with a value of \$10.5 trillion, compared with a volume of 800,000 in 2004. Outside the U.S. market, Omgeo's Central Trade Manager saw volume growth of more than 100% over 2004 and has now processed more than 5 million cross-border and non-U.S. domestic trades.

DELIVERING MULTI-ASSET POST-TRADE SOLUTIONS During 2005, collaborating with several mid-size and large investment management firms, Omgeo focused efforts on providing clients with expanded asset class coverage through enhancement of its core offerings and also with the launch of a new, single-point-of-access "hub" service called Omgeo ConnectSM.

be re-incorporated into the net with the activity due to settle the next business day. The process will eliminate situations where participants find themselves carrying offsetting financial obligations on both the long and short sides of the market.

SPONSORED MEMBERSHIP: BRINGING SETTLEMENT BENEFITS TO THE BUY SIDE

Institutional investors, including mutual funds, have helped drive the rapid growth in the use of repurchase agreements in recent years. But for various reasons — legal and technical — these buy-side firms could not become FICC participants. As a consequence, neither FICC members nor their buy-side counterparties were able to take advantage of FICC netting, settlement and risk reduction efficiencies, including the balance-sheet relief available when both sides to a repurchase agreement are FICC members.

To overcome this problem, FICC initiated a “sponsored membership” program in 2005, whereby under the sponsorship of an FICC member, buy-side firms are able to function as members. The “sponsored membership” service allows these firms to take advantage of key FICC guaranty and risk-reduction benefits, while their sponsors, in turn, are able to make use of balance sheet relief. By early 2006, this program had enrolled more than 140 sponsored members. The company is also examining a two-tiered membership structure to help expand membership to more buy-side firms and support the creation of a central counterparty (CCP) serving mortgage-backed securities trades.

MORTGAGE-BACKED SECURITIES: THE CENTRAL COUNTERPARTY SOLUTION

Building a central counterparty to reduce risk and streamline the handling of trades in the huge market for mortgage-backed securities is a major FICC goal. As the definition for a multi-phased approach is being finalized, FICC is targeting the end of 2006 for the testing of the first two pieces of major functionality.

A pivotal first step toward achieving the larger objective of full central counterparty services involves automating the substitution process used by members of the Electronic Pool Notification (EPN) service. Our goal is to create an automated messaging mechanism that will give customers more flexibility to effect a one-step change in the allocation of mortgage pools assigned to satisfy a generic “To be Announced” (TBA) trade.

The second enhancement scheduled for 2006 is to expand FICC’s real-time trade matching (RTTM) system to support the matching of specified, in addition to generic TBA, pool trades. This new matching functionality will enable participants to reduce risk by adding this trading activity to the current FICC mortgage-backed matching process, while positioning the industry to incorporate this trading activity into full CCP services, when available.

CORPORATE AND MUNICIPAL BOND TRADES: HELPING CUSTOMERS MEET REPORTING REQUIREMENTS

When real-time trade matching (RTTM) for Corporates, Municipals and UITs went live in mid-2004, a key functional component was the ability to support the impending requirement for accelerated price reporting for both municipal and corporate bond transactions. This RTTM functionality was in place well in advance of the implementation of the 15-minute reporting regulation for Municipal Bonds in January of 2005, and for Corporate Bonds in July, later that year.

RTTM, which replaced a batch reporting system, has the ability to capture and route trades for both matching and settlement, and will forward price reports relating to those trades to either the Municipal Securities Rulemaking Board (MSRB) or the National Association of Securities Dealers (NASD), on a real-time basis, as directed by submitting NSCC members.



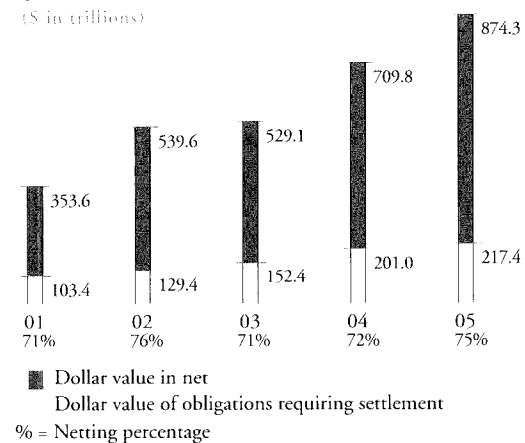
Jarvis J. Joseph
*Vice President, Global Fund Services
 Securities Servicing
 The Bank of New York*



Robin Harchar
*Senior Vice President, Investment Operations
 McDonald Investments Inc./KeyBank National Association*

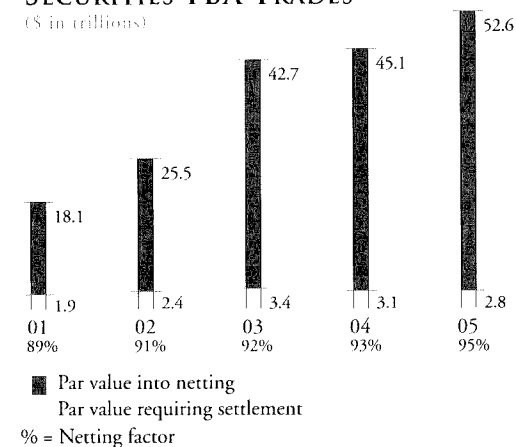
U.S. GOVERNMENT SECURITIES

(\$ in trillions)



MORTGAGE-BACKED SECURITIES TBA TRADES

(\$ in trillions)





RIALTO BRIDGE

For 250 years, the only way to cross the Grand Canal on foot to reach Venice's famed Rialto Market was over the sturdy Rialto Bridge. The planning for the bridge, a plum commission in a prime location, sparked a fierce design competition. Famed Renaissance designers Palladio and Michelangelo both submitted plans. Ultimately, however, city fathers chose Antonio da Ponte who, in 1591, completed a bridge of grace and strength that echoes the spirit of Venetian architecture and remains in service today, more than 400 years later.

To overcome the perilously soft soil on each side of the canal, Da Ponte rammed 12,000 alder pilings into the earth and then built a brick foundation on top. To meet navigation needs, he constructed a single, 88-foot arch high enough and wide enough to allow armed galleys to pass underneath, leaving Venice room for its invaluable water traffic while providing for its foot traffic.

Today, the Rialto Bridge carries millions of tourists each year across the Grand Canal to the wealth of food in the Rialto Market, the beauty of the Piazza San Marco, and the splendor of the Doges Palace.

LIKE THE RIALTO BRIDGE, the infrastructure DTCC has built carries information and transactions to and from financial markets everywhere. DTCC's SMART (Securely Managed And Reliable Technology) network is the technology that bridges the entire settlement infrastructure of the U.S. capital markets, including the New York Stock Exchange, Nasdaq, The American Stock Exchange, the regional U.S. exchanges and many of the world's fast-growing electronic trading networks. In the spirit of the Rialto Bridge, SMART enables financial services firms to safely transcend other traffic in order to settle securities transactions valued in excess of \$1.4 quadrillion every year.



BERNARDO BELLOTTO
1722 | 1780

HOTEL RIALTO

TAXI

GONDO

ASSET SERVICES



At year-end 2005, the value of securities held at DTCC's depository (DTC) stood at \$31.2 trillion, up 10% from \$28.3 trillion in 2004. Securities issues held at the depository numbered more than 2.6 million

and included equities, corporate and municipal debt, asset-backed securities, exchange-traded funds and money market instruments, as well as international securities from 103 foreign countries and territories.

The depository collected and allocated to customers nearly \$2.8 trillion resulting from dividend and interest payments, redemptions and reorganization activities, 20% more than the \$2.3 trillion in 2004.

The value of dividend and interest payments alone totaled \$1.6 trillion in 2005, while the number of these payments increased to over 3.9 million, up 10% from the 3.6 million in the prior year.

The depository also handles the initial processing, distribution and settlement of new bond issues — including more than 99% of all municipal issues in the United States — with lead underwriters, broker/dealers and banks. In 2005, the depository processed underwriting distributions for a record 47,178 new issues, worth more than \$4 trillion, compared to 41,956 new issues, worth just over \$3 trillion in 2004.

REENGINEERING FOR STP In 2005, DTCC launched one of the most ambitious reengineering efforts in its history with a redesign of its core systems for securities underwriting and corporate actions. DTCC plays an integral role in the underwriting of virtually every

U.S. security and processes corporate actions on a routine basis. This undertaking will create a single new platform, to be implemented in phases, with completion targeted for 2009, replacing more than 60 separate underwriting and corporate actions systems that have evolved during the last three decades. The new platform will embed straight-through processing capabilities for securities from origination through maturity. It will bring major new efficiencies to DTCC and the industry, streamlining processes, eliminating redundancies and providing new operational flexibility to support complex corporate actions and an array of servicing requirements for increasingly sophisticated types of securities, both U.S. and global.

To achieve this, DTCC began a strategic partnership with Tata Consultancy Services Limited (TCS). Tata is a leading global technology service provider and software developer with broad experience in financial services. Throughout 2005, DTCC conducted extensive customer outreach programs to better understand changes in the market environment and to anticipate continued growth in transaction volumes. A special reengineering Web site was developed to help inform customers about the initiative and provide them with developments as they occur throughout the entire project lifecycle.

AUTOMATING NEW-ISSUE INFORMATION One of the first developments to come out of the redesign — part of the new Underwriting system targeted for 2007 — will be a new service that will

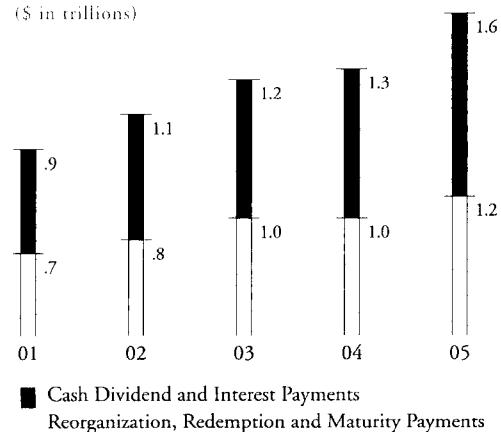
help the industry meet trade reporting requirements by automating the real-time collection and distribution to market participants of new bond and other securities issues information. Current notification practices on newly issued securities are not standardized and involve a variety of formats and manual processes, including phone calls and faxes. The service will make trade confirmation, clearing and reporting easier, faster and more accurate. The service will automate the collection and distribution of information on municipal bonds, as well as corporate bonds, asset-backed securities and other fixed-income securities.

TAX PRODUCTS EXPAND WITH STRATEGIC PARTNERSHIP In another recent strategic alliance, DTCC's Global Tax Services teamed up with ADP Investor Communications Services to streamline year-end tax reporting for the financial services industry on more than 17,000 mutual funds, real estate investment trusts (REITs) and other securities generating distributions whose tax status is frequently reclassified at year-end. The new service incorporates and expands upon DTCC's Domestic Tax Reporting Service (DTax), which provides year-end tax reclassification

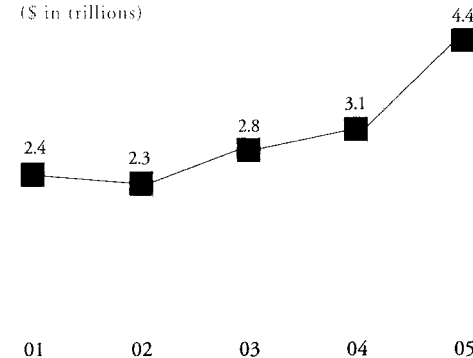
information to financial institutions, significantly streamlining their 1099 reporting to customers. DTax information will flow directly into ADP's year-end reporting system where clients can use it for accurate and timely tax reporting.

CUTTING COSTS AND RISKS THROUGH DEMATERIALIZATION DTCC supported an all-out campaign, working closely with the Securities Industry Association (SIA), to eliminate paper securities this year. DTCC spoke and distributed literature at trade conferences, launched its own "No More Paper" Web site and published bylined articles in newspapers to educate industry members and the public at large on the reasons why the industry is waging war against paper securities and for electronic ownership. According to the SIA, paper securities cost the industry and investors approximately \$250 million per year, yet these securities are involved in just over one-tenth of one percent of all trade transactions processed daily. In addition to the cost, paper securities can be lost or stolen, and approximately one million paper securities fall into that category each year.

DEPOSITORY ASSET SERVICING
(\$ in trillions)



UNDERWRITING VALUE
(\$ in trillions)





Anthony Baril

*Director, Institutional Margin
National Financial Services LLC
President, The Cashier's Association of Wall Street, Inc.*



AnnaMaria Freeman
*Director, Syndicate Operations
Merrill Lynch*



Joseph A. Lefrieri
*Managing Director, Operations
Brown Brothers Harriman & Co.*



The “No More Paper” campaign hit its stride in 2005. DTCC reported that the number of certificates in its depository’s vault declined more than 13% in 2005, to 3.4 million certificates. As part of the battle against paper, DTC’s expansion of its “paperless legals” program to 90% of deposited certificates has eliminated the cumbersome and costly handling of documentation for non-routine transfers, commonly referred to as legal transfers. Curtailing paperwork on legal deposits has helped the industry save \$1 million annually.

A key driver of dematerialization is DTCC’s Direct Registration Service (DRS). At year-end 2005, the service had 100 users, while the number of DRS-eligible issuers increased by 19% to 1,144 from 963 in 2004. DRS permits investors to hold securities positions in their name in statement form on the transfer agent’s or issuer’s books. Also, late in

DTCC LAUNCHED ONE OF THE MOST AMBITIOUS REENGINEERING EFFORTS IN ITS HISTORY WITH A MULTIYEAR REDESIGN OF ITS CORE SYSTEMS FOR SECURITIES UNDERWRITING AND CORPORATE ACTIONS.

2005, the New York Stock Exchange, the American Stock Exchange and Nasdaq all voted to make DRS a requirement for companies wishing to list with them. The three organizations are expected to file rule changes with the Securities and Exchange Commission in 2006.

Perhaps the most significant event in the campaign was the State of Delaware’s decision to allow the elimination of paper certificates. Under new provisions, companies incorporated in Delaware — which include half of all publicly traded companies in the U.S. and 60% of the Fortune 500 — no longer have to issue paper certificates for new shares, transfers or corporate actions. Other states, including Louisiana and Missouri, also enacted similar legislation in 2005. These moves alone are expected to save investors and companies millions of dollars a year.

BUSINESS CONTINUITY: HURRICANE

RESPONSE

In response to Hurricane Katrina and its aftermath, DTCC’s depository swung into action to ensure corporate action payments originating from the affected region were processed with few disruptions. Not only did the depository set up a “war room” to manage its post-Katrina response, it also moved quickly to reprogram its systems to deal with the payment and communications problems that arose from the storm. For several months — until paying agents in Louisiana and Mississippi and outside the region could reestablish automated communications — DTC reduced operational risks by allocating only upon actual receipt of funds about \$1.3 billion in principal and interest payments stemming from 13,000 issues such as municipal bonds and financing notes.

BUILDING INDUSTRY “BEST PRACTICES” TO

AVOID LATE PAYMENTS

By updating its own systems and working with major paying agents, DTCC was able to make measurable progress in 2005 toward its goal of reducing late payments and post-payable adjustments on complex securities such as collateralized mortgage obligations and other asset-backed securities. The number of post-payable adjustments alone shrank 22% over the course of the year, substantially reducing the operating and financing costs that arise from having to reprocess transactions. For 2006, DTCC is aiming to eliminate more post-payable adjustments and increase the timeliness of rate reporting for asset-backed securities. Planned initiatives include not only working with individual agents to identify problems, but also creating an industry-wide working group to look for ways, including possible structural changes, that will spur increased timeliness and finality of payments.



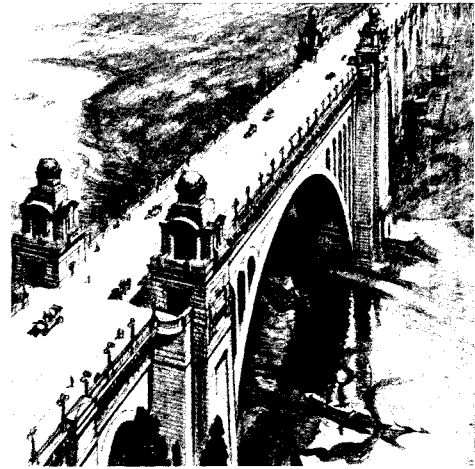
CHARLES BRIDGE, PRAGUE

Named not for the river it crosses but for the Holy Roman Emperor who commissioned it, the Charles Bridge spans the Vltava, the swiftly flowing river that cuts through Prague. Begun in 1357, the Charles was the major engineering feat of its day, a massive medieval structure of 16 arches zigzagging 1,692 feet across the river. Over the years, sculptors erected numerous statues on the bridge as decoration. Ironically, the first statue put up was in honor of the first man to be thrown from the bridge — Saint John of Nepomuk, who was cast over the railing and drowned in 1393 after a religious dispute with King Vaclav IV. For nearly 500 years, the bridge was a principal conduit for trade between Eastern and Western Europe, and today, although traffic is now restricted to pedestrians, it still helps to link “old” and “new” Prague.

SIMILAR TO THE CHARLES BRIDGE, DTCC has functioned for years as the principal and sometimes sole link between the nation’s securities markets and the parties to the trades taking place on those markets. DTCC’s companies clear all trades for securities ranging from Treasury bills to equities to municipal bonds, making sure that the buyer and seller agree to terms of the trade. Then DTCC’s depository settles the trade, ensuring that the buyer gets the securities and the seller receives payment. For most securities trades, DTCC also offsets purchases against sales, vastly reducing the volume of capital required to support the securities industry. Just as the Charles Bridge has linked the two parts of Prague for six centuries, DTCC links the nation’s lively capital markets to investment houses and their investing customers everywhere.



GLOBAL CORPORATE ACTION SERVICES



One of the most difficult problems for the securities industry is discovering the multitude of corporate actions events that issuers and others are involved in around the world. There is no single source for

such information, and firms spend tremendous amounts of time and money on resources designed to find out about corporate action events, understand them, and act on them correctly before deadlines pass.

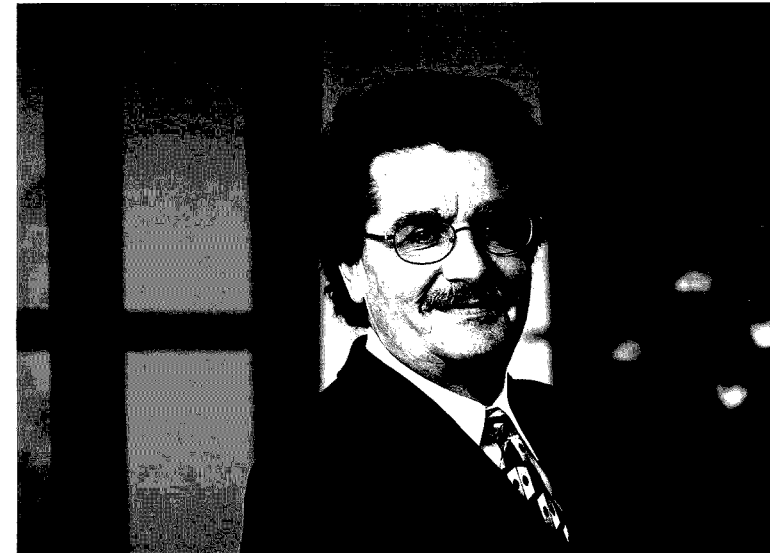
A wrong decision on a corporate action event could cost a firm millions of dollars. And there is growing evidence that corporate action event data is critical to traders in making investment decisions.

DTCC has embarked on an ambitious goal: to become the single source of validated corporate actions information globally. It is not a goal that will come quickly or easily, but the benefits for the industry worldwide are significant. The service, Global Corporate Action (GCA) Validation Service, continued to make strong progress globally in expanding both the coverage it provides and its client base in 2005.

JPMorgan Securities and Credit Suisse joined Goldman Sachs, Merrill Lynch and UBS as major global firms using the service.

During 2005, Global Asset Solutions' Shanghai office was set up to cover corporate actions in the Asia Pacific area. GCA has now expanded to cover corporate actions in more than 160 countries,

Neil A. Sherron
Corporate Actions Manager
Carston Associates, L.L.C.



Steve Jennett
Head of Operations
Abbey Financial Markets

**DTCC HAS EMBARKED ON AN AMBITIOUS
GOAL: TO BECOME THE SINGLE SOURCE
OF VALIDATED CORPORATE
ACTIONS INFORMATION GLOBALLY.**

providing information on more than 826,000 events globally, the most complete global coverage of corporate actions by any organization.

The service's corporate action experts provide round-the-clock operations, in 16 languages, at its centers in London, New York and Shanghai.

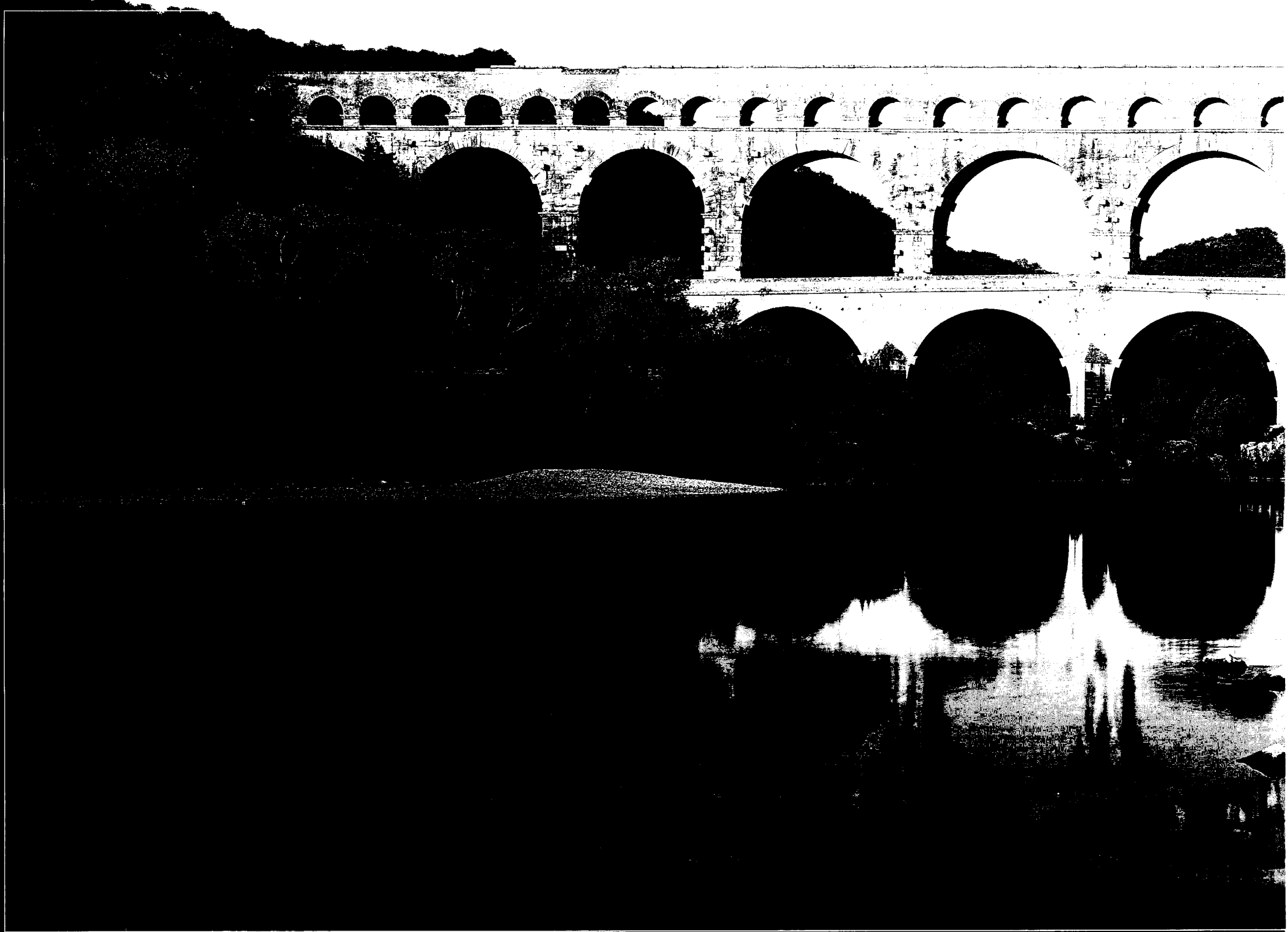
Recognition of GCA was received by readers of *Waters* magazine on five continents, who voted the service, for the second straight year, the "Best Corporate Actions Provider."

Among the major enhancements made to the service in 2005 was the ability to provide output in ISO 15022-compliant format, in addition to DTCC's proprietary format. That move answered a long-sought need in Europe and elsewhere for ISO 15022 standardization in announcement information, and it made vendors such as N-Tier, CheckFree, Mondas, Xcitek and others capable of taking in the service's data on systems provided to their clients.

DTCC currently has more than 85 custodians providing information through the service in ISO 15022 format.

In addition, the service allows data to be published to clients through SWIFTNet, the new network operated by SWIFT, a move designed to expand the number of firms that can take data from GCA Validation.

While the ongoing effort to standardize market practices within markets or countries still needs to progress, DTCC is well on its way to providing a capability to discover, validate and disseminate corporate actions information from around the world on a single, high-performance platform that will support increasing standardization and automation for the industry, as investors continue to seek out new investment opportunities across the globe.



PONT DU GARD

Over the course of 2,000 years, the Pont du Gard reliably carried water, people and goods across the Gard River near Nimes in southern France. Built in 19 B.C. by Agrippa, son of Roman Emperor Caesar Augustus, the tri-level bridge first served as an aqueduct to transport clean water 886 feet across the Gard, a tributary of the Rhone. A monument to Roman engineering prowess and the skill of ancient stonecutters, the first two tiers of the bridge were constructed without mortar. Instead, fitted stones were hoisted into place by ropes tied to a treadmill powered by dozens of men. To bind the stones, builders then inserted iron clamps which are still intact today.

By the Middle Ages, with water no longer running, the bridge became a foot path. Later, the bottom tier was used for carrying goods as well, and some of the well-cut stone was carted away for homebuilding. Today, the ancient bridge has been restored, its grace and beauty a magnet for tourists from around the world.

THE PONT DU GARD, like the systems DTCC has built to clear and settle securities trades, continues to prove its reliability year after year. And like the bridge, DTCC's systems are occasionally repurposed to handle new kinds of traffic to serve new needs and functions. In 2002, for example, DTCC saw problems starting to mount in the skyrocketing market for credit default swaps, where outdated manual processing was creating financial risk and slowing the completion of trades. Building on its existing technology, DTCC was able to create and launch — within nine months — an automated swaps matching service called Deriv/SERV. Its reliability quickly won customers from around the globe.

