settled.

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

Our mission is, by 2005, to be the provider of choice worldwide for investment servicing solutions through leadership, innovation and technology.

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.

The Depository Trust & Clearing Corporation (DTCC) is the largest financial services post-trade infrastructure organization in the world, with operating facilities in multiple locations in the U.S. and overseas. DTCC is the holding company for six subsidiary businesses—a depository and five clearing corporations—as well as the co-owner of a global joint venture with Thomson Financial.

Subsidiaries:

- **National Securities Clearing Corporation (NSCC)** is the leading provider of centralized post-trade comparison, trade guarantee, netting, settlement and information services for equities, bonds, unit investment trusts, mutual funds and insurance transactions in the U.S.
- **The Depository Trust Company (DTC)** is the world's largest securities depository. It is responsible for settling trades of U.S. securities in its custody, and provides asset servicing as well as tax and information services.
- **European Central Counterparty Limited (EuroCCP)** is the first central counterparty to offer cross-border clearing, netting, risk management and settlement services for equities traded on a pan-European basis, including U.S. securities traded in Europe. It supports Nasdaq Europe and has capacity to support other markets.
- **Government Securities Clearing Corporation (GSCC)** supplies automated trade comparison, netting and settlement services to brokers, dealers, banks and other financial institutions that trade in U.S. Government securities or repurchase agreements based on those securities.
- **MBS Clearing Corporation (MBSCC)** is the sole provider of automated trade matching/confirmation, risk management, netting and electronic pool notification services to participants in the mortgage-backed securities market.
- **Emerging Markets Clearing Corporation (EMCC)** is a global provider of automated trade comparison, trade guarantee, settlement and risk management services for Brady bonds and other sovereign debt transactions.

Joint Venture:

- **Omgeo** is a joint venture between DTCC and Thomson Financial that provides a streamlined trade management solution for institutional trades and links a global community of custodian banks, investment managers and broker/dealers in 40 countries.

Contents

Settlement represents the final and most critical stage of post-trade processing. It ensures the integrity of financial markets. Given today's enormous trading volumes, both the financial services industry and investors look to DTCC for the **reliability** of our systems, the **certainty** of our trade guarantee, the **safety** of netting which reduces the dollars exchanged, and the **security** of our depository's custody operation which holds and services trillions of dollars in assets. Across each of the financial sectors we support through our decentralized operating facilities, one word from DTCC brings reassurance at the end of each day—that trading activity has been **settled.**

2001 Performance Highlights

Total number of shares traded: **819 billion**

3.5 billion: Total number of transactions processed

Value of transactions processed: **$89 trillion**

$86.3 trillion: Financial obligations eliminated through netting

Average transaction processing cost: **7¢**

$250 trillion: Value of securities settled through DTCC

Value of securities on deposit: **$23.3 trillion**

$112 trillion: Value of money market settlement activity

Value of mutual fund transactions processed: **$1.4 trillion**

$3.4 billion: Value of insurance applications, premiums and commissions processed

Dear Stakeholder:

There are numerous examples throughout history of ordinary people accomplishing extraordinary things when challenged by the unpredictable. Nothing could more accurately characterize the challenge we faced in 2001 following the attack on the World Trade Center. There were many accomplishments for DTCC this past year, but the performance of our people on September 11 and the week that followed stands out as our finest hour.

While the markets closed in the U.S., DTCC facilities in lower Manhattan and elsewhere remained open to ensure the completion of trade settlement from prior days. Over the course of the week, we settled in excess of $1.8 trillion in securities transactions.

The theme of this year's annual report, "Settled," underscores the critical role that trade completion and finality of settlement play in ensuring the underlying confidence in the global financial system. It is a profound public trust that DTCC takes seriously.

Over the past two years, DTCC has promoted a global dialogue on central counterparties (CCP) and settlement infrastructure capabilities, including our co-sponsorship of a CCP conference in London in 2001 and our membership in a new group of central counterparty organizations called CCP 12. We've pushed for the adoption of common global standards, best practices and interoperability among marketplace infrastructure organizations to avoid the patchwork of technology systems and different regulatory schemes around the world that reduce efficiency and increase costs for our customers.

Despite our success, we believe September 11 was a wake-up call to a new type of threat facing capital markets globally. Consider if trade processing was disrupted and we did not have finality of settlement. The events of last fall have redefined the paradigm of how financial markets will need to operate in the 21st century.

And while we are all reassessing our contingency plans, the nature of this threat suggests the need for new strategies for ensuring the continuity and safety of what is essentially the central nervous system of the global financial services industry.

> "Settled" underscores the critical role that trade completion and finality of settlement play in ensuring the underlying confidence in the global financial system. It is a profound public trust that DTCC takes seriously.

DTCC, for example, already has the capacity to handle in excess of 60 million transactions a day, or three times our current peak volume. As Europe consolidates and grows its equity market and Asia wrestles with its growing trading volumes, must each market develop its own excess capacity? Perhaps it's time to consider a post-trade infrastructure model that offers virtual capabilities worldwide on a 24/7 basis, where we might save costs by outsourcing capacity to other markets in off-peak hours. These virtual capabilities could extend to staffing requirements and key functions such as risk management and collateral management.

In a world threatened with the possible disruption of service in a particular market, a virtual model offers the global financial community an unparalleled level of seamlessness and certainty. DTCC will continue to do its part to lead the dialogue on these and other issues, and to help build a blueprint for change.

DTCC's overall performance in 2001 was very strong, with record-setting volumes. On a full-year basis, DTCC fees generated $819 million in revenue. Revenue was down from $914 million in 2000, in part attributable to $52 million in fee reductions. In 2001, DTCC also gave customers $177 million in discounts and rebates.

The financial strength of DTCC was recognized in 2001, when Standard & Poor's (S&P) awarded AAA credit ratings to our two principal subsidiaries, The Depository Trust Company and National Securities Clearing Corporation. These ratings were reaffirmed the week of September 11.

During 2001, in spite of the downturn in the economy, transaction volume for the clearing corporation continued to grow, up 25% to 3.5 billion transactions for the year with a trading value of $89 trillion. This volume growth can in part be attributed to the industry's move to trading in decimals, which began in April.

The clearing corporation clearly has the capacity to handle whatever peak volumes the marketplaces may experience. And through netting, and the provision of a trade guarantee, we have significantly reduced the risk associated with settlement of these trades.

On a peak day in 2001, the clearing corporation handled 19.6 million transactions worth $587 billion. Through netting, the value of trade obligations requiring financial settlement was reduced by 96%, to $25 billion. On a yearly basis, netting reduced $89 trillion in transactions to $2.7 trillion that had to be settled. The efficiency of netting continues to free up capital for our customers, lower their costs and protect the safety and soundness of the markets.

Our cost per equity trade of $.07, which includes fees for the buy and sell side of a trade, is the lowest in the world. In fact, over the past nine years, through the efficiency of our model for clearing and settlement, we've saved our customers almost $2 billion in fees.

In 2001, the clearing corporation completed its transition to a new risk-based margining system. This system will reflect more accurately the exposure of members' trading activity and the requirements for collateral to cover this exposure. In addition, our Collateral Management System is providing customers with greater access and flexibility to move their collateral, and reduce excess costs.

DTCC's depository also saw increased levels of custody and asset servicing activity. Securities held in custody were up 5% to almost 2 million equity and debt issues, and the value of these assets climbed to $23.3 trillion from $23 trillion in the prior year. The value of securities held for non-U.S. issuers has reached nearly $1.6 trillion from some 84 countries.

Underwriting distributions rose to $2.4 trillion in 2001, up from $1.7 trillion the year prior. Our processing of dividend, interest, corporate reorganizations and redemption payments reached $1.6 trillion, up from $1.4 trillion in 2000.

While the industry decided to push back the deadline for moving to T+1 until 2005, DTCC announced its intention to forge ahead on a number of initiatives that support both straight-through processing (STP) and shortened settlement. Our decision was based on the benefits we felt could be delivered to our customers during this interim period.

In addition, our work on a unified settlement system for the depository and clearing corporation culminated in a White Paper issued in January 2002, outlining an ambitious and innovative new framework for settlement in the U.S. The direction we've proposed will result in a more streamlined, safer and cheaper settlement system, that will be ready for STP and T+1, and position us for easier operation with other settlement systems around the world. From a

Jill M. Considine Chairman & CEO

customer perspective, the new model will ensure more control over the order and timing of deliveries for settlement. Feedback has been positive, and DTCC will be moving ahead on this effort in 2002.

Another significant step in 2001 was the integration of three separate clearing corporations supporting government and mortgage-backed securities and emerging market debt with DTCC. The integration, effective January 2, 2002 has already begun to yield tangible benefits, extending GSCC's real-time trade matching (RTTM) application to mortgage-backed securities in 2002 and to NSCC's fixed income products in 2004.

Omgeo, our jointly owned venture with Thomson Financial, got off to an extraordinary start, following regulatory approval in May 2001. The linking of the depository's TradeMatch system and Thomson's OASYS has provided customers with a streamlined resource for institutional trade allocations and affirmations. In eight months of operation, Omgeo exceeded its earnings targets and processed almost 200 million institutional trades, supporting nearly 6,000 customers in 40 countries. The introduction of Omgeo Central Trade Manager fulfills Omgeo's commitment to deliver increased operational effectiveness for U.S. and cross-border trading activities.

When DTCC announced partnering as part of our strategy for growth almost two years ago, some doubted our ability to seize the opportunities when they presented themselves. Now, we have few business sectors where partnering hasn't been an integral part. Even more rewarding are the growing number of organizations that approach us with ideas. It is a strategy that clearly benefits our customers, reduces costs and provides quicker-to-market solutions.

Teaming with Euroclear and Clearstream this past year, for example, has led to our European Pre-Issuance Messaging (EPIM) service that will be launched in 2002. EPIM will provide the European securities market with the same automated pre-issuance messaging on commercial paper transactions that DTCC developed for the U.S. market.

In 2001, we established a new clearing corporation, EuroCCP, to support cross-border clearing and settlement of European and U.S. securities traded in Europe. Nasdaq Europe will be the first exchange to use EuroCCP in 2002. The completion and approval of EuroCCP by U.K. regulators in a record nine-month period reflects the new sense of urgency at DTCC to make things happen.

DTCC's distribution services businesses supporting mutual funds and insurance products also saw record volumes in 2001. At the core of our mutual fund business is Fund/SERV, which handled more than 72 million mutual fund orders, account registrations or redemptions in 2001 worth $1.4 trillion. In addition, we launched Fund/*SPEED* in 2001, a Web-based technology platform that will extend the reach of our mutual fund services to a large number of independent financial planners.

Our Insurance Services business is also making exciting headway in helping to mainstream the distribution of annuities and life insurance products through centralized, standardized and automated processing. The volume in this business almost doubled this past year, to 6.3 million transactions worth $3.4 billion, for the processing of applications, premiums and payment of commissions.

Addressing the growing needs of our customers and bringing innovative technology solutions to market quickly requires a highly disciplined approach. The alliance we formed in 2001 with Accenture will bring added process management support to the highly talented technology team at DTCC. Our goal is to sustain DTCC's technical reliability, while leveraging new technologies, speeding development timeframes, increasing access, and doing so at a lower cost to our customers.

> Partnering has been a part of our strategy for growth over the past two years. It is a strategy that clearly benefits our customers, reduces costs and provides quicker-to-market solutions.

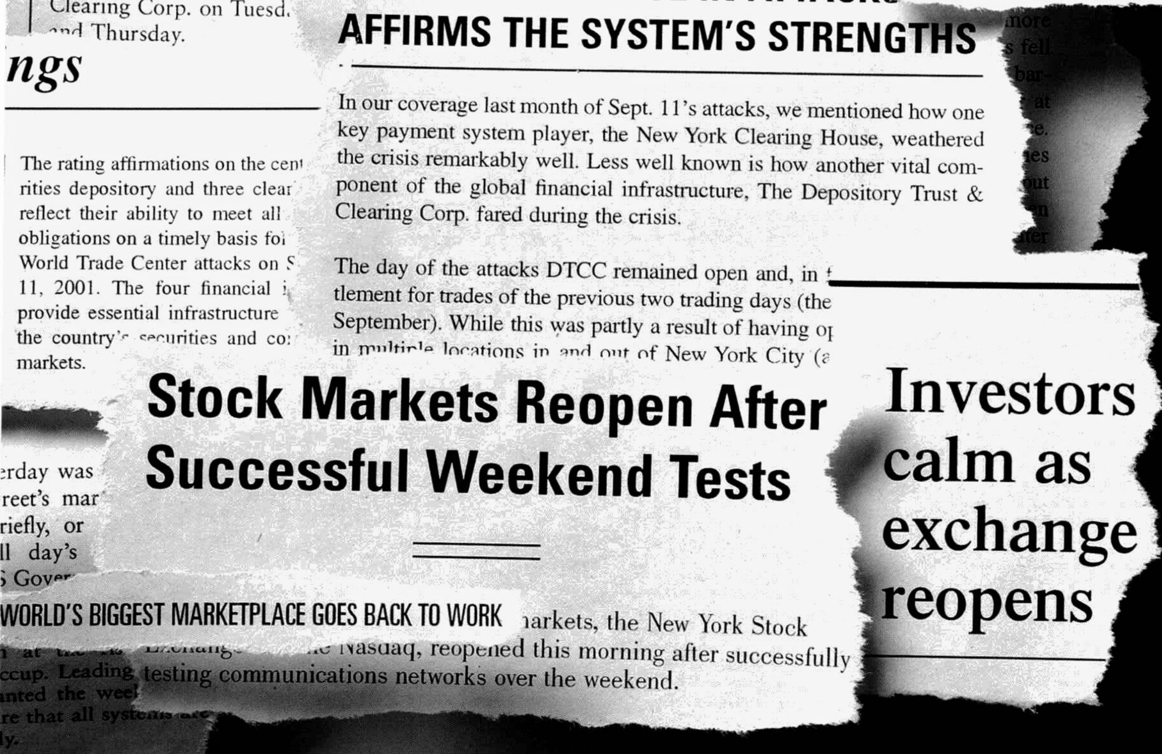
This has been a tough year for the financial services industry—and DTCC. But with the support of our Board and the dedication and commitment of our employees, we not only weathered the storm, we demonstrated an adeptness to anticipate and respond to the drivers of change influencing markets and the needs of customers.

We thank our Board for its tireless efforts and valued guidance this past year. Each member devotes a fair amount of time away from his or her own firm responsibilities to provide counsel to our management team. Their broad perspective, knowledge and insight play an important part in our success. A special note of gratitude is also extended to those retiring from the Board.

Lastly, our employees are simply incredible! There just aren't enough adjectives to reflect their sense of resolve during the crisis, their intense drive to serve customers, or the entrepreneurial spirit that is taking hold at DTCC. Our photos this year feature a sampling of the enormous talent we have at DTCC—and the people here who are determined each day to make a difference in this industry.

Jill M. Considine

Jill M. Considine
Chairman & CEO



On September 11, 2001, and in the days following the crisis, the employees of DTCC showed mettle and commitment to serving our customers' needs in a most remarkable way. Individually, together and around the clock, they worked tirelessly to keep our industry from faltering. DTCC is honored to feature many of these dedicated colleagues in the pages that follow.

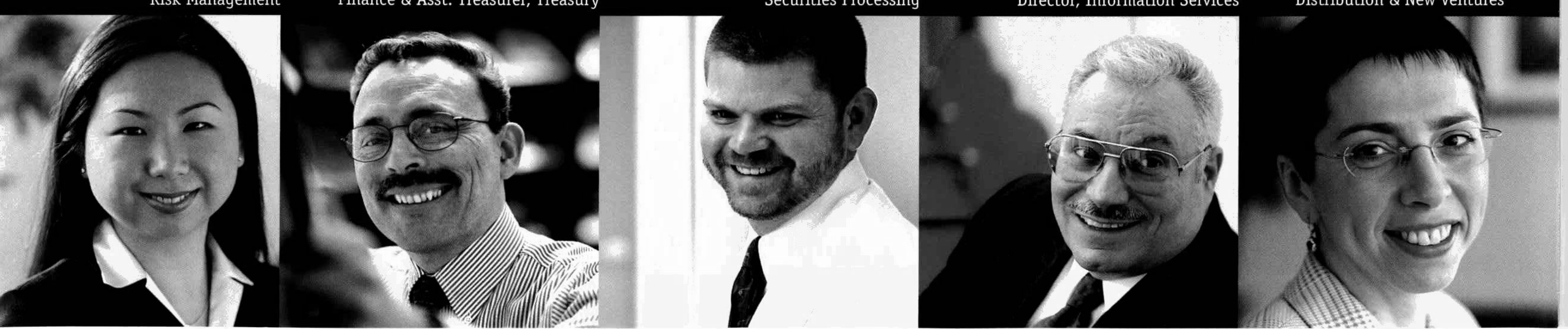
Sue Ng Senior Market Risk Analyst, Risk Management

Joseph Trentacoste VP of Finance & Asst. Treasurer, Treasury

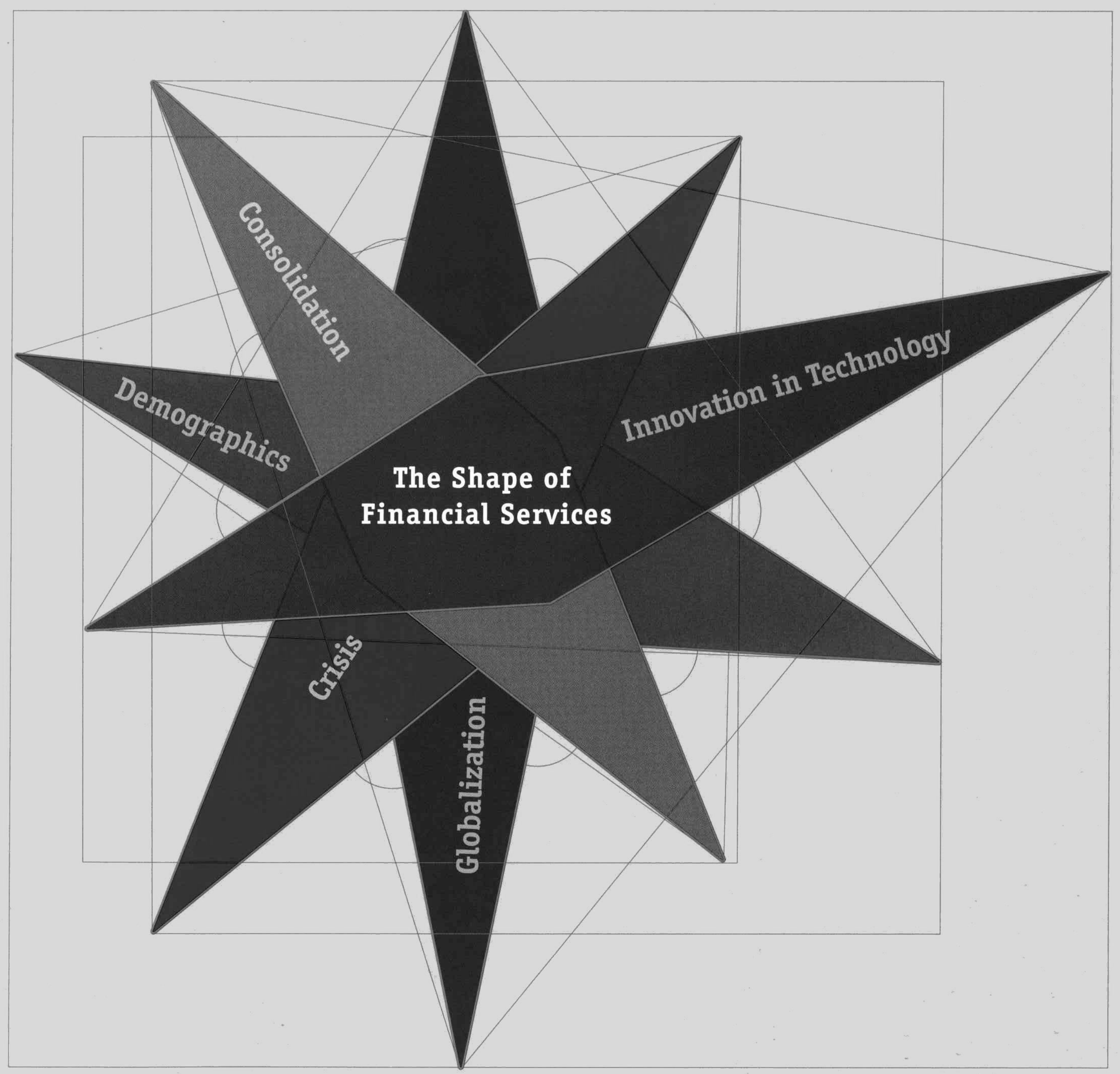
Patrick Wolf Manager, Securities Processing

Malcolm Chamalian Sr. Systems Director, Information Services

Irina Zelichenko Technical Programming Specialist, Distribution & New Ventures



Transformational Change



Creating a blueprint for change...will require looking at a range of issues and working to develop an **innovative vision** for the industry's infrastructure. DTCC efforts at raising questions and fostering dialogue through forums and white papers reflect our guiding principle to **remain focused on the needs of our customers.**

As infrastructure organizations, the **legacy of our leadership** will be judged by how the industry looks back at this period years from now and assesses whether we made a difference by building a **bridge to the future.**

Common Standards

Can we agree to a set of operating principles that simplify and standardize the way infrastructure organizations will complete post-trade processing in the future? Currently, each market has different processing models that create multiple support requirements of personnel, telecommunication standards and risk systems and drive up customer costs to operate in that market. Even without consolidation, common standards can create a lower-cost and more seamless environment for trade processing.

creating a

Best Practices

Can we agree to formulate a series of "best practice" principles that will lead to a future set of standards to ensure seamless global trade processing? If we approach this issue on an incremental basis, then we are not likely to keep pace with the transformation going on in the industry. The challenge is to reach consensus apart from the current models and methodologies of trade processing, marketplace influence, disparate regulatory schemes and regional preferences.

In most historical periods, the financial services industry has shown an adeptness to anticipate and respond to the new drivers of change influencing markets and investors.

But today we are faced with an unprecedented number of concurrent trends that are not only influencing the future, they are literally transforming what we now know as financial services. We have sailed to the end of the map, and the old rules of dealing with change no longer apply.

This transformational change requires a new vision of how infrastructure support can be provided that will minimize risk across borders, reduce costs and meet our customers' expectations for seamless trade processing globally.

To succeed, this vision must evolve from a broad perspective, pragmatic approach and common set of beliefs that transcend national and regional markets. DTCC is committed to this dialogue and focusing on issues that can create a new blueprint for change.

Demographics: An aging baby boom population worldwide in search of high returns for retirement is providing an unheralded pool of investment capital. This demanding and market-savvy group will continue to shape changes in the range of products offered, how they are serviced and the connectivity required to achieve both.

Consolidation: Customer demand for new investment products and access to markets offering higher rates of return has forced financial organizations to extend the reach and scope of their activities within and across borders. The traditional categories of bank, broker, mutual fund and insurance company have become blurred as they pursue new product manufacturers or distribution channels.

Innovation in Technology: The emergence of the Internet has changed the paradigm in financial services, as in other industries. Other innovations have provided new information tools and broadened access to market information and research. And technology has enabled the creation of cross-border linkages, expanding trading in those markets.

Globalization: Geographic borders no longer represent barriers to the flow of investment capital, as institutional and individual investors seek out the best investment opportunities. Markets will flow to where risk is best managed, price is most competitive and efficiency is greatest, including the most efficient processing, use of collateral and liquidity.

Crisis: The growing inter-relationships and inter-dependencies across financial markets create a new dynamic in preparing for the unpredictable. Certainty that markets can continue to operate and trades can be cleared and settled notwithstanding unpredictable events requires a level of cooperation and planning unparalleled in the current experience and discussions among markets and infrastructure organizations.

Handling Record Volumes

Around the world, the volume of securities traded in 2001 set records once again, and U.S. markets were no exception. Despite the slowdown in the U.S. economy, for example, average daily share volume on the New York Stock Exchange (NYSE) climbed to a record 1.2 billion shares, up 19%. On Nasdaq, daily volume in 2001 rose to 1.9 billion shares, an 8% increase. For DTCC, whose clearing subsidiary clears and settles virtually all equity, corporate and municipal bond trading in U.S. markets, these record-setting increases resulted in record processing volumes. DTCC's clearing corporation processed an average of 13.9 million transactions each day in 2001 versus 11.1 million the prior year, a jump of 25%. The total processed annually climbed to 3.5 billion transactions from 2.8 billion in 2000. The value of the transactions processed, on the other hand, dropped to $89 trillion from $105 trillion in the prior year, reflecting the downturn in the markets.

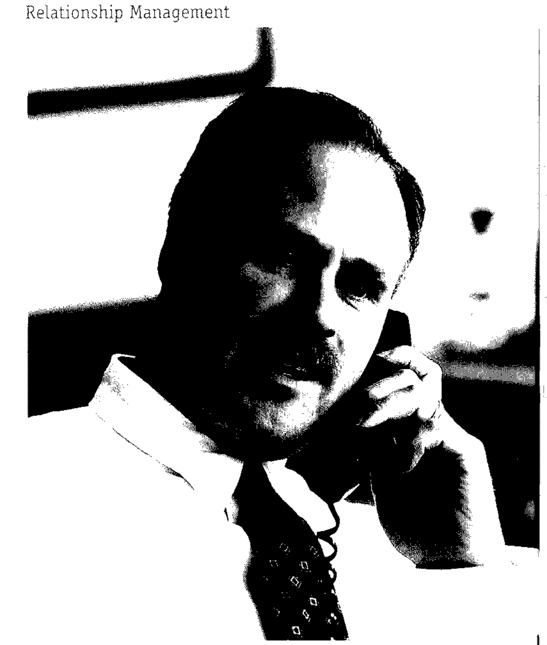
A Smooth Conversion to Trading in Decimals

One of Wall Street's longest-standing traditions—trading in fractions—went by the wayside in 2001 as the markets switched over to trading in decimals. The conversion, completed in April, went flawlessly. Most of the changes required by DTCC's subsidiaries had been made during the Y2K reprogramming effort. While there was concern that trading in decimals would accelerate a six-year trend toward smaller average equity trades, this did not happen in 2001. The size of the average equity trade increased slightly to 780 shares from 758 in 2000.

Ensuring Certainty and Increasing Capacity

In addition to routine trading days, the clearing corporation must also be equipped for occasions when trading volumes spike, such as on April 18, 2001, when the number of transactions requiring processing shot up to 19.6 million, 41% above average daily volumes. To ensure that it has more than enough flexibility to handle such spikes, the clearing corporation increased its processing capacity to 60 million transactions per day in 2001. In its role as the largest central counterparty in the world, the clearing corporation also guarantees completion of all equity trades flowing through it, generally as of midnight on the day after the trade is reported. At the same time, through netting, DTCC's clearing corporation reduces operational risk substantially by shrinking the financial obligations that need to be settled, in turn freeing up considerable capital for the financial services industry. On the peak day in 2001, for example, netting reduced the value of obligations requiring financial settlement from $587 billion to $25 billion, or 96%, which meant broker/dealer firms had to mobilize cash to pay for only 4% of the record number of trades made that day.

John Mullaly Sr. Relationship Manager, Relationship Management



blueprint for change

Interoperability

Can we agree to adopt open architecture as a standard in the design of our technology systems? The issue is that building even the most innovative technology systems market by market without a global perspective will result in redundancy and a patch quilt of systems which inhibit cross-border communication and increase the cost of trade processing. Our customers are asking us to lower their technology investment, and market forces will likely drive this issue if we do not.

Legal & Regulatory Harmony

Can we establish a clear agenda of the global, legal and regulatory changes required to further the growth of seamless global trading? To the credit of the Hague Convention, the Group of Thirty and certain enlightened leaders and regulators, some progress is being attempted. But rules applying to collateral on cross-border transactions, recognition of nominee ownership, a security's domicile, bankruptcy laws and a host of other issues pose a real impediment to the continued growth of global capital markets.

Crisis

Do we understand the dynamics of how the unknown and the unpredictable will redefine the way we plan for the future? The idea that markets around the world and the infrastructure organizations that support them are interrelated and interdependent has been well understood. The attack on the World Trade Center underscores how much the paradigm has changed. All of the other issues, e.g., common standards, interoperability, best practices, take on an added sense of urgency now. On a global basis, the disruption of any market threatens the stability of all markets. And while we may compete, we must likewise prepare for the possible contingency required if a crisis threatens the integrity of the financial system.

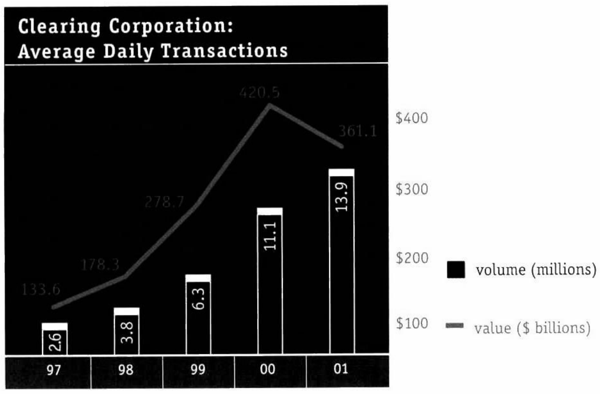
Partnering

Will we look to leverage synergies and partnering opportunities in market spaces where they may increase efficiency, minimize risk and lower cost? Our experience to date is that there are growing areas for this type of collaboration. DTCC would be the first to admit that our future success will be determined by our ability to partner with others. And from our customers' point of view, a partnered solution is likely to mean that it will be quicker to market and serve a broader geographic area.

Virtual Capabilities

Might we be envisioning moving toward a post-trade infrastructure model that offers virtual capabilities worldwide on a 24/7 basis? Instead of each market having to create and support its own capacity requirements, what if we had the ability to outsource processing to other markets in off-peak hours? In a crisis or total disruption of service in a particular market, a virtual model would certainly offer the industry an unparalleled number of contingency options.

Virtual capabilities are just one more way DTCC is trying to join with others in thinking creatively—and with a global perspective—about how we create a blueprint for change.



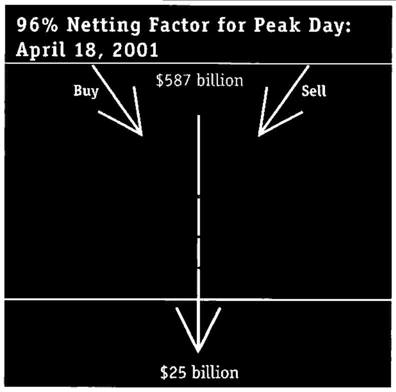
Matching Fixed Income Trades on a Real-Time Basis

In a paper issued industry-wide in 2001, DTCC announced plans to initiate real-time trade matching (RTTM) in 2004 for corporate and municipal bonds, unit investment trusts and other related financial instruments. The aim is to make use of an RTTM engine already used for government securities trades and scheduled for mortgage-backed securities in 2002. RTTM not only helps to speed up trade clearance and lock-in critical information right away, it also gives trading firms more up-to-date position and trade status information.

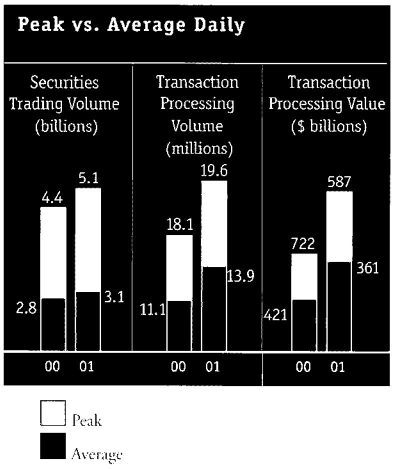
Joe Winkhart Relationship Manager, Relationship Management

Nadia Morris VP & Sr. Relationship Manager, Relationship Management

left to right
Sophia Hightower Executive Assistant, Quality Office
Debra Hawksby Sr. Legal Specialist, General Counsel Office
Vincent McDevitt Manager, Product Management



The clearing corporation reduced the value of obligations requiring settlement by 96%.



Supporting Customers During the 9/11 Crisis

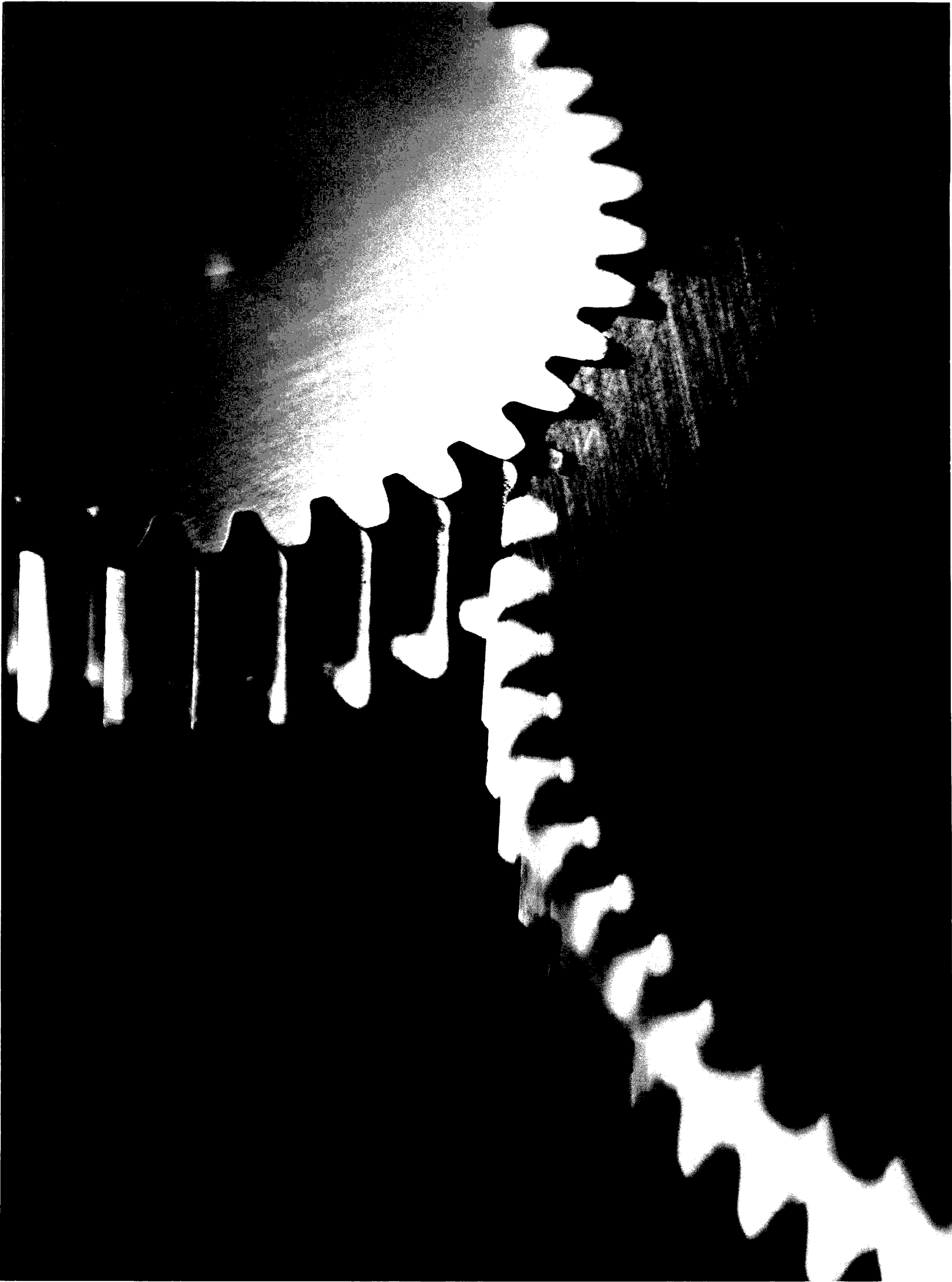
Through its decentralized locations, DTCC was able to clear and settle trades on 9/11—and did so each subsequent business day as well, thus maintaining much-needed liquidity in the nation's financial system. DTCC succeeded in sustaining 100% uptime for its critical processing systems, and DTCC communications engineers worked furiously to get participants' data connections, badly disrupted by the attack, back into operation—in some cases, even hand-delivering new modems and routers to the backup centers participants were using. Over the course of the week, DTCC's Relationship Managers fielded over 5,000 calls from broker/dealers and banks. In addition, our technical Customer Support Center handled more than 9,000 calls that week, compared to a normal monthly volume of 12,000. For 13 firms who had to abandon or lost their operating centers, DTCC provided space and technical support. In collaboration with the Federal Reserve and other agencies, the company supported the re-opening of bond market trading later in the week, and worked throughout the weekend to prepare for the re-opening of equity trading the following Monday. During the entire period, clearing and settlement took place each business day. And the industry was able to sustain its business and resume trading as soon as possible.

Creating New Risk Management Tools

By the end of 2001, nearly all clearing firms doing business with DTCC's clearing corporation had come under its new risk-based margining system. Unlike the previous system, which was based almost solely on volume, the new "value-at-risk" model identifies the specific risks posed by a customer's unsettled portfolio, including volatility and market maker domination factors. This allows the clearing corporation to gauge its exposure far more accurately and to adjust collateral requirements appropriately. To make it simpler and faster for firms to increase or decrease their collateral under the new system, DTCC is preparing to launch an Internet-based collateral management system during 2002. Not only will firms be able to review their collateral requirements daily using the system, they will also be able to move cash electronically. As a result, they will have more direct control over cash disbursements and more flexibility to make rapid adjustments when the industry moves to a shortened settlement cycle.

Pushing Ahead on STP and T+1

In the aftermath of the attacks on September 11, 2001, many companies throughout the securities industry began to scale back their preparations for implementing next-day settlement by mid-2004. Although the industry opted to push back its deadline for T+1 by a full year—moving it to mid-2005—for a number of reasons, not the least of which was expanded contingency planning, DTCC decided to stay close to the original development schedule for as many projects as possible. Introducing real-time trade capture and reporting, adopting standardized communications capabilities, and streamlining other industry settlement practices will yield a sizeable reduction in financial exposure and operational risk, while propelling the industry toward its broader goal of straight-through processing (STP)—even without moving to T+1. During 2001, for example, the clearing corporation eliminated printing of all output by moving to electronic and print image reports and saving almost $1 million dollars annually. By year-end, DTCC had largely completed the process of moving to multi-batch trade input from the NYSE, Nasdaq, ECNs and regional exchanges in preparation for conversion to real-time input from markets in 2002. The clearing corporation also initiated multi-cycle output to securities firms, which gives them more timely information for balance and control purposes and is another step toward STP and T+1. In addition, the clearing corporation's blueprint for rewriting its Continuous Net Settlement system is nearly complete. Development of the new system, which will allow the clearing corporation to accommodate shortened settlement times, will become a key focus during 2002.

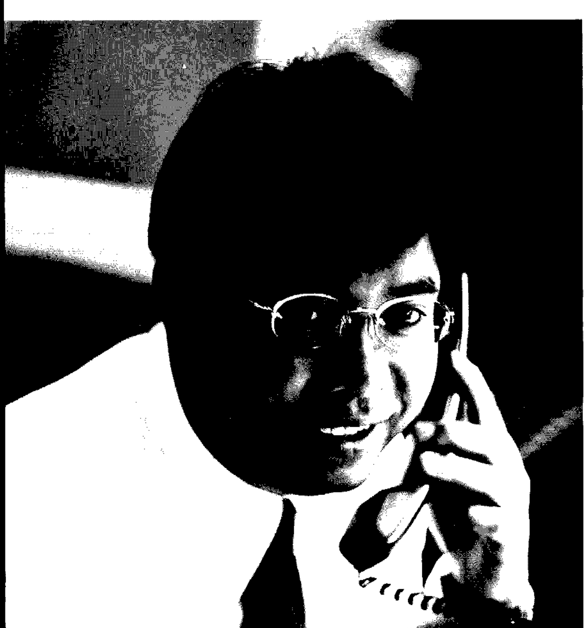


settled

The more securities markets become global and interdependent, the more DTCC's finality of settlement in the U.S. market helps to ensure safety and soundness.

Omgeo is Launched—and Customer Base Grows

The global joint venture created by DTCC and Thomson Financial, Omgeo, gained regulatory approval to begin operating on May 1, 2001 and moved swiftly to fulfill its mission. During the eight months it operated in 2001, Omgeo processed some 200 million institutional trades for a client base of nearly 6,000 companies in 40 countries. This volume represents upwards of 800,000 trades handled daily and makes Omgeo the largest service provider for this market on a global basis. In addition, its workflow solution allows customers to establish settlement arrangements in whatever markets they're executing trades. A link this past year with CREST, a U.K. clearing company, will facilitate settlement instructions in the U.K. market, in a manner similar to the link Omgeo and DTCC have established for settlement in the U.S. And, Omgeo's efforts with global industry counterparties to provide efficient trade management services are a reality for participants of the Omgeo STP Partners Program℠. The program was designed as a means to reach out to the vendor community and develop interfaces that can be offered to a shared client community.



Deo Faraon Supervisor, Same Day Funds Settlement

Leveraging Technologies to Serve Customers

Institutional trading volume has risen so high and increased so fast in recent years that the patchwork of overlapping and sometimes manual trade processing procedures the industry originally pieced together years ago is now beginning to fray. The result is that more and more trades fail to settle. Looming in the background for many countries, meanwhile, and threatening to squeeze the system even more, is the securities industry's continued effort to shorten settlement cycles (the time allotted for clearing and settling equity trades). The U.S. market has chosen to require trade settlement by T+1 beginning in June 2005. To help institutional investors in the U.S. meet this challenge, Omgeo linked two separate technology platforms in 2001—the depository's TradeMatch℠ service (now Omgeo TradeMatch℠) and Thomson Financial ESG's OASYS℠ service (now Omgeo OASYS℠) —to create a central source for allocating trades, comparing them and then affirming them for settlement (Omgeo OASYS-TradeMatch℠). Omgeo's strategy is to help its customers migrate gradually toward improved software and more effective techniques of trade processing by leveraging customers' existing systems investments rather than driving them to make large expenditures for new technology, new operations flows and the training to support them. OASYS-TradeMatch, for example, has by itself already allowed firms to increase their same-day affirmation rates from less than 15% to better than 90%.

Redefining the Future with Omgeo Central Trade Manager℠

At the heart of the company's improved post-trade processing vision is its newly developed Omgeo Central Trade Manager℠ (Omgeo CTM). Omgeo CTM, now available to customers around the world, was designed to assist trading counterparties in refining their business workflow to achieve greater levels of straight-through processing (STP), while leveraging the infrastructure investments they've made to date. Initially, Omgeo CTM is targeted at cross-border trades, many of which still carry the most cost and risk for institutional investors. An "Early Adopter" program launched by Omgeo encourages customers to get a quick start on new levels of operational efficiency, and firms using the program can lock in 2001 pricing. Omgeo CTM will standardize post-trade execution practices, preparing customers for shortened settlement in 2005, and redefine the future for global and U.S. securities trade processing.

Safeguarding the Industry on September 11

DTCC's depository subsidiary settled trades involving more than $120 trillion worth of securities in 2001—the highest volume ever—but perhaps the most critical settlement came in the days that followed the terrorist attacks. Although exchanges did not open that morning, DTCC still had a big job to do. Trades outstanding from three business days prior had to be settled, and billions of dollars worth of money market instrument transactions had to be processed. Despite the chaos that Tuesday morning, DTCC's depository was able to complete settlement by day's end of more than $280 billion in outstanding trades, including $93 billion in maturing money market instruments. On subsequent days, working out of various locations, DTCC extended its daily deadlines several times that week but managed to ensure settlement was completed each day. Meanwhile, DTCC's depository maintained critical asset servicing functions, including the distribution of billions of dollars worth of dividend and interest payments. By the end of the week, DTCC had completed settlement of nearly $1.8 trillion in outstanding transactions. Ultimately, the risk to the nation's financial system was contained and overcome. Trades, in short, were settled.

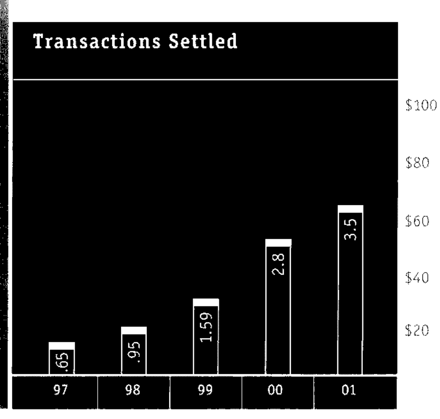
Abigail Marquina Account Coordinator, Same Day Funds Settlement

Developing a Single Settlement System

As DTCC continues its T+1 preparations, a critical step is combining the separate settlement systems currently used by the depository and the clearing corporation. Efforts in 2001 to plan this unified process culminated in a White Paper issued early in 2002, proposing a new vision and model for settlement in the U.S. The paper proposes an approach that would give customers more centralized control over their securities transaction processing earlier in the settlement cycle, including the order and timing of their deliveries. In addition, the new model would facilitate the integration of the U.S. settlement system with other systems around the world.

The new model would include an Inventory Management System (IMS), which DTCC would build and operate, to serve as a single point of entry for all trade-related input into the settlement system from customers, matching utilities, vendors and other sources including trade-related input from the clearing corporation's Continuous Net Settlement (CNS) system. Another component of the model is a proposal to enhance overall management of settlement in two important ways. First, it would apply "look-ahead" processing to reduce transaction backups, which means that risk management controls would be applied to the net of offsetting receive and deliver transactions (primarily money market instruments) in each security instead of evaluating them individually. Second, combining DTC's and NSCC's settlement systems would eliminate the costs of supporting redundant systems, lower intra-day funding by customers and settling banks, facilitate earlier settlement and reduce risk for DTCC.

Industry reaction to the White Paper has been very positive. While DTCC will continue to solicit comment as it develops each phase of the new settlement system, moving ahead on this model will be a high priority in 2002.



Setting Volume Records in Custody and Asset Servicing

Buoyed by record issuance of bonds in U.S. markets and a concurrent retirement of older debt, DTCC's depository had the busiest asset servicing year ever during 2001. Total asset servicing volume in 2001 soared to a record $4 trillion from $3.1 trillion the previous year, an increase of 29%. The volume and value of securities the depository holds in custody also set records. At year-end 2001, the depository held some 2 million equity and debt issues in custody, up 5% from the prior year, and the value of those securities had increased to $23.3 trillion from $23 trillion. Nearly $1.5 trillion of the securities the depository holds in custody are securities of non-U.S. issuers.

Underwriting: the $10 Billion-Per-Day Business

Driven by a record volume of securities underwriting in 2001, both in the U.S. and globally, total underwriting distributions handled by the depository jumped 42% to $2.4 trillion from $1.7 trillion in 2000. In a year when the Federal Reserve reduced interest rates 11 times, many companies sought to refinance short-term loans and commercial paper with longer-term debt in order to lock in the low interest rates. Municipalities and counties across the U.S. also raced to retire older debt and replace it with new issues at lower interest rates. The depository distributed a record 18,287 municipal bond underwritings, 16% more than the 15,742 distributed in 2000. And on December 20, 2001, distribution of new municipal bond issues set a single-day record of 377. Distribution of collateralized mortgage obligations (CMOs) also shot up dramatically, more than doubling to 980 from 462 in 2000. Overall, the depository handled 34,976 underwriting distributions during 2001 at an average value of nearly $10 billion every business day.

Lori-Ann Trezza Group Director, Dividends

Corporate Actions: Bond Redemption Rates Spike

Mirroring the record support of securities underwriting in 2001 was the high rate of redemption of older securities, many of them bonds pegged to higher interest rates. The depository handled 225,869 redemption calls in 2001, an increase of 13% over the previous year. The value of these redeemed securities, which included a large number of CMOs, rose to $582 billion from $464 billion the year before. Meanwhile, a slower pace of corporate merger and acquisition activity in 2001 reduced the value of cash reorganization payments to $131 billion from $203 billion the previous year, while the volume of corporate actions the depository handled dropped to about 10,000 from 11,600 in 2000. Still, for the year as a whole, the combined value of redemption and corporate actions payments the depository processed rose to a record $713 billion, up 7% over last year's $667 billion.

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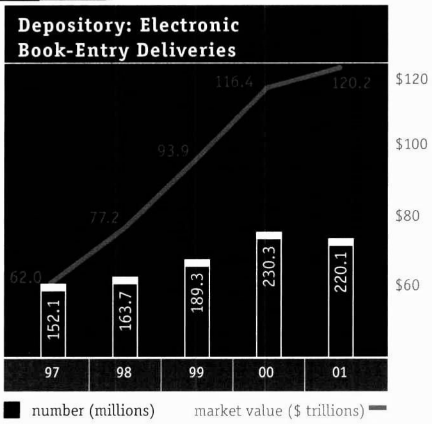
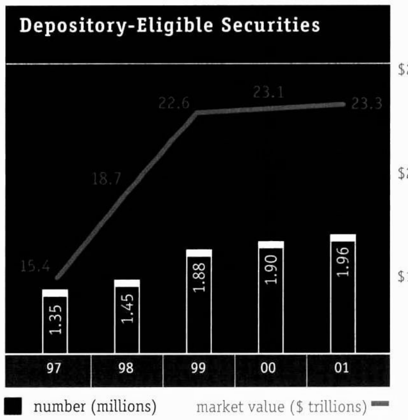
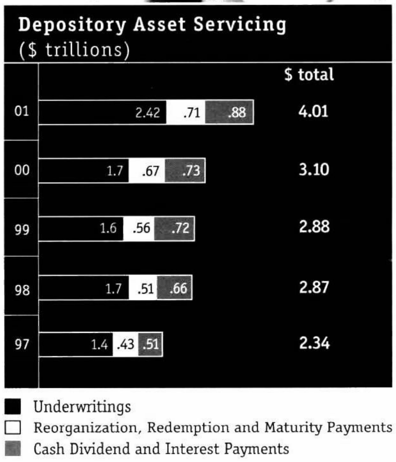
Tara Wernert Manager, Securities Processing Administration
Kirk Matthews Supervisor, Vault Operations

Helen Cunningham Director, Corporate Communications





left to right
Regenia Norman-Wheathersby Asst. Supervisor, Dividends
Thomas Cavagnetto Supervisor, Muni Redemption



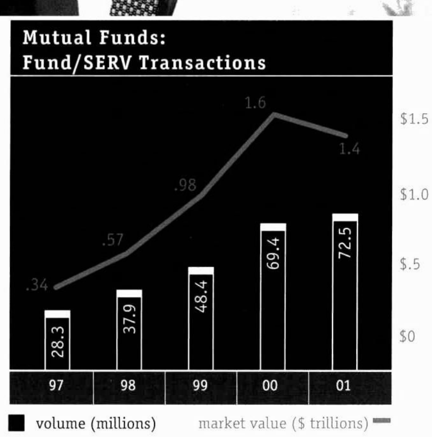
Dividends and Interest: Payment in Multiple Currencies

The value of dividend and interest income payments the depository processed in 2001 rose 21% to $880 billion from $730 billion the previous year. The total number of dividend and interest distributions the depository administered also rose once again, climbing 2% to a record 3.1 million payments from the 3.0 million administered in 2000. As a result, the depository's asset servicing business, which deals with as many as 4,000 separate paying agents around the world and can arrange for interest payment in multiple currencies, handled an average of 12,235 payments each business day in 2001.

Rising Transaction Volumes and Declining Costs

Despite the economic downturn in 2001, U.S. mutual fund transaction volumes continued to rise as investors shifted assets from equity funds into higher-yielding bond and money market funds. While total mutual fund assets grew marginally during the year to almost $7 trillion by year-end, high volumes and DTCC's successful efforts to continue to build its customer base produced economies of scale so favorable that DTCC was able to lower its fees for its primary Mutual Fund Service by 30%, one of the largest reductions in its history.

James Kiernan Group Director, Mutual Funds



Fund/SERV: Setting the Standard for Mutual Fund Processing

Fund/SERV remains the industry standard in the U.S. for linking fund families with broker/dealers, banks and other financial intermediaries who market and distribute funds. This connectivity has facilitated growth in mutual fund sales by providing cost-effective processing of mutual fund purchases, account registrations and redemption orders, as well as settlement. In 2001, more than 72 million transactions were handled by Fund/SERV, up 4 percent from the prior year, and the value of these transactions was $1.4 trillion. While average daily volume rose 6% to 292,000 transactions, daily settlement dropped 10% to $5.7 billion, reflecting declining stock indexes. In 2001, Fund/SERV began to support the trading of additional investment products such as Guaranteed Investment Contracts, Stable Value Funds and Section 529 Qualified State Tuition Plans. Alternative investment products now make up 25% of assets in many retirement plans, and the industry is eager to see the trading of these products handled with the same efficiency that Fund/SERV has brought to traditional mutual funds.

Fund/*SPEED:* Providing Web-Based Access to Account Information

To help fund companies cut high data distribution and inquiry costs while speeding up the delivery of key customer information, DTCC's Mutual Fund Services introduced a new Web-based technology platform in 2001 called Fund/*SPEED*. More than 50 fund families are using the new service as a low-cost way—via the Internet—to put critical information directly and immediately at the fingertips of their distributors and the country's growing ranks of independent financial planners. Distributors can now use the Web to check everything, including a customer's history of purchases and redemptions, as well as money transfer instructions. In 2002, Fund/*SPEED* will also provide a simple, direct way to establish new accounts and place purchase, redemption and exchange orders.

settled

DTCC links manufacturers of financial products to their distribution networks worldwide, extending their range of services, increasing their efficiency and helping them complete their payment obligations.