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DTCC

— The Depository Trust Company

— National Securities Clearing Corporation

— Fixed Income Clearing Corporation

— Emerging Markets Clearing Corporation

— Global Asset Solutions, LLC

— DTCC Deriv/SERV, LLC

OMGEO is a joint venture between DTCC and Thomson Financial

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 corporate landscape is littered with service organizations that lost their sense of direction; didn't keep pace with trends in their industry; overlooked the innovations in technology that were reshaping requirements; lulled themselves into a false sense of confidence; and, most importantly, failed to anticipate and exceed the expectations of customers.

Leadership is about change. It's about getting ahead of the curve, focusing intensely on customers and reinventing how we think about the business world in each day.

At DTCC, over the past four years, we've dramatically redefined our role, increased the speed at which we can act, enriched the value we can bring and enhanced the ROI our customers can achieve.

For us, it's not about abandoning the core of our reputation for certainty and reliability, but fundamentally reexamining our value proposition and leveraging capabilities that expand the reach and scope of our services to link new trading parties — and facilitate the growth of new markets. In effect, we're not responding to change. DTCC is now helping to lead the transformation shaping the future of the financial services industry.

Dear Stakeholder:

The unpredictable nature of change in the financial services industry adds to its dynamic quality and underscores its demand for innovation. From the heights of the bull market to the difficult downturn that only now seems to be reversing itself, our customers continue to be challenged by trends and events redefining the shape of this industry.

At DTCC, we understand that change is driven in part by the costs our customers incur to support back-office functions and the technology needed to achieve greater efficiency and economies of scale. Reaching new markets and expanded distribution channels can be the key to growing revenue and investor choice. DTCC knows well the importance of accomplishing this type of data exchange without huge capital investment and delivering it seamlessly to a broad network of trading parties.

The value proposition that we offer is the power of DTCC's network, which links most financial organizations in the United States.

Just as financial markets function as both the crossroads of commerce, directing traffic, and as the economic engine fueling growth, DTCC sees its own infinite possibilities in helping shape the future of the financial services industry. Rather than wait for direction, DTCC has raised its own operating benchmark to chart a course toward leading transformational change.

In a special section starting on page 6, we've highlighted some of the key initiatives we've moved forward in 2003 to ensure the certainty and continuity of our operating support and a growing range of services for new market segments.

For us, leading the transformation in financial services means pooling our combined strengths as an organization and vigorously anticipating and focusing on customer needs:

- Imagine having access to all parties to a trade through a single communications network that's secure and managed seamlessly, end to end.

- Imagine a service provider that can centralize, automate and standardize manual processes.
- Imagine a service organization with a proven track record of highly reliable systems and a reputation for reducing customer costs.
- Imagine a business partner and solutions provider with expertise in risk: market risk, systemic risk and operational risk.

DTCC offers all these strengths and more than 30 years of experience. Ironically, our customers have traditionally thought about us only in terms of the particular product sector we support for them, and not by the sum of our expertise and organizational capabilities.

The time has come for us to bring greater focus on the value proposition that we can offer through the power of DTCC's network, which links most financial organizations in the United States, and as a logical solutions provider to the industry.

Across our complex with its breadth of services is an expertise to help customers, on a more integrated basis, address their needs for automating and standardizing data exchange and streamlining money settlement. As consolidation of financial services continues, we can help firms avoid the high fixed costs of integrating technology systems by providing the variable cost structure of a centralized, outsourced solution. Oftentimes, we can address needs quickly by repurposing technology we've already developed. We can also help firms reduce risk by providing solutions that bring greater efficiency to their processing. DTCC has the technology infrastructure and knowledge to help the industry cut costs and spur growth.

DTCC'S OVERALL PERFORMANCE Although the number of shares traded on major exchanges dropped slightly in 2003, trading volume continued to climb. As a result, DTCC continued to set new records for processing volumes and settlement activity. On a combined basis, our subsidiaries settled transactions valued at \$923 trillion, up from

\$923 trillion

\$917 trillion in 2002. This translates to roughly \$3.7 trillion worth of transactions processed and settled each business day.

The volume of transactions grew even more rapidly. Indeed, we broke records across all major business segments again last year. Volumes for equities processing increased 17%; fixed income volume was up 17% for government securities and 14% for mortgage-backed securities; and distribution services volume was up 5% for mutual funds, while insurance services volume for commissions, applications and premium transactions rose 35%. We handled these higher volumes, while continuing to streamline the organization.

DTCC's fee-based revenue generated \$947 million in 2003, up from \$906 million in 2002. As a result of tight financial management and strong volume growth, we returned to customers \$252 million in rebates and discounts this past year, compared to \$199 million in 2002.

Also noteworthy is that Standard & Poor's once again reaffirmed the highest credit ratings for two of our subsidiaries, DTC and NSCC, in 2003. We have maintained these AAA/A-1+ ratings since 2001, when we first sought a credit rating.

BUSINESS CONTINUITY AND OPERATIONAL RISK

Like so many organizations in financial services, we have worked intently the last two-and-a-half years to strengthen our business continuity plans and heighten our operational risk management. Both initiatives are garnering praise from the industry. During 2003, we completed the set up of a remote data center in record time. We also launched plans for a remote operating site, which we expect to begin staffing in 2004. And, because employees are our primary concern in any emergency, we further expanded our employee safety program.

We also substantially speeded up our capacity to move and store data through our network. In 2003, we relaunched this network with expanded capabilities, and gave it a formal name: Securely Managed and Reliable Technology, or SMART. The network, which links DTCC with virtually every major bank and broker/dealer in the industry, is the backbone of our operations and key to our continuity effectiveness.

Last August, the most severe blackout in U.S. history provided a real-time opportunity to test our continuity procedures. While our New York facilities had backup power and were unaffected by the blackout, we designated one of our remote operating

locations to assume processing on August 15. With an appropriate safety net, we demonstrated our resiliency to switch the base of our operations seamlessly. DTCC operated successfully throughout the blackout, clearing and settling trades and servicing assets without interruption.

Early in 2004, DTCC issued a report to the industry summarizing the significant progress we've made on business continuity planning. We're hopeful this report will encourage an ongoing dialogue and sharing of best practices on business continuity with firms and counterparts in the U.S. and overseas.

Our Operational Risk Management program gained momentum in 2003, with the launch of pilot programs to have employees self-assess risks within business units throughout the organization and the distribution of a corporate-wide policy to establish guidelines and benchmarks for employees. These and other initiatives are building on a program we initiated in 2001 to manage credit, market and other risks across our subsidiaries more comprehensively.

NEW BUSINESS INITIATIVES We launched two major new global service offerings in 2003.

To help bring automation, standardization and reduced risk to the global over-the-counter derivatives market, we introduced DTCC Deriv/SERV, a post-trade matching service for credit default swaps. Over-the-counter derivatives represent a new market for us, broadening the scope of our services beyond traditional securities. Our speedy development and rollout of Deriv/SERV in less than a year beat market expectations, and since then, the service has achieved strong market share. Already, most top-tier global dealers are live on the system. In 2004, we plan to roll out enhancements and expand the service to handle other derivatives.

We also launched the Global Corporate Actions (GCA) Validation Service, which automates and streamlines one of the most complex and risk-prone areas in financial services. The service leverages our years of experience in corporate action processing and gives customers automated access to data that's been compared and corrected from sources around the world. GCA will allow firms to eliminate the risk and costs associated with manual processing of corporate action announcements.

Value of government securities transactions processed: \$529 trillion

\$87.9 trillion: Value of money market settlement activity

Par value of mortgage-backed securities transactions: \$67.8 trillion

INDUSTRY LEADERSHIP DTCC continues to take a leadership role in the industry on multiple fronts. In the U.S. market, we are working closely with the mutual funds industry and regulators to help develop solutions that address the issues of late trading, market timing and breakpoints. As regulatory changes are developed and defined, we will enhance and expand our services — including Fund/SERV, which has automated the processing of mutual fund transactions — to ensure that customers have our fullest support.

We continue to press ahead with straight-through processing (STP) and made significant progress in 2003. This included the launch of our consolidated settlement reporting system, our Inventory

Leadership, in our view, is about addressing the needs of customers today, while anticipating those beyond the horizon.

Management System that gives firms greater control of their settlement, the first phase of the Continuous Net Settlement redesign; converting Nasdaq trade reporting to real time; and the planned roll-out of Fixed Income Clearing Corporation's real-time trade matching engine in 2004 for corporate and municipal bonds and unit investment trusts.

Omgeo, DTCC's joint venture with Thomson Financial, has also emerged as the preeminent worldwide matching service for institutional trades. In 2003, customers of OASYS-Trade Match reported that their same-day affirmation rates (T+0) climbed as high as 92%.

ACHIEVING OUR MISSION DTCC has made great strides toward achieving our mission since 1999. Evidence of this progress includes customer satisfaction survey scores by an independent research firm, which have now reached world-class levels of performance; the successful embrace of new services, both domestic and global, which are expanding our involvement into new markets; employee survey scores that endorse the cultural changes DTCC has implemented; and

the general perception in the media that DTCC's performance and operating model are highly regarded benchmarks in the industry.

It's clear that the directional stake in the ground to be, by 2005, the provider of choice worldwide for investment servicing solutions through innovation, leadership and technology, has created a sense of urgency at DTCC. It is changing our role in the industry and ensuring that we stay ahead of the curve in surpassing our customers' expectations. The mission statement reflects DTCC's determination to culturally operate like a "for profit" company with its spirited competitiveness and bottom-line accountability for results, even while we retain our "at cost" structure, which allows customers to benefit from the efficiencies we create in the form of rebates and discounts based on excess profits.

The underlying goal behind our mission was to transform DTCC so that we could indeed help lead the transformation of the industry. It is a goal that's customer-centric. It really doesn't have an end point. It's not limited to any geographical boundary. And it isn't only focused on what serves our bottom line. Leadership, in our view, is about addressing the needs of customers today, while anticipating those beyond the horizon.

CONCLUSION It was a year of transition for our senior leadership team. Dennis Dirks, who was our chief operating officer, retired after a distinguished 30-year career with the company. Dennis' contributions to our organization and the industry were numerous, enduring and far-reaching. Equally significant are the standards he set for integrity and commitment to customers. Dennis truly made a difference, and we thank him for his years of leadership, dedication and friendship.

Following Dennis' retirement, we undertook a reorganization of the management team, appointing new leaders in multiple areas of the company. We made this transition seamlessly, without disrupting our day-to-day operations or our ability to continue growing the business.

DTCC thanks its board members for working closely with us to ensure the delivery of ever more efficient and cost-effective core services for the industry, while also helping us expand judiciously in directions that will benefit new market segments. We appreciate their energy, insights, time and valued contributions.

\$1.54 trillion: Value of mutual fund transactions processed

Value of securities on deposit: \$24.6 trillion

Value of insurance applications, premiums and commissions processed: \$9.5 billion



The last word goes to our employees. The commemoration of our 30-year anniversary of service to the industry was a major highlight in 2003 and led to an invitation from the New York Stock Exchange for DTCC to ring the opening bell on May 29th. This event underscored the industry's recognition of the vital contribution our employees make to the financial markets.

The success and dynamism of any organization depend on its people. At DTCC, we have extremely talented, dedicated and knowledgeable employees, whose commitment to excellence and serving the industry is unrivaled. It continues to be an honor to work with such an exceptional group of people.

Jill M. Considine
Chairman & CEO

With today's news headlines filled with negative stories about business ethics, corporate conduct and issues of corporate governance, I want to reaffirm that integrity and trust are core values at DTCC and ethical behavior remains our highest priority.

Our company processes millions of transactions each day involving trillions of dollars. Some of us may have access to information that is not available to the public. This is an enormous responsibility and one our employees take quite seriously. We talk about this issue on a regular basis at staff meetings, in internal newsletters, training sessions and as part of our everyday activities. In addition, for several years now we've distributed a Code of Ethics that details the beyond reproach behavior expected of every employee.

At a management level, I believe a zero tolerance approach on unethical corporate conduct is the most effective deterrent. Nothing poses a greater threat to the reputation and viability of an enterprise than an ethical lapse in judgment by a person in a leadership role. If we find unethical conduct, our response will be swift and definitive.

On corporate governance, DTCC has taken an aggressive posture. While DTCC is not a public company, we continually review our efforts in this area and look to adopt best practices, where appropriate. In 2003, our Board adopted several important changes, including expanding the role of our Audit Committee to assess our compliance with federal securities laws; enhancing the Governance Committee's role to periodically evaluate the overall effectiveness of the Board and Board Committees and providing new directors with orientation training and a written policy statement outlining their responsibilities. DTCC has a formal compensation program establishing salary ranges, target incentives and metrics for all employees including executives. The Board's Compensation Committee also has an independent consultant make recommendations based on marketplace and company performance.

For more than 30 years, DTCC's family of companies has enjoyed an unblemished reputation of trust across the industry. We earned that reputation based on the actions of thousands of employees who share a commitment to high standards. We will continue to be vigilant in these efforts to safeguard these values.



New Initiatives in 2003

For nearly three decades, the DTCC family of companies has delivered solutions for virtually all sectors of the financial services industry. While our business units are organized to serve the distinct requirements of particular industry sectors, DTCC is taking an expanded view to determine where our combined expertise offer customers and new markets.

Our goal is not only to help customers meet the current challenges transforming the markets and the requirements of investors, but also to anticipate those that loom on the horizon.

This past year has been one of the most aggressive in memory for DTCC and its subsidiaries, with leadership demonstrated on a number of new initiatives which are featured in the pages that follow.

Business Continuity Planning: Ensuring Certainty

Challenge . . . Long before the events of September 11, 2001, DTCC understood that a critical challenge facing the financial services industry is to ensure sufficient resiliency and redundancy in the industry's infrastructure to guarantee the continuity of clearance, settlement and asset servicing in the event of a disaster. After 9/11, the organization began a rigorous review of our business continuity plans, not only to identify what had been learned, but also to evaluate whether the plans DTCC had in place could address the previously unthinkable scenarios it now had to plan for.

Initiative . . . Since then, DTCC has substantially strengthened our continuity plans with an emphasis on protecting employees and sustaining business operations. DTCC established multiple, geographically dispersed back-up centers linked by our highly resilient network technology to ensure systems redundancy and data safekeeping. The company restructured crisis management teams and can now conduct all critical systems functions from an expanded number of locations. DTCC added channels for emergency communication with its customers, regulators and the markets, and tests our plan readiness and customer connectivity regularly. And, equally important, the company instituted a sweeping employee safety program, decentralized staff, made sure senior executives never work simultaneously in the same location and established priority phone access under a U.S. government program.

Impact . . . DTCC's focus on and leadership in business continuity planning have made the industry's infrastructure more resilient and less vulnerable to large-scale disruptions. DTCC has the resources to achieve business recovery, even in the direst circumstances, within the two-hour window mandated by government agencies. DTCC also plays a leadership role in contingency planning coordination between the government and the financial services industry, and is working with financial firms globally on best practices to ensure infrastructure certainty worldwide.

Operational Risk Management: Minimizing Exposure

The events of 9/11, a string of high-profile business failures attributable to poor operational risk management practices and heightened regulatory concern have all combined to make enhancing operational risk a priority for nearly all companies. DTCC, known throughout the securities industry for its rigorous risk management practices, is increasingly targeting operational risk. The company's aim is to centralize and formalize its management of operational risk, while building on existing practices and programs.

In 2003, DTCC adopted and distributed an Operational Risk Management Policy to all employees outlining the company's standards and expectations. This policy was followed with an employee handbook circulated in 2004. Beyond these written guidelines, DTCC has created an operational risk management unit chartered with bringing structure and follow-through to the effort. Over the past 18 months, the unit worked with DTCC's Finance, Legal, Internal Audit and other departments to create a multi-year business plan and a methodology for identifying, assessing, monitoring and managing operational risk. Throughout 2003, the first of several new analytical tools were introduced in pilot tests to help employees complete self-assessments of risk in their departments. Other tools the company is now starting to use include a database of incidents involving operational risk and an "early warning" system to indicate a high-risk possibility of operational risk mismanagement.

For DTCC, the effort is already creating a better understanding of operational risk management issues, techniques that can be used to safeguard the company, as well as instilling in the culture that operational risk management is "everyone's job." For DTCC customers, increased emphasis on operational risk management is yielding tangible results in cost control. Over the long run, DTCC believes its pioneering work in this area will help build a foundation for best practices that can be shared with others in the financial services industry.

DTCC's Streamlined Settlement Process: Achieving STP

Challenge . . . Securities firms have been well aware of the enormous benefits that straight-through processing (STP) could bring to the settlement process. However, achieving maximum speed and efficiency required a single automated settlement platform with a wide range of controls that would enable firms to order and time their trade submissions with precision.

Initiative . . . In 2003, DTCC and the securities industry took a significant step toward STP with the launch of a single settlement platform and the implementation of a centralized inventory management system (IMS). This effort was one of the underlying goals envisioned by the industry with the integration of DTC and NSCC in 1999.

Working with customers, DTCC mapped out a phased implementation of a successful inventory management system — one that would transform the old, predetermined submission and recycle order by providing greater control of deliveries and receipts and speed up the process. Completed in October 2003, phase I allows customers to develop “profiles” on how they want different types of securities — including equities, municipal debt, corporate debt or money market instruments — to be submitted for settlement. It also provides increased control over institutional deliveries and automatic reintroduction of “dropped” trades for processing and settlement.

Impact . . . Together, DTCC's consolidated settlement system and IMS are not only providing one centralized solution for all DTCC customer firms, they're also boosting efficiencies and reducing costs and risk for the entire industry.

New Initiatives in 2003

Global Corporate Action Validation Service: Bringing Efficiency

Challenge . . . Every day, millions of notifications for tender offers, rights issues, mergers, optional dividends, early redemptions and the like crisscross the globe in a chaotic, risk-prone flow. Information on these events, known as corporate actions, comes from myriad sources, including custodians, depositories, exchanges and commercial information providers, as well as newspapers, trade journals and the Web. While the information is deadline-driven, it is also unstandardized and may be unreliable or incomplete. As a result, global financial institutions are forced to manage the risk by making significant investments in their operational infrastructure to “scrub” corporate action announcements, and reconcile and consolidate diverse bits of an increasingly large amount of information.

Initiative . . . Building on decades of experience in corporate action processing, DTCC launched the GCA Validation Service in 2003 to provide financial institutions around the world with a highly automated, standardized source of corporate action announcements. This global service offering eliminates the redundant infrastructure and duplication of effort that exists today in the industry. This comprehensive solution offers customers global coverage, handling securities traded in the Americas, Europe and Asia.

Impact . . . The GCA Validation Service aims to give its customers a single right answer through a seamless corporate action announcement solution that delivers comprehensive information in a format that is standardized and structured. In addition to eliminating the manual, cumbersome process of reconciling notifications, the service delivers better data quality and huge economies of scale, reducing costs and risk for financial institutions worldwide. After going into full production mid-year, the service created 800,000 announcement records in 2003, and on a daily basis, exceeded a 99.9% service level for timeliness and information quality, as well as a host of other performance measures.

New Ideas for the Fixed Income Market: Improving Safety

Challenge . . . While the fixed income market continues to grow in volume and value, two of its major segments face processing inefficiencies that prevent their respective customer bases from full participation in modern clearing corporation benefits. These include the current manually intensive and time-consuming process to settle government securities trades between brokers and their institutional customers, and the lack of central counterparty capabilities for mortgage-backed securities trades.

Initiative . . . In 2003, DTCC's subsidiary, the Fixed Income Clearing Corporation (FICC), introduced two groundbreaking proposals that can greatly enhance the safety and soundness of institutional settlement, as well as all steps involved in mortgage-backed securities trading.

Institutional Settlement: This new model for post-trade processing of U.S. government securities trades would maximize netting for dealers and promote efficient straight-through processing (STP) settlement for institutional customers, without requiring them to become FICC members.

CCP for Mortgage-Backed Securities: FICC would create a Central Counterparty (CCP) structure that will provide a seamless flow of information from trade execution through settlement, as well as guaranteeing such transactions.

Impact . . . Both proposals would significantly reduce risk, lower costs and provide an STP environment by standardizing, streamlining and/or eliminating the many manually intensive steps necessary in both current processes. The institutional settlement model would, ultimately, allow for a seamless settlement process, extending from block execution through to settlement with custodian banks. This would ease the administrative burden incurred by dealers and institutions in managing their trades. By serving as a CCP for mortgage-backed securities, FICC could introduce a new pool netting capability to complement its existing trade netting service. This would eliminate many of the required deliveries of mortgage-backed pools, simplifying and automating the settlement process and making it easier for firms to see their collateral flow.

Mutual Fund Late Trading: Providing Solutions

Challenge . . . The unfolding investigation of late trading of mutual funds in 2003 has heightened concern among regulators and legislators on whether adequate safeguards are in place to protect investors. These concerns prompted the Securities and Exchange Commission in 2003 to propose changes to current rules. The Commission recommended that, in order to qualify for that day's prices, mutual fund orders had to be submitted to the fund or a registered clearing agency (NSCC's Fund/SERV® system) by 4 p.m. The potential implications of a hard deadline of 4 p.m. are significant for the industry in terms of processing flows, capacity and cost. As a leading processor of mutual fund transactions, helping the industry meet this proposed deadline without major disruption creates a unique challenge for DTCC's Mutual Fund Services.

Initiative . . . From the earliest disclosure of the controversy, DTCC began working with its customers and industry trade groups to gain an understanding of the different proposed solutions that could potentially change the way the fund industry has traditionally operated. We also sought to identify how Fund/SERV, the industry's backbone processing system which DTCC's National Securities Clearing Corporation operates, could be enhanced to help customers comply with changing regulations. Examples of these enhancements may be a time stamp for data flowing through Fund/SERV, as well as capabilities for transmitting later files of information not normally available until after the 4 p.m. close, such as applicable breakpoints or contingent deferred sales charges.

Impact . . . While the final regulations are still pending with the SEC, DTCC is confident in our continuing ability to provide the industry with a trade-processing infrastructure flexible enough to meet whatever new requirements are mandated. And by developing a straightforward solution to any such requirements, we expect that our customers will be able to make adjustments within their own technology platforms easily and as cost-effectively as possible.

InsurExpressSM: Expanding the Market

Challenge . . . The demand for insurance products is growing, as members of the baby boom generation increasingly turn to those products to achieve a complex blend of financial goals: income and family protection, retirement planning with annuities, maintaining a reliable income stream during retirement and estate planning, among others. Amid this growing demand for insurance products, however, the market environment is plagued by highly manual sales and processing, an absence of industry standards and cumbersome procedures that inhibit expanding distribution channels.

Initiative . . . To help carriers and distributors expand this market, DTCC has developed InsurExpress: a seamless end-to-end solution that will set a new automated, electronic processing standard for the insurance industry. The service integrates and simplifies the entire life insurance and annuity application process from start to finish, connecting carriers and distributors efficiently and securely. Where achieving this goal for the mutual fund market in the 1980s took several years, DTCC's insurance solution brought together the "best of breed" service providers within a year to deliver a solution that is quick to market and low cost.

Impact . . . Through a single portal, InsurExpress will provide access to a broad array of products, expand distribution networks, streamline and expedite processing, reduce operational costs, accelerate firms' revenue generation and enable same-day money settlement. With this new service, DTCC stands ready to equip the insurance industry's manufacturers and distributors for the coming tide of consumers seeking insurance solutions to meet their current and future financial and protection needs.