1981 • 1982 • 1983 • 1984 • 1985 • 1986 • 1987 • 1988 • 1989

1982

- DTC distributes first paperless Book-Entry-Only (BEO) municipal bond issues and certificates of deposit — another step toward eliminating paperwork in securities processing.
- DTC and NSCC complete absorption of Boston Stock Exchange's clearance and settlement operations.

1983

- NSCC achieves record low cost of 35 cents per side to clear a trade.

1984

- Automated comparison for municipal bond trades begins — and more than 1,000 participants join the NSCC system as a result of clearing mandate by the Municipal Securities Rulemaking Board.
- Link established with the Canadian Depository for Securities to create the first cross-border clearance and settlement mechanism.

1985

- 1,500 accounts are transferred daily as Automated Customer Account Transfer Service (ACATS) begins operation; 100 firms participating at year-end.

1986

- An NSCC affiliate, Government Securities Clearing Corporation (GSCC), is formed to bring automated trade comparison and netting to settlement of U.S. Government Securities.
- NSCC launches Fund/SERV, its groundbreaking mutual fund order processing system linking broker/dealers to mutual fund families. Fund/SERV begins with 23 broker/dealers and 13 funds as participants.

1987

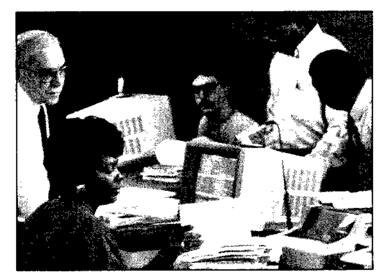
- DTC inaugurates Same-Day Funds Settlement system, making securities that settle in Federal funds depository-eligible.
- DTC and NSCC absorb Pacific Stock Exchange clearing and depository operations.

1988

- NSCC unveils Networking, a service to permit the exchange and updating of mutual fund customer account information between funds and brokers.
- DTC initiates Institutional Delivery (ID) system pilot program for clearing and settling cross-border trades.

1989

- NSCC moves its guarantee of trades from T+4 to T+1.
- GSCC brings stability to government securities market by introducing its central counterparty trade settlement guarantee and netting system, which provides net positions with guaranteed settlement for all U.S. Treasury securities.



For three decades, DTCC has been unwavering in its commitment to bring greater efficiency, heightened risk management, reduced costs and streamlined settlement to every sector of the financial services industry.

We've built a network that links virtually all trading parties and their distributors. This unique connectivity positions DTCC to offer a growing range of new and enhanced services that help customers grow revenue and trim costs by outsourcing and streamlining processing.

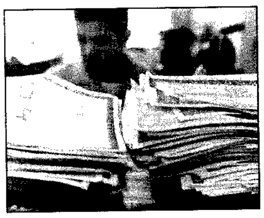
As financial markets expand and evolve, DTCC will remain a source of certainty — continuing to deliver the reliability, quality and innovation the industry has come to expect from us.

30 Years of Delivering Automation, Innovation and Dependability

1973

• The Depository Trust Company (DTC) is created in response to Wall Street's "paperwork crisis," brought on by a sharp increase in securities trading and the growing number of trades that fail to settle.

• DTC begins streamlining Wall Street's clerical workload by immobilizing and holding securities certificates in custody, and introduces its Institutional Delivery, or ID, system to automate communications among the three principal parties for institutional trades: broker/dealers, investment managers and custodian banks.



1975

• American Depositary Receipts (ADRs), which represent foreign securities, become DTC-eligible.

1980

• NSCC begins processing municipal bond trades.

1973 • 1974 • 1975 • 1976 • 1977 • 1978 • 1979 • 1980

1974

• Participant Terminal System (PTS) is introduced, enabling customers to communicate directly with DTC's computer system.

• The Continuous Net Settlement system is launched to clear and settle trades and reduce the number of trade obligations requiring financial settlement.

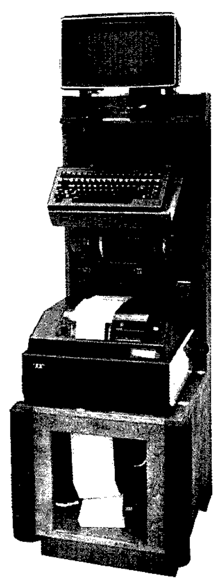
1976

• National Securities Clearing Corporation (NSCC) is incorporated to consolidate, in tandem with DTC, the clearance and settlement of listed and OTC securities transactions.

1977

• NSCC begins work to take over clearance and settlement operations of NYSE, AMEX and NASD.

• In NSCC's first year of operation, the cost of clearing a trade was 82 cents per side.



1979

• Mortgage-Backed Securities Clearing Corporation (MBSCC) is formed and begins clearing trades in the growing market for Ginnie Mae securities.

• DTC implements its computer-to-computer facility, further automating services by linking the depository's computers directly to those of its customers, thus enabling them to transmit and receive daily processing information electronically.

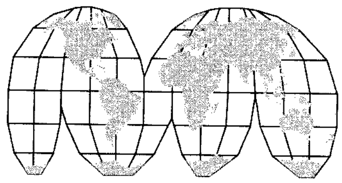
1998

• DTC launches TradeSuite, a family of post-trade processing services for institutional trades.

• Emerging Markets Clearing Corporation (EMCC) is created by NSCC to facilitate trading in sovereign debt instruments.

• GSCC introduces General Collateral Finance (GCF) Repo service, allowing dealers to trade these repos without requiring intraday, trade-for-trade settlement on a delivery-versus-payment basis.

• NSCC introduces use of digital certificates through PCWeb Direct, its new Web-based application that allows low-volume transaction submission to NSCC via the Internet.



1999

• DTC and NSCC are integrated under a new holding company, The Depository Trust & Clearing Corporation (DTCC), to create a unified strategy that meets future industry needs for efficiency, lower cost and enhanced risk management.

• NSCC revs up the insurance industry by automating annuity application processing, premium payment and financial reporting.

DTCC®

2002

• DTCC implements new strategies to safeguard nation's post-trade processing system with broad business continuity and disaster recovery plans, including expanding the number of decentralized and remote data facilities and enhanced telecommunications systems.

• MBSCC launches real-time trade matching to reduce industry cost and risk.

• GSCC, MBSCC and EMCC are all consolidated under the DTCC holding company umbrella.

• NSCC achieves a record low cost of 4.7 cents per side to clear a trade.

• Omgeo launches the financial services industry's first cross-border central matching service, bringing straight-through processing to institutional securities transactions.

2003

• GSCC and MBSCC merge to become the Fixed Income Clearing Corporation, DTCC's newest clearing corporation to capitalize on synergies for the fixed income market.

• Insurance Services launches a new product line and marketing approach geared to fundamentally reengineering the sale and processing of life insurance policies and annuities.

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2000

• Years of DTCC's Y2K preparations pay off as customers smoothly transition post-trade processing operations to 2000.

• GSCC introduces real-time trade matching (RTTM), significantly reducing intra-day market and operational risk in government securities markets, aimed at ultimately providing STP.

• GSCC inaugurates the first cross-margining arrangement for cash markets, linking them to futures markets for U.S. Treasury securities through an agreement with the New York Clearing Corporation.

2001

• On 9/11, DTCC depository and clearing corporation systems help to maintain vital liquidity and restore confidence in financial markets by remaining up and functional 100% of the time. They settle $280 billion in trades that day, complete settlement of $1.8 trillion by the end of the week and pave the way for the reopening of the markets on September 17.

• DTCC combines its TradeSuite business with Thomson Financial to create Omgeo, a global joint venture with 6,000 customers worldwide and the technology to handle institutional trades on an STP basis.

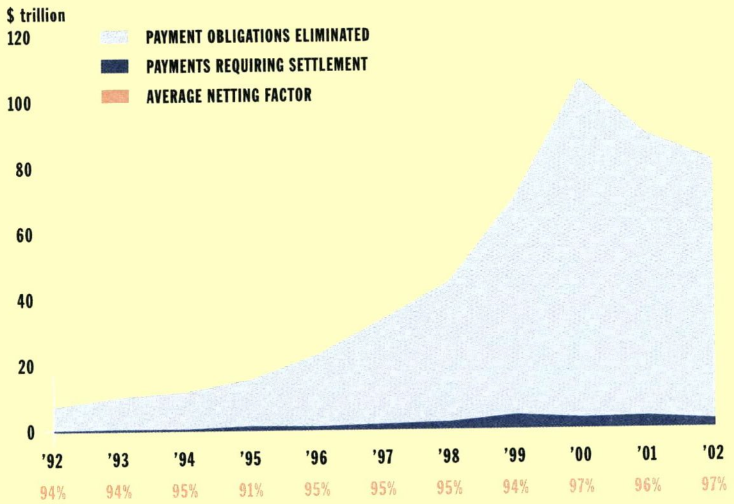
• DTC and NSCC are awarded S&P's top credit/debt rating (AAA/A-1+).

• DTC Asset Servicing, fed by record underwriting volume, logs its busiest year ever, handling $4 trillion worth of business.

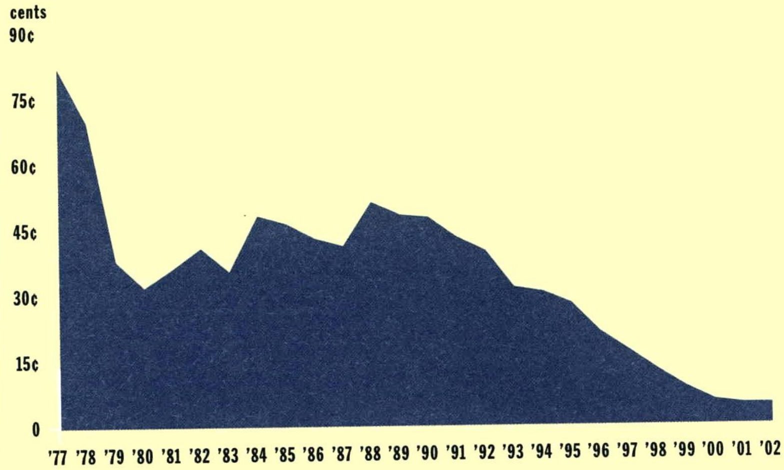
• DTCC completes final testing and assists the securities industry in its historic switchover to decimal pricing in April.

• DTCC launches European Pre-Issuance Messaging Service (EPIM) in conjunction with Euroclear and Clearstream.

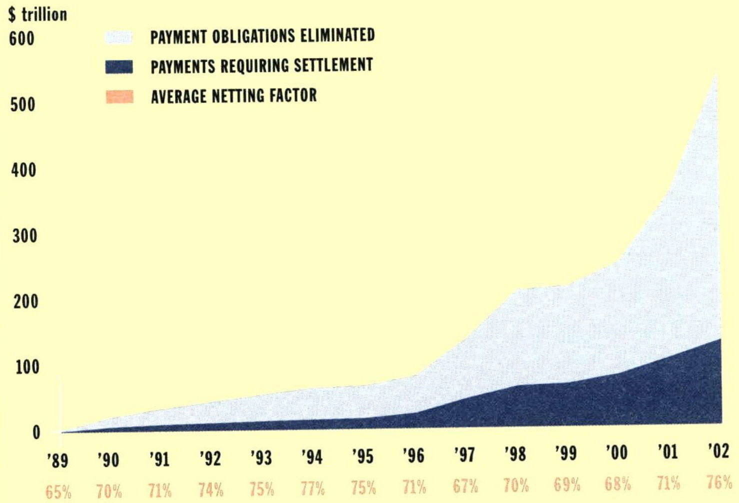
How DTCC Delivers Value



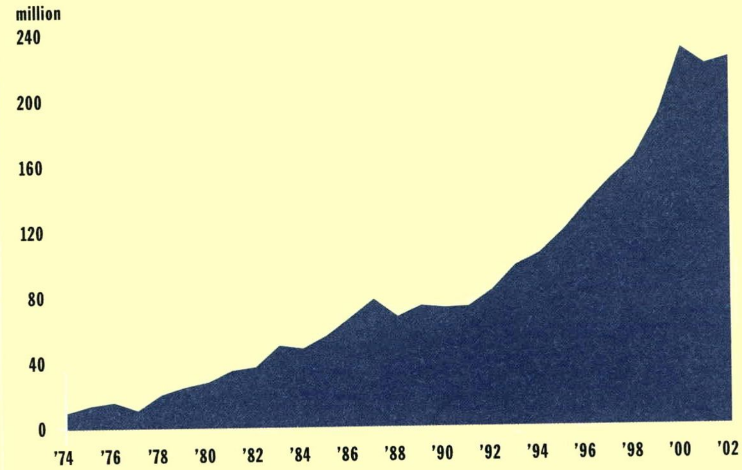
NSCC HELPS CUSTOMERS OPTIMIZE CAPITAL: NSCC's netting system dramatically reduces the industry's need for capital. In 10 years, NSCC has eliminated $472.4 trillion, or 96% of trade obligations requiring financial settlement.



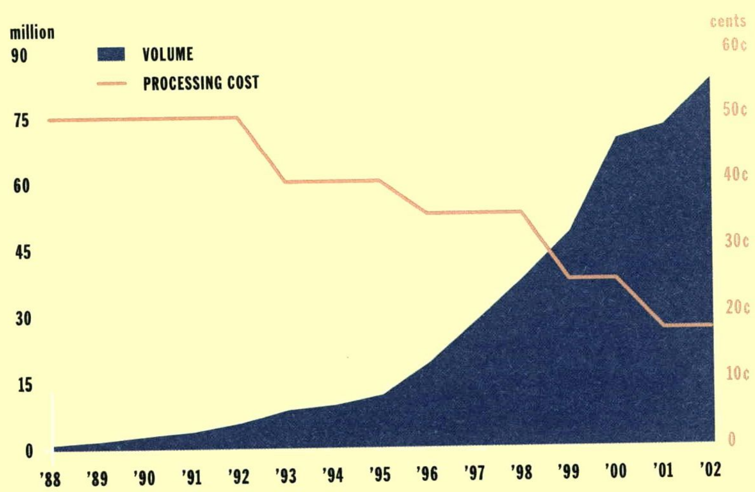
NSCC CONTINUES TO SHRINK PROCESSING COSTS: Aside from ensuring certainty and capacity to support market volume growth, NSCC has reduced average transaction costs per side from 82 cents in 1977, to 43 cents in 1986, and to just 4.7 cents in 2002.



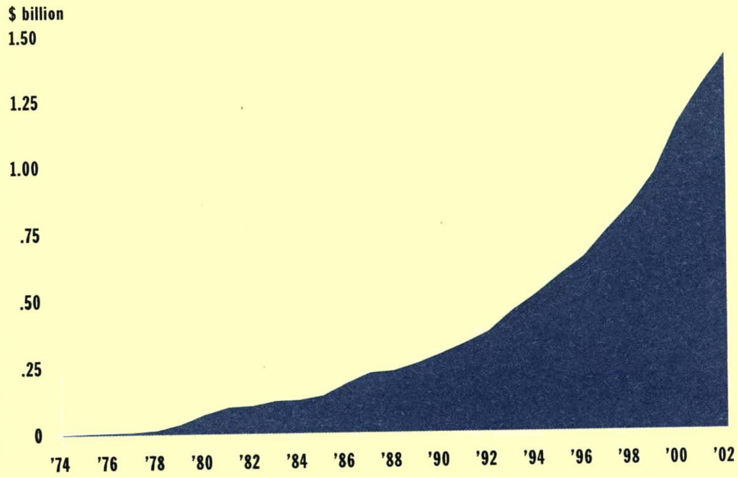
GSCC REDUCES RISK IN WORLD'S LARGEST, MOST LIQUID MARKET: The value of netting in lowering risk and capital needs for the U.S. government securities market has increased in tandem with the record dollar value of trading. Since 1989, GSCC has eliminated $1.4 quadrillion, or 74% of trade obligations requiring financial settlement.



DTC'S BOOK-ENTRY DELIVERIES SPEED SETTLEMENT: DTC has continued to move securities to an automated book-entry environment, thereby facilitating settlement, reducing costs and minimizing risk to the industry.



NSCC SUPPORTS MUTUAL FUND INDUSTRY GROWTH: Fund/SERV has facilitated the growth of mutual fund orders by centrally linking distributors with funds. Transactions processed through Fund/SERV continue to grow, while the cost per transaction declined to 17.5 cents.



DTCC HAS SAVED ITS CUSTOMERS BILLIONS OF DOLLARS: More than $1.4 billion over the past 30 years has been given back to customers by DTCC's subsidiaries in discounts and rebates. Untold billions more have been saved when factoring in the cumulative effect of fee reductions and technology savings to firms that continue to outsource processing to DTCC.

Note: Some data in some charts are statistical extrapolations made necessary by changes in data collection methodologies over the years.

1990

• DTC begins settling transactions in the fast-growing market for commercial paper.

• DTC takes on custody of privately placed foreign securities eligible for resale to large U.S. institutional buyers (SEC Rule 144A).

• NSCC offers multi-batch processing for equity trade submission, the first move toward interactive systems.

• ID and CNS systems link for prime broker activity; $18 billion worth of trades handled first year.

1992

• Commission Settlement is introduced to automate commission payments between mutual funds and their distributors.

1995

• NSCC and DTC lead successful partnership with the industry to shorten the settlement cycle from T+5 to T+3.

• With the sudden insolvency of Adler Coleman Clearing Corporation, NSCC takes quick action to guarantee $1.6 billion in gross buy/sell contracts received after Adler's demise, and works closely with the Securities Investor Protection Corporation to minimize the impact of insolvency on members.

• GSCC extends its service to the comparison and netting of repurchase (repo) transactions, giving its customers better risk management and balance sheet control, and reduced costs.

• DTC and NSCC absorb the Chicago Stock Exchange clearing and depository operations.

1997

• DTC and NSCC absorb the clearing and depository operations of the Philadelphia Stock Exchange, the last regional exchange with clearing and depository operations.

• NSCC launches Defined Contribution Clearance and Settlement Service linking mutual funds with sponsors of 401(k), 403(b) and other defined contribution plan transactions.

• NSCC's Insurance Services business begins automating the processing of annuities via new electronic links between insurance carriers, broker/dealers, banks and their affiliated insurance agencies.

1990 • 1991 • 1992 • 1993 • 1994 • 1995 • 1996 • 1997

1993

• GSCC records its first $1 trillion netting day, demonstrating the capacity and reliability of its systems.

• Fixed Income Transaction System is introduced to automate the clearance and settlement of transactions in municipal and corporate bonds and UITs.

• NSCC launches New York Window, a platform of services that reduces high fixed costs of physical processing and furthers industry efforts to immobilize ineligible securities.

1994

• NSCC introduces Collateral Management System (CMS) to give firms a clearer picture of their collateral deposits across all clearing agencies and depositories.

• GSCC begins processing about 85% of all new U.S. Treasury debt issues by including members' proprietary auction purchases within its netting system.

• MBS Clearing Corporation is acquired by its participants from the Chicago Stock Exchange and operations are moved to NSCC offices in New York.

1996

• NSCC and DTC convert systems and expand settling bank network to help industry move to Same-Day Funds Settlement.

• GSCC inter-dealer broker netting members become eligible to participate in the repo netting process, allowing the market to grow rapidly because trades can now be blind-brokered.

• MBSCC rolls out its real-time Electronic Pool Notification (EPN) system for mortgage-backed trades.

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participants — dealers, matching utilities, electronic trading systems, institutions, FICC and potentially other service providers. FICC is soliciting feedback from the industry on models proposed in the white paper and will begin development of solutions as appropriate.

Central Counterparty for Mortgage-Backed Securities

In contrast to the services DTCC provides for other markets, the Mortgage-Backed Securities Division historically has not operated as a central counterparty (CCP). Now, however, we are proposing ways to deal with the complex issues involved in offering CCP services for mortgage-backed securities.

Early in 2003, FICC distributed a white paper to promote industry dialogue on this issue. The document particularly focuses on how a unified CCP processing structure for fixed income securities generally would streamline mortgage-backed customers' interactions with FICC, broaden the services provided by the clearing corporation, and reduce collateral requirements. FICC intends to form two subgroups made up of industry participants to advise us on the operations and risk management issues involved in the CCP initiative. ❖

EPN Upgrade Halves Time Needed for Messaging

FICC's major upgrade of the Electronic Pool Notification (EPN)

system for mortgage-backed securities has significantly boosted EPN's capacity to handle record growth in the mortgage-backed securities market, and has also reduced message transaction time for such securities almost 50% on average. This is an important gain, particularly since EPN volume is growing.

Introduced in 1996, EPN has become the industry standard for pool notification for mortgage trades. It is a real-time electronic communications network through which buyers and sellers transmit mortgage-backed transaction pool information more quickly, efficiently and reliably than previously possible. Today, the service has 121 members.

The EPN upgrade also helps to accommodate the cyclical nature of the mortgage-backed securities market — which has four settlement dates per month, resulting in "spikes," or concentrations, in settlement. ❖

> RTTM will maximize the volume of trades that match on trade date — and help FICC meet its goal of safe and efficient settlement, reducing intra-day market and operational risk.

Post-9/11 Contingency Planning Safeguards Fixed Income Markets

In the aftermath of 9/11, GSCC and MBSCC never shut down.

Working around the clock for weeks, our people helped members restore connectivity and ensured the smooth functioning of our core services. Despite the uninterrupted performance, along with the rest of the financial services industry, we realized the time had come for new strategies to safeguard the nation's post-trade processing systems in the event of a crisis.

Working closely with our customers and regulatory and other governmental entities, FICC has made considerable progress on enhanced disaster recovery and business continuity plans. While security reasons preclude disclosing details, this effort has been closely coordinated with DTCC's corporate-wide plans to establish additional remote data center capabilities, further decentralize staff and enhance our telecommunications networks. ❖

Mutual Fund Services

Fund/SERV® Handles Record Transaction Flow, Networking Activity Also Up in 2002

DTCC's Mutual Fund Services, in 2002, continued to bring high-volume capacity, increased efficiencies and greater risk management tools to the fund families and firms that rely on our automated trade processing and information services.

Fund/SERV and Networking, DTCC's two vanguard Mutual Fund Services, delivered record-breaking efficiencies to the industry last year.

Launched in 1986, Fund/SERV provides standardized formats for, and centralized processing of, mutual fund purchases, redemptions, exchange orders and account registrations. During 2002, volume rose to 83 million transactions, up 14% over the previous year, while the value of these transactions rose 14% to $1.6 trillion. Processing costs remained at the same low level of 17.5 cents per transaction. Fund/SERV was substantially enhanced last year to support the introduction of new products being produced by the fund community.

Networking automates and centralizes the exchange of customer account information between fund companies and their distributors. In 2002, in spite of a shift by some firms to omnibus reporting, Networking experienced a 2% rise in the number of sub-accounts handled. Companies participating in the service also increased, to 874 from 826, demonstrating the service's strong benefits to the industry, particularly in its ability to reduce reporting errors, consolidate statement data and increase the accuracy of compliance reporting.

Another service, Commission Settlement, offering funds a highly efficient automated method of reporting fund commission information to their distributors, saw yearly volume clear the 777 million mark, compared to 594 million in 2001. Participants using the service rose to 476 from 433 the previous year. Our Defined Contribution Clearance & Settlement (DCC&S) service, designed specifically for the defined contribution marketplace, experienced significant growth by users within the bank and trust markets. From 2001 to 2002, volume increased to 18 million trades from 10 million, an unprecedented 81%. ❖

Offshore Activity Gains Strength

In 2002, $25.1 billion in offshore fund assets were traded through our Fund/SERV platform, up from $18.6 billion the prior year. Of that $25.1 billion, $19.4 billion came from the European fund hubs of Luxembourg and Dublin. Anticipating such a spike in volume, DTCC in 2002 stepped up its global activities to create more avenues through which our offshore fund customers can fulfill their growing trade processing and reporting requirements.

By November, DTCC had modified a number of Fund/SERV functions to make them easier to use in processing cross-border

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transactions. These included establishing future trade dates, holidays, multicurrency trading and external settlement. As a result, funds can now add, change or delete their own currency and country holiday lists, and Fund/SERV will accept and confirm fund trades of European security types in euros, with settlement outside of NSCC.

Meanwhile, we began consultations with an Offshore Working Group, a gathering of offshore fund managers from several Investment Company Institute committees, to identify some of the more pressing and burdensome manual processes that routinely slow down business and to help us craft appropriate solutions. ❖

Providing Thought Leadership

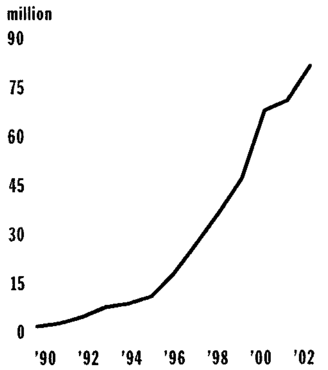
A major study sponsored by DTCC and concentrating on the issues of

connectivity, operational costs and risks among European investment funds spurred widespread media coverage and infused the industry with a sense of urgency.

Bridging the Funds Divide, authored by PROMETHEE, an independent think tank, and funded by DTCC, offered the first comprehensive look at the most important issues affecting the growth of investment funds in Europe.

The study found investor choice limited to only a fraction of the best-performing funds; an overwhelming dependence on manual processing, costing the industry between 5 to 10 billion euros a year to correct errors and manage risk; and a fragmented infrastructure preventing European fund companies from achieving economies of scale. ❖

Facilitating growth in mutual fund sales: With half of all U.S. households now owning mutual funds, the number of fund transactions supported through Fund/SERV has soared.



The total number of Fund/SERV transactions processed annually since 1990.

Supporting the Flourishing 529 Plan Business

Investors put $11.5 billion into new 529 Plans

in 2002, taking advantage of tax deferments to save for future college costs and deepening the pool of such investments to $20 billion.

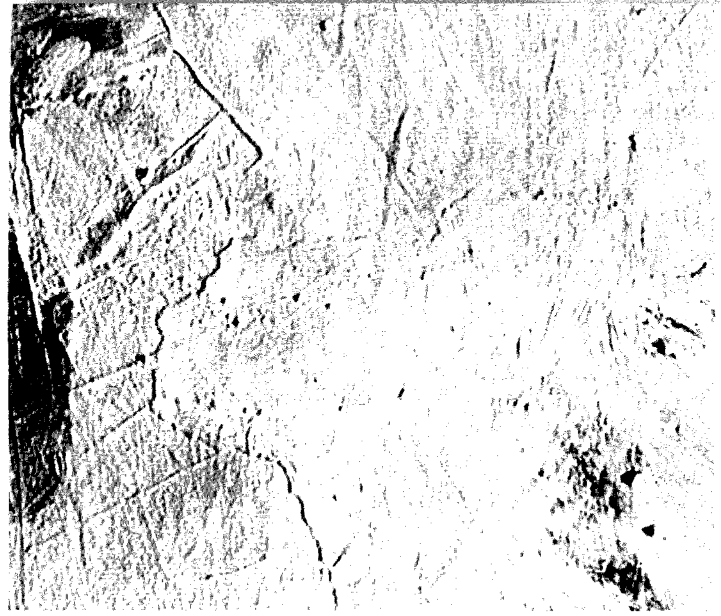
The sheer number of checks and applications being processed manually, the lack of industry standardization and the complications involved in processing the flood of applications all pointed to a potential processing crisis. Eager to ward off this possibility, industry representatives turned to DTCC for help in developing a streamlined processing solution.

Leveraging the technological strength and flexibility of its Mutual Fund Services, DTCC completed a needs analysis that identified near-term and future requirements. As a result, the organization made several immediate modifications to Fund/SERV to accommodate this high-profile new investment. Among the first changes was adding new codes to identify a security as a 529 Plan and to qualify the beneficial owner. We also worked to redesign the registration form and, in March 2003, introduced a new form, which is expected to eliminate much of the paperwork involved in opening a 529 Plan account. Meanwhile, we have begun developing a broader strategy for 2003 to extend automation and standardization to encompass additional processing points within a 529 Plan transaction. ❖

Fund/*SPEED* Extends Automation to IBDs

Powered by the Internet, DTCC's Fund/*SPEED*

service is revolutionizing the exchange of information between mutual funds and their trading partners. The service represents the first standardized electronic system that extends the benefits of real-time, automated technology to financial representatives and



planners who otherwise would have no access to NSCC's systems and services.

For mutual funds, Fund/*SPEED* provides an effortless way to expand distribution channels to thousands of reps and planners, particularly those affiliated with independent broker/dealers (IBDs). For the reps and planners themselves, Fund/*SPEED* makes it possible to transmit fund purchase, exchange and redemption orders electronically through a real-time Web-based interface, with money settlement completed outside NSCC's settlement system.

The Fund/*SPEED* platform also provides financial representatives access to valuable information about a client's account from across multiple fund companies. This includes a client's financial history, account positions, the number of shares and their market value, pending transactions and contingent deferred sales charge calculations. ❖

Breaking New Ground For Separately Managed Accounts

DTCC launched a new initiative in 2002 focused on the separately

managed account community. Over the last four years, assets in these accounts have grown 33% to $399 billion, and more significant expansion is projected for the years ahead. Working with industry members of the Money Management Institute, DTCC in 2002 set about to identify the processing tasks required for such funds. We then developed a prototype for an automated communications conduit for data and message flows from trading and reporting partners. This prototype, which will migrate to the pilot testing stage in the second quarter of 2003, pending SEC approval, will bring automation and standardization to this increasingly important financial service by eliminating the need for multiple communications links between sponsors and their investment manager partners — and by incorporating the first-ever standards developed for and by the industry. ❖

Expanded Mutual Fund Profile Service Meets More Customer Needs

The mutual fund industry relies on the swift delivery

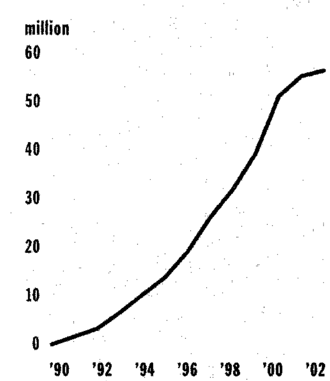
of a vast amount of non-trade-related information. This includes information on daily prices and rates, members, security issues, distribution declarations and a firm's branches and representatives.

DTCC provides this data through its Mutual Fund Profile Service, which increased its number of subscribers to 615, up 13% from 543 in 2001.

In 2002, DTCC was able to improve the service to our customers by adding a real-time update capability for adding, changing and deleting information, as well as spreadsheets for uploading year-end tax information, and dividend and capital gains distributions. DTCC also extended firms' access to the databases that house information about distributions, participants and security issues, and introduced a new database where they can provide fund companies with real-time access to rep and branch information.

In recent months, the issue of breakpoint schedules and fees has come under industry and regulatory scrutiny (these are the levels at which front-end sales charges are reduced, depending on the dollar value of the mutual fund shares purchased by a customer). As a result, the issue has brought attention to the Security database within Mutual Fund Profile Service, as well as to Fund/SERV, both of which allow fund and firm business partners to share breakpoint information and contingent deferred sales charge schedules. DTCC has begun to work with a special task force of the NASD to define the problem and identify any possible changes to our services that would support the industry in this effort. ❖

Tracking mutual fund activity: A growing number of companies use NSCC's Networking service to gain a clear picture of activity in customer mutual fund accounts.



Networking: volume of mutual fund sub-accounts since 1990.

Insurance Services

Insurance: The Last Frontier For Financial Services

While the financial services industry has successfully mass-marketed

products such as stocks, bonds, mutual funds and bank savings accounts, broker/dealers and other distributors have found insurance policies and annuities difficult to sell and service, which has kept these products outside the mainstream. Consequently, insurance is often referred to as one of the "last frontiers" of the financial services community.

DTCC's Insurance Services is bent on conquering this frontier by leading the industry toward standardization and automation, and by linking insurance carriers with broker/dealers, banks and trust companies through one automated, centralized, nationwide system.

During 2002, we expanded our services in the insurance carrier and distributor communities, boosting our visibility and developing new strategic partnerships with leading service providers and industry organizations. DTCC also strengthened its position as the insurance industry's primary infrastructure provider — just as it is for debt, equities and mutual funds.

We also broadened our customer base with both insurance carriers and distributors by introducing a new tiered fee structure for processing annuity applications, which encourages both high- and lower-volume users to automate their processing with DTCC, and by launching a new membership category that allows broker/dealers, banks and trust companies to access only those insurance services they need.

DTCC's Insurance Services Repository, launched in 2003, offers the industry for the first time an electronic warehouse where distributors will be able to centrally access updated insurance product information.

Lastly, by partnering with the leading international insurance data standards organization, ACORD — The Association for Cooperative Operations Research and Development — DTCC continues to help lead the way in fostering common industry-wide standards for insurance. ❖

Insurance Services Posts Another Record Year

Insurance Services experienced record growth in 2002, generating

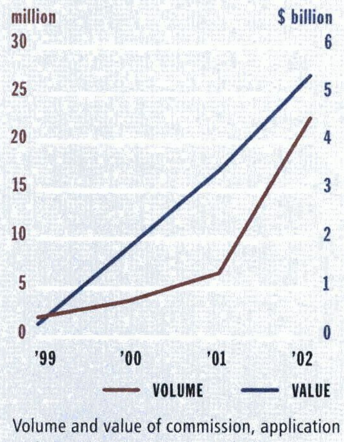
substantial increases in processing volume and money settlement, and expanding its customer base 17% to reach 189 major insurance carriers and distributors, versus 161 in 2001.

Insurance Services is leading the industry by linking insurance carriers with broker/dealers, banks and trust companies through one automated, centralized, nationwide system.

The volume of commission, application and premium transactions processed leapt to 22.5 million, up 252% from 6.4 million in 2001. Reflecting this increase, money settlement for the year increased nearly 60%, reaching $5.4 billion, from $3.4 billion the previous year.

Processing volume for position records also increased, climbing 178% to more than 893 million from 321 million in 2001. A significant increase in 2002 occurred in Financial Activity Reporting (FAR), which distributors are using to meet the new compliance requirements of the USA Patriot Act. The number of FAR customers nearly tripled, reaching 56 after the act took effect, compared with 20 previously. As a result, inquiry/transaction volume soared to 5 million in 2002 from 200,000 the previous year. ❖

Mainstreaming insurance products: Carriers and their distributors rely on Insurance Services' secure network to quickly process transactions and move billions of dollars each year.



Volume and value of commission, application and premium transactions settled.

Revolutionizing Life Insurance Processing

What today's broker/dealers ideally want from the insurance industry is a single,

automated, centralized process connecting them with multiple insurance companies and multiple products, so that they can market, sell and process a broad variety of insurance products from different carriers. Clients, meanwhile, expect their broker/dealers to have access to multiple insurance companies and product lines — and that access has to be fast, efficient and clear-cut.

DTCC has been making steady progress in bringing these efficiencies to the processing of annuity transactions, and now we're looking to leverage our technology and strategic partnerships to do the same for life insurance. Selling life insurance today is a complicated process that can involve extensive paperwork, lengthy questionnaires and an array of medical and background checks that can often take up to 30, 60 and even 90 days to complete. Our goal is to develop a solution that can reduce the waiting time between the initial sale and the submission of the contract to an insurance company's underwriters to no more than 7 days.

If that sounds revolutionary, it will be. The solution we envision would — for the first time — 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. The service would leverage DTCC's existing links with virtually all broker/dealers, banks, mutual funds, major insurance carriers and other financial intermediaries via a vast electronic network that is highly reliable and highly secure.

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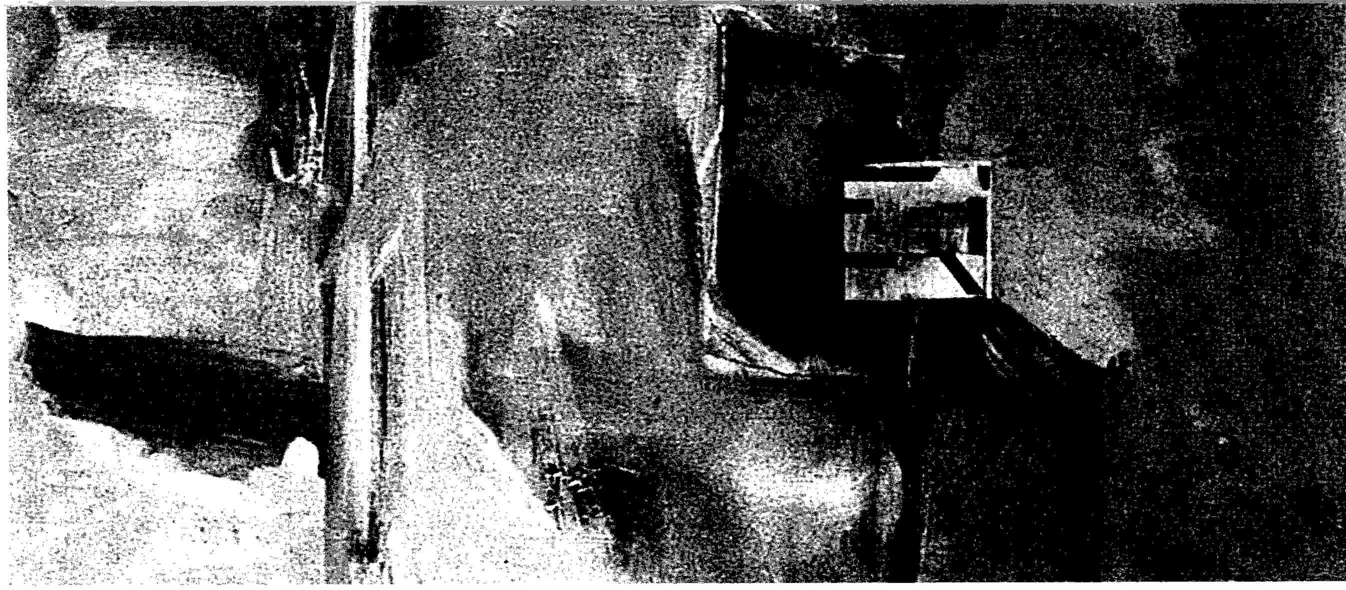

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DTCC believes this solution can best be achieved through partnering agreements with the industry's leading service providers, each contributing a special capability to the service. We will continue working with our customers, industry trade groups and service providers in 2003 to mainstream insurance products. ❖

DTCC Makes Annuity Sales Simple and Swift

In 2002, Insurance Services helped Merrill Lynch, the largest broker/dealer in the U.S. market, transform the way it sells and processes annuities. Taking what was a paper-based, manual process that could require days or even weeks to complete, DTCC teamed up with a strategic partner and turned it into a fully automated, end-to-end process that can be completed within 24 hours.

As a result, Merrill Lynch Insurance Services now links — via DTCC's nationwide electronic network — its 10,000 brokers to 15 major insurance carriers and the wealth of life insurance and annuity products they offer. Using DTCC's network and the Web-based technology of DTCC partner AnnuityNet, the system takes the paperwork for all the insurance products and puts it in electronic form, allowing broker/dealers to complete forms online at their desks or even from a laptop in a client's home. They then send the forms through DTCC directly to the insurance carrier. DTCC simultaneously handles any money settlement involved.

This process contrasts sharply with traditional practice, where brokers complete annuity forms and then forward them via fax or mail to the insurance carrier, which usually has to reenter all the data — a slow and error-prone process that often takes weeks.

DTCC continues to lead the industry in automating the sale and processing of annuities and, with AnnuityNet, has also helped Legg Mason and PrimeVest Financial Services implement fully automated solutions for their annuity sales. ❖

Meeting USA Patriot Act requirements: Broker/dealers increasingly rely on DTCC's Insurance Services' Financial Activity Reporting product to meet USA Patriot Act requirements for tracking customer activity.

	Distributors	Number of Inquiries
2000	7	78,488
2001	20	220,425
2002	56	4,974,832

Number of participants and annual volume in Financial Activity Reporting.

Insurance Compliance Product Tracks Money-Laundering Activities

When Congress passed the USA Patriot Act in 2001 as part of new anti-terrorist measures, the financial services industry found itself scrambling for solutions to meet the stringent anti-money-laundering requirements the legislation established. Broker/dealers and banks are required to know and understand the transactions taking place in their clients' accounts — and to report any suspicious activities to the government.

Originally introduced by Insurance Services in 1999 to help distributors meet certain legal requirements, DTCC's Financial Activity Reporting (FAR) updates broker/dealers with an accurate, reliable method to monitor client accounts for potential money laundering by tracking a variety of activities, including items such as annuity and life insurance "free-looks" — the grace period allowing a customer to withdraw money from the annuity after purchasing it; canceled contracts; large investments followed by immediate withdrawals; and loans on variable contracts.

More and more broker/dealers, realizing the value FAR provides in complying with the new regulations, are utilizing the service. ❖

International

DTCC, Euroclear, Clearstream Join Forces to Streamline European CP Issuance

Although 2002 was a year of uncertainty in the world's capital markets, global securities firms remain clear about what they value most — seamless processing, lower operational costs and strong risk management. DTCC has been working on multiple fronts, creating meaningful partnerships and building creative solutions, to enhance the depth and liquidity of the cross-border market.

As an example, DTCC teamed with Euroclear and Clearstream International in 2002 to launch a product that streamlines the issuance of European commercial paper (ECP) and other money market instruments. Called European Pre-Issuance Messaging and known as EPIM, the product automates communications and messaging and is based on a service developed by DTCC's depository in 1999 for the U.S. commercial paper market.

EPIM is helping facilitate growth in the ECP market, which reached a record 315 billion euros in 2002, up 14% from the prior year. Many major ECP dealers, as well as issuing and paying agents, already use EPIM. Roughly a quarter of all ECP issues were handled through the system by year-end 2002, and all major market participants will be up and running on EPIM in 2003. ❖

EMCC Expands to Include Emerging Market Corporate Debt Issues

Emerging Markets Clearing Corporation (EMCC), which brings greater stability to the trading of emerging market debt and ensures orderly global settlement, expanded its list of eligible securities in 2002 to include emerging market corporate debt. Altogether, EMCC increased the number of securities eligible to 416 from 340 in 2001.

EMCC offers trade comparison, netting and settlement processing, as well as risk management systems that guarantee the efficient, accurate and cost-effective settlement of cross-border trades in Brady bonds, dollar-denominated emerging market sovereign debt, quasi-sovereign issues and corporate debt.

In 2002, EMCC's transaction volume declined by about a third, due to difficult market conditions worldwide. EMCC matched and settled 177,000 sides, worth $236 billion, down from $323 billion in 2001. EMCC also maintained a solid comparison rate of over 88% on trade date, reaching 99% prior to settlement date — a notable achievement given that before EMCC's creation, fewer than 40% of trades compared on trade date. ❖

Strengthening Depository Links Worldwide

As part of DTCC's goal to build strategic partnerships and alliances with businesses across the globe, the depository extended its global network of links to 13 in 2002. New links with depositories in 2002 included Tel Aviv Stock Exchange Clearing House and Italy's Monte Titoli. These links streamline and lower the cost of cross-border processing, giving investors access to depository services across borders. ❖

Steering Customers Through the Tax Maze

In the increasingly complex world of global taxes, DTCC continued to build its Global Tax Services business, which helps financial firms keep up with evolving international tax regulations, income tax treaty provisions and U.S. tax reporting and withholding requirements.

In 2002, DTCC reached an agreement with ADP Brokerage Services Group to distribute to mutual customers the depository's year-end tax reclassification information for 1099 reporting. DTCC also grew the market for its U.S. Tax Withholding Service, through which users, including many of the depositories DTC has links with, appoint DTC as their U.S. withholding agent. ❖

Network & Internet Services

New Internet-Based Browser Introduced

As part of its goal to meet customer needs for innovative

and highly flexible products, DTCC is leveraging Web-based technologies to lower costs, expand access and accelerate the delivery of services to customers.

In 2002, DTC implemented a wide rollout of a new Internet browser-based system, called Participant Browser Services (PBS), which ultimately will replace the depository's proprietary "green screen" Participant Terminal System (PTS). Like its predecessor, PBS currently operates on DTCC's secure, private network.

Historically, customers have used PTS to gain access to depository functions. Now, with PBS's easy-to-use browser interface, customers will be able to perform these functions with greater ease and speed.

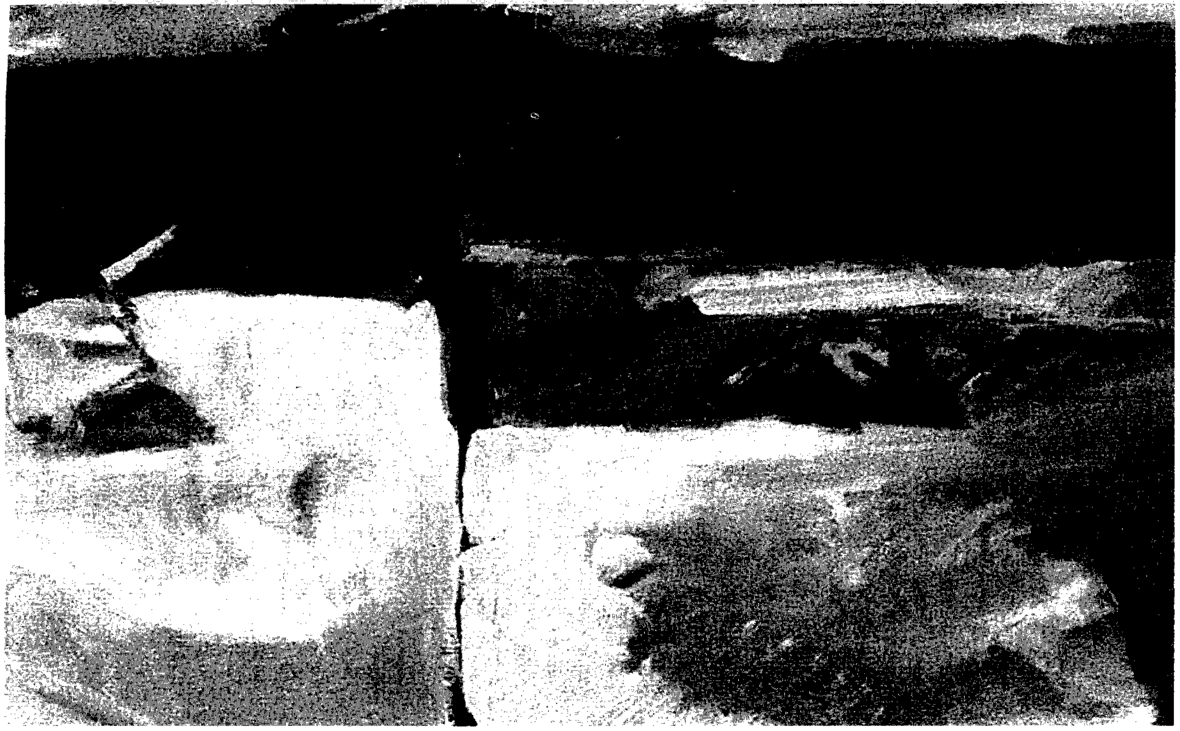
Compared to PTS, PBS dramatically enhances usability, giving customers more intuitive browser navigation and data entry fields on screens that are designed to display more information. PBS also features drop-down menus and online help, which further eliminate the need to memorize or look up codes, saving customers time in accessing functions — and in training their employees on the system.

PBS will also provide access to an enhanced range of services. Capabilities implemented in 2002, for instance, include a settlement bank product, new corporate actions functionality and capabilities to support settlement processing for customers, including various reorganization, risk management and CNS functions.

In another milestone, DTCC gave customers access to the Participant Inquiry and Notification System (PINS) via the Internet in 2002, using PBS as the platform. PINS is the tool depository customers use to resolve their questions online. Until 2002, the system could only be accessed from a PTS screen via DTCC's private network. Now, customers will be able to access PINS through the open Internet.

Using PBS, they can log on to PINS with an ID and password from any Internet-connected PC or laptop in their company. This gives customers the flexibility to access DTCC for problem resolution when and where they need it. Piloted to a group of users in mid-2002, PINS via PBS became available for all PINS users by year-end.

Because of data security concerns at the time the PBS effort was first planned in the mid-1990s, the original intention was to make PBS functions available to users through the same DTCC private frame-relay network that supported PTS. Bandwidth considerations have led DTCC to investigate two options for the future rollout of PBS — options that will both guarantee systems security and enhance the speed of delivery. The first option involves upgrading the data bandwidth of



the private network to allow traffic over higher-speed connections. The second option involves permitting access to PBS functions over the Internet, with appropriate multitiered security precautions in place.

DTCC expects to offer both alternatives to customers and in late 2002, began the foundational work to deliver each of these options in future versions of PBS. ❖

New in 2003: Archived Reports Through PBS

In response to customer focus groups about ways to improve service, DTCC began work in late 2002 to

enhance another depository offering utilizing Participant Browser Services (PBS). Soon, our customers will have the ability to view an expanded archive of their most important transactional reports from the depository, such as activity, positions, billing, ID/Confirm and settlement statements.

At present, customers can view only 60 business days of transactional history, owing mainly to the physical limitations of the database. As a result, obtaining this information beyond three months is a labor-intensive, time-consuming process, which poses a particular challenge when firms need to quickly research their activity.

The improved database interface, which is fully compatible with PBS, gives customers access to reports stored on DTCC's optical disk and tape. This grants customers direct, streamlined access to archived historical information going back seven years, making research faster, easier, more reliable and more cost-effective.

> Migrating customers to modern industry-standard telecommunications technologies will make it easier and more secure, efficient and cost-effective for them to interface with DTCC.

In October 2002, when DTCC demonstrated a prototype of this offering to a focus group, they gave it high scores for ease of use, the intuitive graphical interface and practicality. We are working to have it ready for a pilot rollout in mid-2003. ❖

Standardizing Communication Links With Customers

It's been said that change is a process, not a destination. That adage certainly held true throughout 2002 as DTCC's

Participant Interface Planning group continued to migrate customers to standard financial services technologies from proprietary software and older telecommunications methods.

Since the release in 2000 of DTCC's white paper, *Paving the Technology Future*, which outlined principles for the evolution of our technology platforms, DTCC has made this migration a priority. Our goal is to have all computer-to-computer data exchange with customers moved to standard telecommunications methods and applications by 2004. For example, newer file transfer products, such as FTP and Connect:Direct, will supplant older software applications, such as CCF BTAM and CCF Jr. And new messaging protocols, such as IBM's MQSeries, will replace DTCC's proprietary interfaces, such as MDH.

This shift will eliminate the need for DTCC and its customers to support outdated telecommunications systems and software, some of which have been in use for more than 20 years. Migrating to modern industry-standard technologies will also make it easier, more secure, more efficient and more cost-effective for customers to interface with DTCC subsidiaries. In addition, this initiative supports business continuity for both DTCC and our customers. ❖

Omgeo

Omgeo: Just in Time

Institutional investors such as mutual funds, pension funds and insurance companies move billions of dollars in global capital markets every day. In the United States alone, institutions held equities worth $9.3 trillion in 2001 — or 61% of total U.S. equities.

When large institutions trade in stocks and bonds, the company that provides matching and trade reporting services for a growing number of these transactions is Omgeo. A joint venture created in 2001 by DTCC and Thomson Financial, Omgeo reflects DTCC's commitment to forge partnerships to better serve the industry. Omgeo's timely formation was a response to the growing needs of the huge institutional market, whose rapid expansion put demands on the industry to streamline the processing of institutional trades.

Omgeo is also a component of DTCC's strategy to expand its global reach. Today, the joint venture has approximately 6,000 customers in more than 40 countries. It handled up to a million trades daily in 2002. Omgeo brings greater efficiency, lower risk, lower fail rates and stronger business continuity to institutional investors.

While Omgeo's ultimate goal is to achieve global straight-through processing (STP) via a single platform, it now offers intermediate services tailored to individual customer needs, as well as specific markets. This flexible approach reflects a key tenet of Omgeo's business philosophy: working with customers to meet their immediate and long-term requirements while providing a quick return on investment.

Omgeo technology allows customers a range of options for managing the size, scope and timing of their STP projects. For example, Omgeo OASYS-TradeMatch provides real-time central matching for U.S. domestic transactions. In 2002, this service raised customers' same-day affirmation rates to 60–70% and, in some cases, to 90%, compared with an industry average of 15% in 2001. Omgeo OASYS Global offers a similar service for domestic and cross-border trades outside the U.S. market.

These and other systems are designed to set the stage for customers to transition, at their own pace and without major capital outlays, to the company's cross-border STP service: Omgeo Central Trade Manager (Omgeo CTM). ❖

Omgeo CTM Redefines Institutional Trade Processing

In a milestone for global markets, Omgeo expanded the frontiers for institutional trade matching in 2002, rolling out the industry's first domestic and cross-border central trade matching solution — Omgeo CTM.

Omgeo CTM currently handles cross-border trades globally, as well as domestic trades in markets outside the United States. It provides real-time settlement instruction enrichment — which makes processing continuous, rather than sequential — and settlement notification messaging in industry-accepted formats, which dramatically cuts the time for delivery of settlement instructions to an average of 2 hours versus up to 20 previously. Omgeo CTM also incorporates industry Codes of Practice and local market standards.

Flexibility is another feature of Omgeo CTM. Because all customers are not yet prepared to move to Omgeo CTM, the system is fully compatible with the company's other services. This means Omgeo CTM users can process trades not only with other Omgeo CTM customers, but also with customers of OASYS Global and OASYS-TradeMatch who have not yet transitioned to the new technology. ❖

Omgeo's STP Partners Program Extends Access

The STP Partners Program launched by Omgeo allows service providers who sign on for this innovative program to team with Omgeo in establishing customized interfaces with one or more Omgeo services. This broadens the STP capabilities of partner companies, gives them direct access to Omgeo technology and lets them offer their customers indirect access — saving many companies the time and expense of building their own interfaces to support STP.

To date, Omgeo has struck agreements with 50 partners, including systems providers for buy-side order management, portfolio management, sell-side trading, back offices and service bureaus. ❖

Consolidated Balance Sheet

	December 31, 2002
	(in thousands)
Assets	
Cash and cash equivalents	$ 5,091,439
Investments in marketable securities	116,808
Accounts receivable	150,381
Participants' funds	11,914,442
Fixed assets, less accumulated depreciation and amortization of $306,732,000	186,839
Deferred income taxes	91,716
Other assets	367,810
Total assets	$17,919,435
Liabilities and Shareholders' Equity	
Liabilities:	
Accounts payable and other liabilities	$ 615,093
Payable to participants	1,243,804
Notes payable	49,828
Participants' funds:	
Cash deposits	3,887,626
Other deposits	11,914,442
Total liabilities	17,710,793
Commitments and contingent liabilities (Note 10)	
Preferred shareholders' equity in The Depository Trust Company	75,000
Class B shareholders' equity in Emerging Markets Clearing Corporation	330
Shareholders' equity:	
Preferred stock:	
Series A, $.50 par value – 10,000 shares authorized, issued and outstanding	300
Series B, $.50 par value – 10,000 shares authorized, issued and outstanding	300
Common stock, $100 par value – 23,655 shares authorized, issued and outstanding	2,366
Paid in capital	11,649
Retained earnings:	
Appropriated	69,819
Unappropriated	72,234
Treasury stock	(3,327)
Total	153,341
Accumulated other comprehensive (loss) income, net of tax:	
Minimum pension liability adjustment	(20,077)
Foreign currency translation adjustment	48
Accumulated other comprehensive net loss	(20,029)
Total shareholders' equity	133,312
Total liabilities and shareholders' equity	$17,919,435

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

	For the Year Ended December 31, 2002
	(in thousands)
Revenues:	
Trading services	$496,938
Custody services	164,110
Network services	62,884
Other services	64,746
Interest income	85,098
Equity in net income of Omgeo LLC	31,745
Total revenues	905,521
Discounts and other refunds to participants	(198,721)
Net revenues	706,800
Expenses:	
Employee compensation and related benefits	357,674
Information technology	130,554
Professional and other services	98,629
Occupancy	54,974
Interest expense	16,356
Other general and administrative	7,572
Reimbursement from Omgeo LLC	(43,301)
Total expenses	622,458
Income before income taxes and minority interests	84,342
Provision for income taxes	32,873
Income before minority interests	51,469
Minority interests – preferred stock dividend	(862)
Net income	50,607
Other comprehensive (loss) income, net of tax:	
Minimum pension liability adjustment	(20,077)
Foreign currency translation adjustment	71
Other comprehensive net loss	(20,006)
Comprehensive income	$ 30,601

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

	For the Year Ended December 31, 2002
	(in thousands)
Cash flows from operating activities:	
Net income	$ 50,607
Adjustments to reconcile net income to net cash provided by operating activities:	
Pension liability adjustment, net	(20,077)
Depreciation and amortization of fixed assets	46,939
Fixed assets disposals	4,126
Net premium amortized on investments owned	1,762
Deferred income taxes	2,755
Changes in operating assets and liabilities:	
Decrease in accounts receivable	50,447
Increase in other assets	(92,541)
Decrease in accounts payable and other liabilities	(34,031)
Increase in payable to participants	60,083
Increase in participants' fund cash deposits	1,658,864
Net cash provided by operating activities	1,728,934
Cash flows from investing activities:	
Merger of GSCC, MBSCC and EMCC (Note 1)	325,364
Maturity of investments in marketable securities	89,000
Purchases of investments in marketable securities	(105,042)
Purchases of fixed assets	(73,648)
Net cash provided by investing activities	235,674
Cash flows from financing activities:	
Principal payments on notes	(11,819)
Proceeds from notes payable	17,000
Net cash provided by financing activities	5,181
Effect of foreign exchange rate changes on cash	71
Net increase in cash and cash equivalents	1,969,860
Cash and cash equivalents, beginning of year	3,121,579
Cash and cash equivalents, end of year	$5,091,439
Supplemental disclosure:	
Income taxes paid	$ 20,531
Interest paid	$ 16,080

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

December 31, 2002

1 Business and Ownership:

The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports five principal subsidiaries, The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Government Securities Clearing Corporation (GSCC), MBS Clearing Corporation (MBSCC) and Emerging Markets Clearing Corporation (EMCC). Effective January 1, 2002, the shareholders of GSCC, MBSCC and EMCC exchanged their ownership interests in those respective corporations for common stock issued by DTCC. The primary purpose of these exchanges was to achieve greater efficiencies between DTCC and those companies. As a result, GSCC, MBSCC and EMCC became consolidated subsidiaries of DTCC.

The persons elected to serve on the Board of Directors of DTCC will also serve as directors on the Boards of each of its domestic subsidiaries.

DTC is a securities depository and a clearinghouse for the settlement of securities trading activity. NSCC provides securities trade comparison, clearance, settlement and risk management services. GSCC provides automated real time trade comparison, netting, settlement and risk management services for buy/sell, original issue purchase and repurchase transactions in the government securities and financing marketplaces for brokers, dealers, banks and other market participants. MBSCC provides trade comparison, trade confirmation, risk management, netting and electronic pool notification services to participants in the mortgage-backed securities market. EMCC provides automated trade comparison, settlement and risk management services for emerging markets debt. All five principal subsidiaries are registered clearing agencies with the U.S. Securities and Exchange Commission (SEC). DTC is also a member of the Federal Reserve System and a limited-purpose trust company under New York State banking law.

Omgeo LLC (Omgeo), a joint venture with Thomson Corporation, uses the institutional trade-processing infrastructures of DTCC and Thomson to provide for seamless global trade management and a securities industry solution for straight-through processing.

2 Summary of Significant Accounting Policies:

Basis of Presentation: The consolidated financial statements include the accounts of DTCC and its subsidiaries (the Companies). Intercompany accounts are eliminated in consolidation.

At December 31, 2001, NSCC had ownership interests in GSCC, MBSCC and EMCC of approximately 24%, 10% and 14%, respectively. As a result of the exchanges described in Note 1, NSCC became a shareholder of DTCC, its parent, which shares are reflected as treasury stock, valued on a historical basis.

The operating results of DTCC include the activities of the Mortgage Backed Securities Division (MBS) of DTC through March 22, 2002. The activities of the MBS Division, consisting principally of the settlement of Ginnie Mae securities, were subsequently assumed by the Federal Reserve Bank of New York.

The carrying value of DTCC's investment in Omgeo, which is included in other assets, represents 50% of Omgeo's net worth adjusted for the difference in the book value of the assets contributed by the partners. DTCC's share of Omgeo's net income, adjusted for the impact of the amortization of the above difference, is included as revenue on the consolidated statement of income.

Omgeo's total revenue and net income in 2002 are $202,786,000 and $53,451,000, respectively. Further, Omgeo has elected to be treated in a manner similar to a partnership for federal and state income tax purposes. As a result of this election, Omgeo's federal and state taxable income is allocated proportionately to DTCC and Thomson.

Cash equivalents: The Companies invest funds in overnight reverse repurchase agreements and money market accounts, which are considered cash equivalents. Reverse repurchase agreements provide for the Companies' delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreements. Independent custodians designated by the Companies take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled $4,675,444,000. The counterparties to these agreements were six major financial institutions that are also participants.

Overnight investments made in commercial paper totaling $28,879,000 are also included in cash equivalents. The issuer of the commercial paper was a major U.S. bank holding company that is also a participant.

Investments in Marketable Securities: These investments, which include U.S. Treasury securities and investment grade corporate notes, are recorded at amortized cost and are considered to be held-to-maturity securities. The contractual maturities, carrying value and market value of these securities are as follows:

Carrying Value			
(Dollars in thousands)	U.S. Treasury Securities	Corporate Notes	Total
Due in one year or less	$106,676	$1,000	$107,676
Due in one to two years	8,079	1,053	9,132
Total	$114,755	$2,053	$116,808
Market Value			
Due in one year or less	$107,039	$1,001	$108,040
Due in one to two years	8,186	1,072	9,258
Total	$115,225	$2,073	$117,298

Accounts Receivable: Accounts receivable consist of the following:

(Dollars in thousands)	
Due from the Companies' participants for services	$ 57,077
Cash dividends, interest and related receivables	80,790
Other	12,514
Total	$150,381

Cash dividends, interest and related receivables are presented net of an allowance for possible losses of $500,000. Other receivables are presented net of an allowance for possible losses of $509,000. Stock dividends receivable are not recorded in the consolidated financial statements.

Fixed assets: Fixed assets consist of the following:

(Dollars in thousands)	
Land	$ 700
Building and improvements	5,095
Leasehold improvements	168,143
Furniture and equipment	228,993
Software	87,230
Leased property under capital leases	3,410
Total cost	$493,571

Building and improvements are amortized over 39 years using the straight-line method. Leasehold improvements are amortized using the straight-line method over their useful lives or the remaining term of the related lease, whichever is less. Furniture and equipment are depreciated over estimated useful lives ranging from three to eight years, principally using accelerated methods. Software is amortized using the straight-line method over three years.

During 2002, the Companies capitalized software developed for internal use totaling $8,890,000; the amortization charges were $12,678,000.

Income taxes: Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. The net deferred tax asset is expected to be fully realized and, accordingly, no valuation reserve has been established.

Discounts and other refunds to participants: The Companies provide discounts on their billing to participants based upon the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as determined by their Boards of Directors. Such discounts totaled $140,067,000 in 2002. Further, DTC has a policy to provide participants a monthly refund of net income earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such monthly refunds totaled $9,773,000 in 2002.

Securities on deposit: Securities held in custody by DTC for participants are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to participants. Short positions occasionally exist in participants' securities balances. Such short positions are valued and collateralized daily by participants' cash, U.S. Treasury securities and/or municipal bonds rated AA or better aggregating 130% of the short position. DTC's obligation to return such amounts to participants is also reflected in payable to participants. At December 31, 2002, short positions amounted to $24,949,000.

Financial instruments: Management believes that the carrying value of all financial instruments approximates market value.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3 Participants' Funds:

The Companies' rules require most participants to maintain deposits related to their activities at the clearing agencies based on calculated requirements, which at December 31, 2002, totaled $13,603,693,000. The deposits are available to secure participants' obligations and certain liabilities of the Companies, should they occur. All deposits of cash and securities are recorded on the balance sheet. A summary of the deposits held, including $4,388,265,000 in excess of the calculated requirements follows:

(Dollars in thousands)	
Cash	$ 3,887,626
U.S. Treasury and book-entry non-mortgage-backed Agency securities, at market	11,914,442
Letters of credit issued by authorized banks	2,189,890
Total	$17,991,958

The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. In 2002, the earnings in DTC, NSCC and MBSCC totaled $48,881,000. Since these earnings are passed through to participants, they are included in interest income and discounts and other refunds to participants.

4 Transactions with Related Parties:

SIAC: Under the terms of an agreement with NSCC, the Securities Industry Automation Corporation (SIAC), an entity owned by the New York Stock Exchange, Inc. (NYSE) and the National Association of Securities Dealers, Inc. (NASD), provides computer facilities, personnel and services in support of the Companies' operations. NYSE and NASD are shareholders of DTCC. SIAC charges for these services based on its direct and overhead costs arising from providing such services. The agreement has no expiration date and continues in effect unless prior written notice of cancellation is given by either party. Charges under this agreement totaled $54,568,000 in 2002 and are included in information technology expenses. At December 31, 2002, there was a receivable of $913,000 from SIAC. If this agreement is cancelled, NSCC is contingently liable for the cost of certain SIAC office and equipment leases through December 31, 2004, aggregating approximately $2,614,000.

NYSE and NASD: NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 2002, no amounts were due the NYSE or NASD.

Omgeo: DTCC has entered into an agreement with Omgeo to provide various support services and office facilities. In addition, DTCC has an agreement with Omgeo, whereby if Omgeo reduces or terminates certain services it receives from DTCC or its affiliates, Omgeo will pay certain extraction costs as specified in the agreement. Charges under these agreements totaled $43,301,000 in 2002. At December 31, 2002, the receivable from Omgeo was $3,914,000.

5 Payable to Participants:

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities, which it distributes to its participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed unless claimed by the owners of the securities. Cash dividends, interest, reorganization and redemption payables of $1,054,582,000 are included in payable to participants. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws. Stock dividends payable and unclaimed are not reported on the consolidated financial statements.

Payable to participants also includes settlement accounts payable of $106,063,000, which primarily represent deposits received from NSCC participants to facilitate participants' compliance with customer protection rules of the SEC.

6 Pension and Other Post-Retirement Benefits:

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

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

On December 31, 2002, the accumulated benefit obligation related to DTCC's pension plans exceeded the fair value of the pension plan assets (such excess is referred to as an unfunded accumulated benefit obligation). This difference is attributed to an increase in the accumulated benefit obligation resulting from a reduction in the interest rate used to discount the benefit obligation to its present settlement amount from 7.25% to 6.75% and a decrease in the fair value of the plan assets due to the continued decline in the equity markets during 2002. As a result, in accordance with Statement of Financial Accounting Standards No. 87, DTCC recognized an additional minimum pension liability of $50,696,000 which is included in benefit obligations, recorded a pre-tax charge of $34,139,000 to accumulated other comprehensive loss thereby reducing shareholders' equity, and recognized an intangible asset of $16,557,000 included in other assets, representing unrecognized prior service cost. The charge to shareholders' equity represents an amount not yet recognized as pension expense. In conjunction with the recognition of the additional minimum pension liability, DTCC recorded a deferred tax asset of $14,062,000 which was recorded through accumulated other comprehensive loss.

The funded status and related components of the plans follow:

(Dollars in thousands)	Pension Benefits	Other Benefits
Benefit obligation at end of year:		
Qualified plan	$316,465	$ —
Other plans	49,233	49,194
	365,698	49,194
Fair value of plan assets at end of year	200,588	—
Funded status	($165,110)	($49,194)
Net accrued benefit cost recognized at year-end	($ 49,467)	($38,234)
Amount recognized in the consolidated balance sheet consists of:		
Accrued benefit cost	($100,163)	($38,234)
Intangible asset	16,557	—
Accumulated other comprehensive loss	34,139	—
Net accrued benefit cost recognized at year-end	($ 49,467)	($38,234)
Weighted-average assumptions as of December 31, 2002:		
Discount rate	6.75%	6.75%
Expected long-term rate of return on plan assets	9.00	—
Rate of compensation increase	4.50	—

For measurement purposes, an 8.3% annual rate of increase in the per capita cost of the covered health care benefits was assumed for 2002. The rate was assumed to decrease gradually to 5% for 2008 and remain at that level thereafter. The components of pension and other benefits expenses follow:

(Dollars in thousands)	Pension Benefits	Other Benefits
Net benefit cost	$21,452	$5,596
Additional (gain)/loss recognized due to:		
Curtailments	(325)	(72)
Settlements	67	—
Total benefit cost	$21,194	$5,524
Employer contribution	$32,526	$ —
Benefits paid	28,993	814

7 Income Taxes:

DTCC and its five principal subsidiaries file a consolidated federal income tax return. DTCC, NSCC, GSCC, MBSCC and EMCC file combined New York State and New York City income tax returns; DTC files separate state and local returns. The provision for income taxes for the year ended December 31, 2002, consists of the following:

(Dollars in thousands)	
Current income taxes:	
Federal	$11,316
State and local	4,740
Deferred income taxes:	
Federal	15,166
State and local	1,651
Total income taxes	$32,873

The effective tax rate is greater than the 34% Federal statutory rate primarily due to state and local taxes.

The major temporary differences that give rise to the deferred tax assets (liabilities) are as follows:

(Dollars in thousands)	
Employee benefit related	$69,463
Rent	13,681
Depreciation and amortization	8,266
Lease abandonment costs	3,138
Capitalization of software developed for internal use	(13,033)
Other	10,201
Net deferred income tax asset	$91,716

8 Notes Payable and Lines of Credit:

Notes payable at December 31, 2002, amounted to $49,828,000 and primarily consist of unsecured borrowings totaling $32,828,000 with three domestic banks that are also participants. The notes have a weighted-average interest rate of 6.77%. The annual maturities in 2003, 2004, 2005, 2006 and 2007 are $10,828,000, $8,000,000, $5,000,000, $4,500,000 and $4,500,000, respectively. Interest expense related to these notes totaled $2,754,000 in 2002. Notes payable also consist of secured borrowings totaling $17,000,000 from two insurance companies on September 15, 2002, at a fixed rate of 4.62%. The notes are secured by property, plant and equipment. Principal and interest payments are due semi-annually on March 15 and September 15 of each year through 2012, commencing on March 15, 2003. As of December 31, 2002 there was also a payable of $205,302,000 to the New York City Industrial Development Agency ("IDA") and a corresponding investment in IDA bonds. Interest expense related to the IDA payable was $12,427,000 in 2002 and there was interest income of the same amount on the IDA bonds.

At December 31, 2002, DTC maintained a committed line of credit of $1,750,000,000 with 17 major banks, that are primarily participants, to support settlement. The commitment fee of 5 basis points was recovered from participants. In addition, to support processing of principal and income payments, DTC maintains a $50,000,000 committed line of credit. DTC also maintains a $10,000,000 credit line to support potential short-term operating cash requirements. During 2002, there were occasional borrowings under the $50,000,000 credit line to fund principal and income payments and there were no borrowings under the other credit facilities. At December 31, 2002, NSCC maintained a committed line of credit of $1,900,000,000 with 17 major banks, that are primarily participants, to provide for potential liquidity needs. During 2002, there were no borrowings under this credit facility. The commitment fee of 5 basis points was partially recovered from participants.

9 Shareholders' Equity:

(Dollars in thousands)	Preferred Stock Series A	Preferred Stock Series B	Common Stock	Paid in Capital	Retained Earnings Appropriated	Retained Earnings Unappropriated	Treasury Stock	Accumulated Other Comprehensive Income (Loss) Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss) Foreign Currency Translation Adjustment	Total Shareholders' Equity
Balance at December 31, 2001	$300	$300	$1,850	$ 950	$29,400	$37,282	$ —	$ —	$(23)	$ 70,059
January 1, 2002 exchange (see Note 1)	—	—	516	10,699	24,764	—	—	—	—	35,979
Investment in parent company	—	—	—	—	—	—	(3,327)	—	—	(3,327)
Net income 2002	—	—	—	—	15,655	34,952	—	—	—	50,607
Minimum pension liability adjustment (net of tax benefit of $14,062)	—	—	—	—	—	—	—	(20,077)	—	(20,077)
Foreign currency translation adjustment (net of tax of $131)	—	—	—	—	—	—	—	—	71	71
Balance at December 31, 2002	$300	$300	$2,366	$11,649	$69,819	$72,234	($3,327)	($20,077)	$ 48	$133,312

Appropriated retained earnings represent an amount equal to the retained earnings of NSCC at December 31, 1999, the retained earnings of GSCC and MBSCC at December 31, 2001 and the 2002 net income of the five principal operating subsidiaries of DTCC. Such retained earnings are available for the satisfaction of losses arising out of the clearance and settlement of transactions (see Note 10). Such amount of retained earnings is excluded from the calculation of book value per share for purposes of capital stock transactions of DTCC.

10 Commitments and Contingent Liabilities:

NSCC's CNS system interposes NSCC between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of midnight of the day they are reported to the membership as compared/recorded. The failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the involved participants through the settlement process. At the close of business on December 31, 2002, open positions due to NSCC approximated $1,524,077,000 and open positions due by NSCC to participants approximated $1,092,299,000 for unsettled positions and $431,778,000 for securities borrowed through NSCC's Stock Borrow Program. At December 31, 2002, NSCC has an obligation to complete pending transactions totaling $18.7 billion.

GSCC's netting system interposes GSCC between netting participants for eligible trades that have been netted. The guarantee of net settlement positions by GSCC results in potential liability to GSCC. Guaranteed positions that have not yet settled are margined and marked-to-market daily. Margin deposits are held by GSCC; marks are debited from and credited to the responsible participants through the funds-only settlement process. At December 31, 2002, the gross amount of guaranteed positions due from netting participants to GSCC which are scheduled to settle on or before January 2, 2003 approximated $280,144,014,000 and the amount scheduled to settle after January 2, 2003 approximated $227,525,713,000. There is an equal amount due from GSCC to certain other participants after consideration of deliveries pending from GSCC.

EMCC interposes itself between members for eligible trades that have been guaranteed. The guarantee of the settlement positions by EMCC results in potential liability to EMCC. Guaranteed positions that have not yet settled are marked-to-market daily. Collateral received in respect of these marks is held by EMCC. In accordance with the processing requirements of Euroclear, EMCC pledges a portion of these deposits. At December 31, 2002, the market value of the deposits pledged totaled approximately $5,893,000. At the close of business on December 31, 2002, guaranteed positions due to EMCC from members and guaranteed positions due from EMCC to members approximated $227,003,000.

During 1995, a SIPC trustee was appointed to liquidate the business of Adler Coleman Clearing Corporation (ACCC), a former NSCC participant. NSCC and the SIPC trustee entered into an agreement in connection with the settlement of certain positions held by ACCC at NSCC, whereby NSCC would be liable to the trustee under certain conditions for amounts which management estimates could be up to $17,000,000 plus interest. In October 2002, NSCC transferred proceeds of $15,000,000 to the SIPC trustee to satisfy a written demand made by the trustee pursuant to the agreement. Management is still unable to determine NSCC's ultimate obligation. At December 31, 2002, the amount of the accrual for potential losses included in accounts payable and other liabilities is $2,410,000.

At December 31, 2001, GSCC had identified approximately $12,000,000 in potential interest claims associated with the reconciliation and settlement of transactions in the aftermath of the terrorist attacks of September 11, 2001. At December 31, 2001, a total of $6,000,000 was accrued for such claims. In July 2002, one claim for $9,000,000 was settled for $6,000,000. In 2002, GSCC provided $3,177,000 for additional interest claims from participants to be paid upon their presentation of satisfactory proof of loss. As of December 31, 2002, additional claims of $2,734,000 were settled and the remaining accrual included in accounts payable and other liabilities is $443,000.

The Companies' leases for office space provide for rent escalations subsequent to 2002. Rent expense under these leases was $41,029,000 in 2002. At December 31, 2002, future minimum rental payments under all non-cancelable operating leases follow:

(Dollars in thousands)	Amount
2003	$ 36,180
2004	29,916
2005	28,241
2006	26,072
2007	25,767
Thereafter	129,128
Total minimum rental payments	$275,304

The Companies are involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation will not have a material effect on the consolidated financial statements.

11 Off Balance-Sheet Risk and Concentrations of Credit Risk:

In the normal course of business, because NSCC, GSCC and EMCC guarantee certain obligations of their participants under specified circumstances (see Note 10), these subsidiaries could be exposed to credit risk. Exposure to credit risk is mitigated by requiring participants to meet established financial standards for membership, verifying compliance with other financial standards, monitoring financial status and trading activity, requiring participants to meet daily mark-to-market obligations and by requiring participants to provide participant fund deposits in the form of cash, marketable securities or acceptable letters of credit (see Note 3).

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

In the event that a GSCC deficiency still exists after the application of the guaranty payments from the other clearing agencies, the deficiency would be satisfied by assessing the participants with whom the defaulting participant most recently conducted trading activity subject to various priorities and limitations as defined in the rules. NSCC and GSCC would then satisfy any remaining deficiency by utilizing 25% of retained earnings or such greater amount to be determined by the Board of Directors. Finally, if a deficiency still remains, NSCC, GSCC and EMCC would satisfy the deficiency by assessing the remaining participants according to the rules.

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

12 Other Matters:

During 2000, DTCC began to restructure certain operations and planned to close one of its facilities and relocate the operations. It was anticipated that the leased premises would be abandoned prior to the expiration of the remaining lease term and that the estimated service life of the related leasehold improvements was curtailed. Accordingly, a provision of $20,800,000 was recorded in 2000, consisting of the lease payments on the premises net of estimated sublease proceeds, and the impairment in the carrying value of the leasehold improvements.

In 2002, a continuing effort to decentralize staff and operations resulted in a management decision to continue using the facility through the duration of the lease. Accordingly, the remaining balance of the provision, totaling $14,500,000, was reversed in December and is included as a reduction of other general and administrative expenses.

During 2002, DTCC continued restructuring its operations to reduce costs, incurring severance expense. Accordingly, a provision of $3,465,000 has been included in employee compensation and related benefits.

13 Subsequent Event:

In December 2002, the SEC approved the merger of MBSCC into GSCC to form the Fixed Income Clearing Corporation (FICC), to commence operations on January 1, 2003. FICC became a wholly owned subsidiary of DTCC. The former GSCC and MBSCC operations will be divisions of FICC and will continue to process government and mortgage-backed securities, provide product-specific services to their own participants and maintain separate collateral margin pools. The primary purpose of the formation of FICC is to achieve greater efficiencies in the post-trade processing of fixed income securities. The persons elected to serve on the Board of Directors of FICC will also serve on the Boards of DTCC and each of its other domestic subsidiaries.

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1177 Avenue of the Americas
New York, NY 10036

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and cash flows present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and its subsidiaries at December 31, 2002, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 13, 2003

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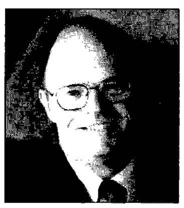

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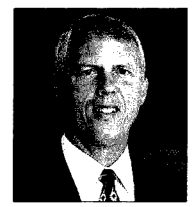

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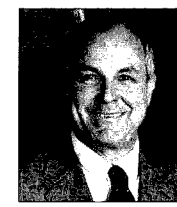

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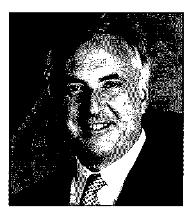

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