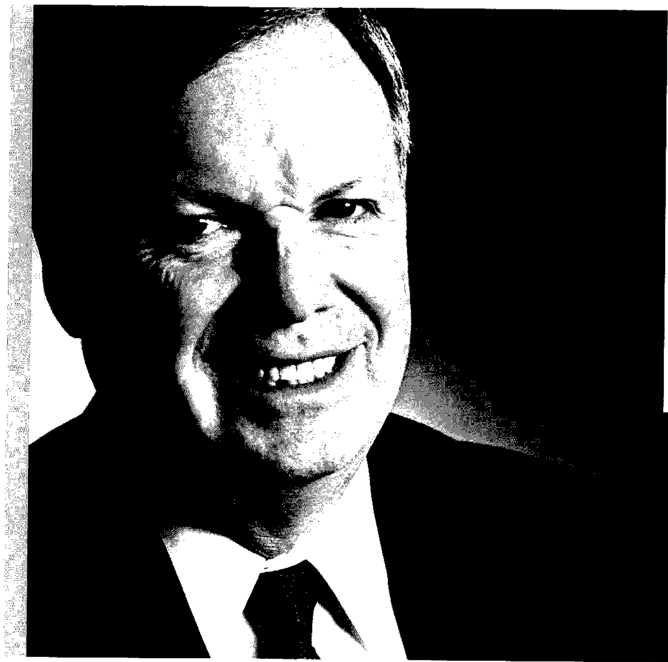
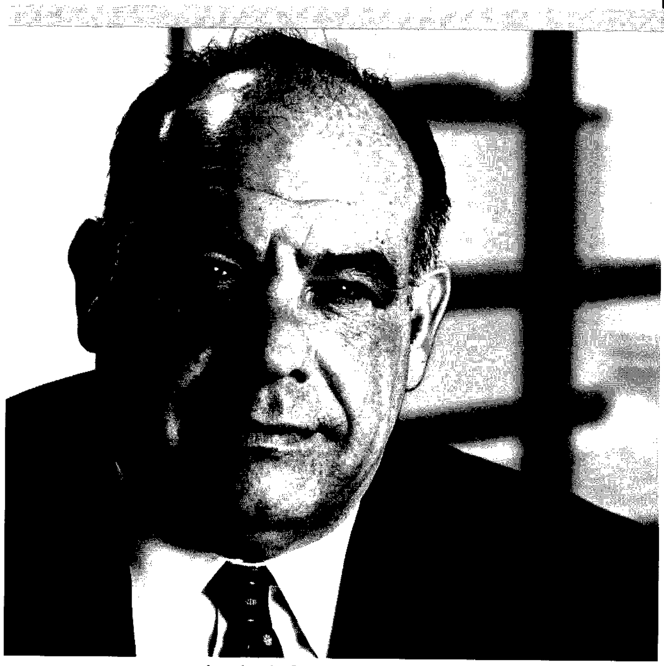
Richard G. Beggs, Co-President & Co-COO, Daiwa Securities America Inc.



Santo C. Maggio, President & CEO, Refco Securities, LLC



Louis J. Scotto, Group COO, Tullett Liberty Limited

Mutual Funds

FUND/SERV®: A SYSTEM STILL GROWING IN VALUE In its 18th year, Fund/SERV, the industry standard for linking mutual fund families with broker/dealers, banks and other financial intermediaries who market and distribute funds, smoothly handled a peak volume of close to 87 million transactions in 2003, an increase of 5% over 83 million transactions in the prior period. The value of these purchases, redemptions and exchange orders amounted to $1.5 trillion, down slightly from the $1.6 trillion recorded in 2002.

DTCC has successfully leveraged Fund/SERV's core capabilities in recent years to include new products such as offshore funds, stable value funds, Section 529 Plans, unit investment trusts, separate accounts, bank collective investment trusts and guaranteed investment contracts.

Enhancements to Fund/SERV for offshore fund processing have made a significant impact on our customers' ability to streamline their processing and eliminate inefficiencies. Cross-border transactions were up 10% in 2003. DTCC, however, recognizes that the market has much broader requirements than those currently addressed by Fund/SERV. Increasing demand from U.S.- and overseas-based organizations clearly suggests that an opportunity may exist for a new global fund trade-processing vehicle that could provide the same efficiencies as Fund/SERV does in the U.S.

CORE FUND SERVICES SEE HEALTHY USAGE INCREASES Since 1988, Networking has played a key role in automating and centralizing customer sub-account information so that distributor and fund company records and statements sent to investors are accurate. During 2003, the total number of sub-accounts on Networking increased to just over 58 million, versus 57.3 million in 2002. While some large firms have moved toward an omnibus reporting model, DTCC is exploring ways in which Networking could be enhanced to make that business model more efficient.

Fund/*SPEED*℠ ended 2003 with upward of 65,000 users, a dramatic increase from just under 33,000 the previous year, attesting to its growing importance to financial planners. Launched in 2002, Fund/*SPEED*'s Web-based platform enables this important distribution market and others to access account data within seconds and process purchases, redemption and exchange orders. The service is accessible through an industry standard and open-architecture platform that uses Extensible Markup Language, a common standard for electronic data exchange.

Following a marketing drive to extend product recognition of NSCC's streamlined payment service, Commission Settlement's volume was up 4% over 2002, with the total number of fund commissions reaching 760 million, compared with 730 million in the previous year. The service, which standardizes commission formats and greatly simplifies the reconciliation process for broker/dealers and other funds distributors, has been proven to cut manual processing in half.

DTCC stepped up to support the mutual funds industry as it grappled with several major issues including breakpoints, and the investigation of late trading and market timing.

TACKLING INDUSTRY ISSUES On another front, DTCC stepped up to support the industry as it grappled with several major issues including breakpoints, as well as the investigation of late trading and market timing of mutual funds.

Tracking mutual fund breakpoints has become a complex process, with different and changing rules for each fund making it difficult for distributors to ensure that their customers' accounts accurately reflect the discounts to which they are entitled.

In 2003, DTCC participated in the NASD/Industry Task Force on Breakpoints and worked closely with customers to find an appropriate solution. This effort resulted in recommendations that included modifications to Fund/SERV and Mutual Fund Profile Service, which DTCC is targeting to implement in mid-year 2004.

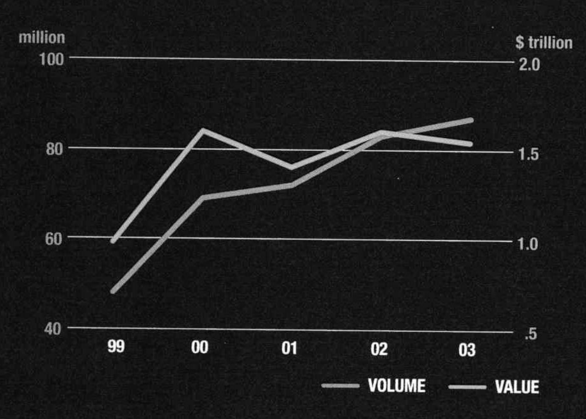
Two key elements will be a central, comprehensive database of pricing methods, breakpoint schedules and linkage rules, and added functionality within Fund/SERV to identify accounts that can be aggregated or "linked" to better determine eligibility for breakpoint discounts.

Separately Managed Accounts: A New Frontier

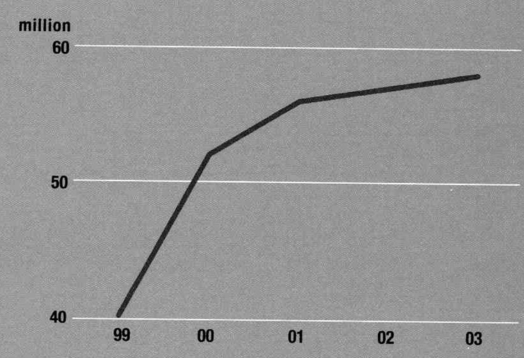
While assets in separately managed accounts (SMAs) are on the upswing — $506.6 billion, up from $391.9 billion in 2002 — firms handling these accounts are increasingly concerned over inefficient processing. This prompted firms that offer SMAs and members of The Money Management Institute, the industry's trade organization, to seek DTCC's expertise. During 2003, this collaborative effort resulted in the completion of a prototype for a new automated, centralized service for transmitting account information — and the first-ever common messaging standards for the industry.

This new Separately Managed Account Service, which is pending approval by the Securities and Exchange Commission, will leverage the clearing corporation's proven information processing technology to migrate the SMA industry onto a common platform that will achieve several objectives: make it easier for the industry to reach its full growth potential; create scalability for sponsors and investment managers; eliminate costly manual and independent electronic links; reduce transactional errors and operational risk, and lower back-office costs.

FUND/SERV® TRANSACTION VOLUME AND VALUE

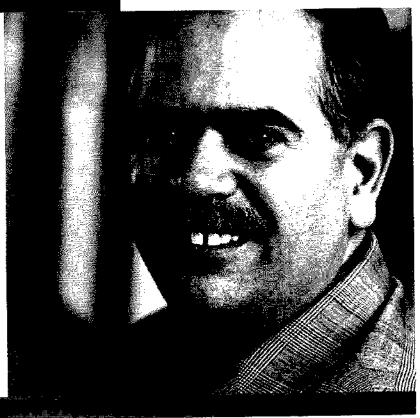


NETWORKING SUB-ACCOUNTS



Elisse Walter, Executive Vice President, Regulatory Policy & Programs, NASD

Kathleen Kelleher, First Vice President, UBS Financial Services Inc.



James Quartuccio, Vice President, Investment Management Services, Prudential Financial

Clifford Jenkins, Vice President, Citigroup Global Markets, Inc.

The Insurance Market: On the Threshold of Major Growth

The insurance industry is experiencing a phenomenon similar to what the mutual funds business underwent in the 1980s: burgeoning consumer demand against a backdrop of manual processing and disparate technology standards. To capitalize on this demand, the industry will need to mainstream insurance products further into the financial services landscape through tools that automate, streamline and standardize processes.

For several years, DTCC has delivered to the industry valuable systems that have automated key insurance processes, including processing annuity applications, enabling the licensing and appointing of agents and registered representatives, paying commissions, and processing subsequent premiums.

Rising volumes reflect growing customer usage of these products. For instance, transaction volume for commissions, applications and subsequent premiums stood at 30.4 million in 2003, up 35% from 22.5 million in 2002. The value of money settlement posted strong results as well, ending the year at over $9.5 billion, a 75% gain over $5.4 billion in 2002. Usage of Insurance Services' flagship compliance service, Financial Activity Reporting, jumped 69%, to 8.4 million records in 2003 from nearly 5 million in 2002.

And, finally, licensing and appointments volume experienced a 366% growth increase, to nearly 2.6 million from 556,690 in 2002. Incidentally, for the second time in a one-year period, Insurance Services reduced fees for its annuity application service, which will enable new, lower-volume firms to sign up and help existing customers continue to cut costs.

EXTENDING CORE SERVICES To build on this momentum in its core services, Insurance Services maintains an ongoing focus on creating new ways to serve the industry. FAR Import, an abbreviated version of Insurance Services' traditional Financial Activity Reporting service, was rolled out in 2003 to meet the needs of distributors that do not have the resources to distill the raw data that is provided with the full service. It also gives distributors that are not yet in full production with the FAR service the ability to obtain key compliance information. Through FAR Import, distributors can import a subset of data into a Microsoft Excel spreadsheet to analyze transactions from all their carrier trading partners for questionable activities.

In another move to leverage DTCC's existing capabilities, an initiative to speed the transfer of insurance assets began in 2003, and will be launched in 2004. This initiative is an extension of DTCC's well-regarded Automated Customer Account Transfer (ACATS) service, and will automate the process of transferring information when customers move their annuity accounts from one firm to another.

In 2003, DTCC announced the initial development of InsurExpress℠, a breakthrough new service that will transform the sale and processing of life insurance products.

A high point of 2003 was DTCC's announcement of the initial development of Insur*Express*℠, a breakthrough service that will transform the sale and processing of life insurance products. DTCC anticipates that Insur*Express* will fuel market growth for years to come.

PARTNERING WITH KEY INDUSTRY GROUPS TO LEAD CHANGE One of the most important ways that Insurance Services keeps a finger on the pulse of customers is to work collaboratively with industry groups. In mid-2003, the Securities Industry Association (SIA) and DTCC formed a Joint Insurance Advisory Panel to work collaboratively on automating and standardizing processes between broker/dealers and insurance carriers. In 2004, the panel is focusing on accelerating the move to greater efficiencies and establish standards as a means of growing the insurance market.

In addition, Insurance Services partnered with ACORD, the industry's foremost insurance data standards organization, on a number of efforts, including its annual conference. This yearly gathering showcases major technology advances (a demo of Insur*Express* premiered at this event).

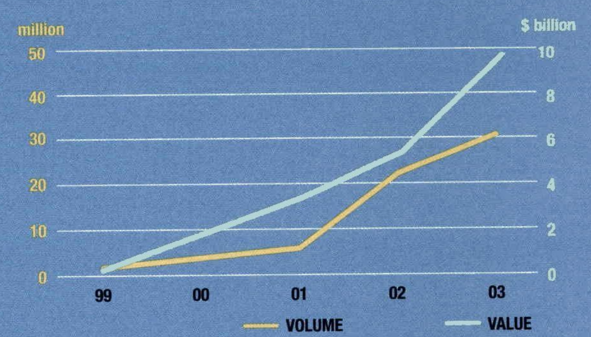
New Membership Category: Increasing Access, Spurring Market Growth

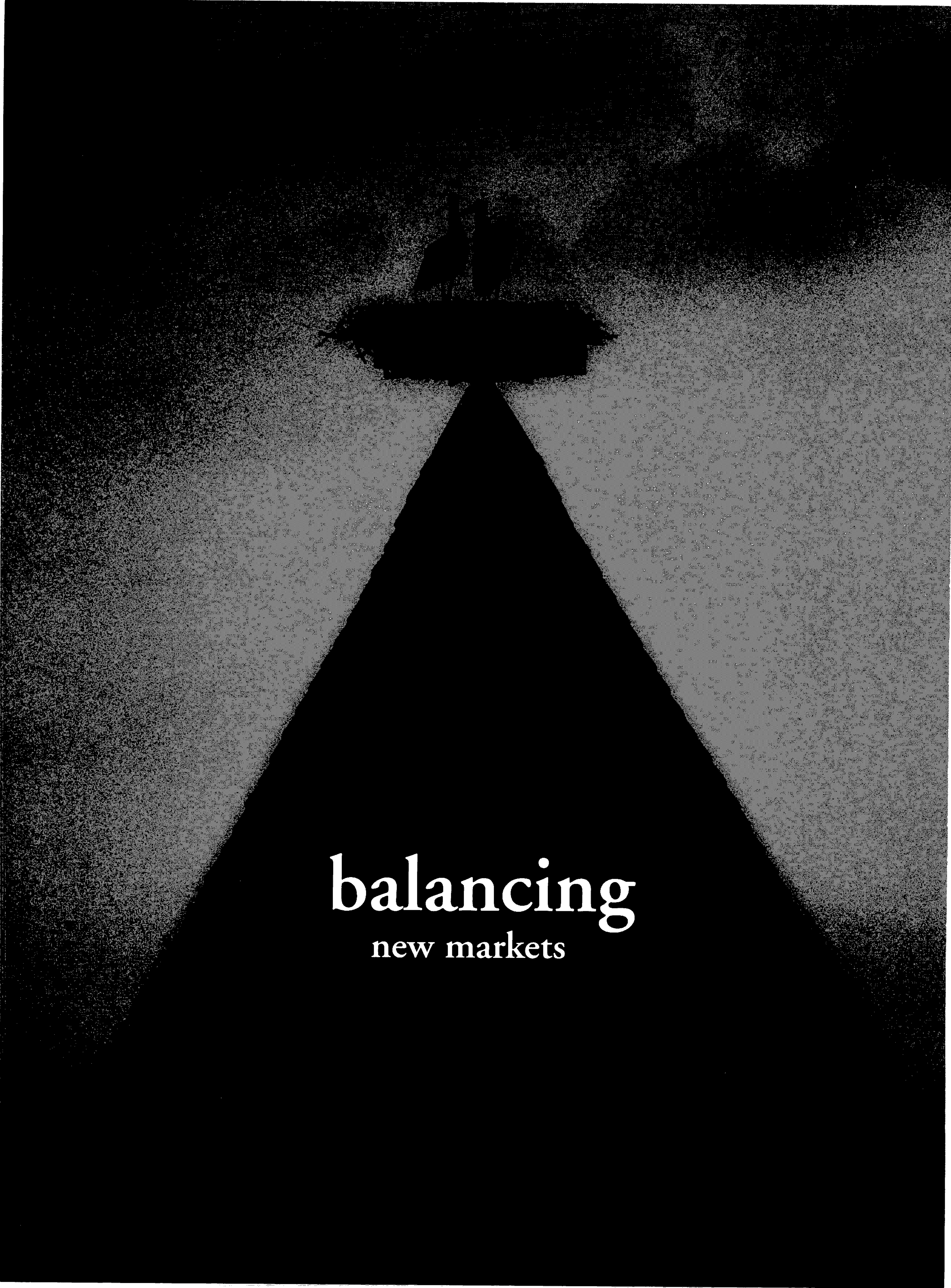
In an effort to make Insurance Services' products more accessible to a wider range of distributors — and, thereby, encourage standardization and expand the market — a new membership category was introduced: Data Services Only (DSO). This category enables small and medium-sized independent broker/dealers, banks and trust companies to access Insurance Services products, providing these distributors with the annuity and life insurance information they need without money settlement capabilities.

Insurance Services expects ongoing momentum for DSO membership as it works with its carrier customers to identify which of their trading partners would benefit from DSO membership. Linking additional distributors to DTCC will enable carriers to conduct business uniformly across all of their distributor relationships, regardless of a distributor's size.

Usage of Financial Activity Reporting Service: Up 69% to 8.4 million records in 2003 from nearly 5 million in 2002.

INSURANCE VOLUME AND VALUE
Volume and value of commission, application and premium transactions settled.




balancing
new markets

International Services

DTCC's initiatives and collaborative efforts in the international arena are a reflection of our customers' growing demands for low-cost, efficient and seamless securities processing in markets where they operate around the world. These efforts often involve working on multiple fronts — partnering solutions, building automated services and strengthening relationships with our counterparts globally.

Some examples of our global service offerings that have been covered earlier in this report are DTCC's Global Corporate Action Validation service, our matching service for credit default swaps (DTCC Deriv/SERV) and our growing processing of cross-border mutual funds transactions.

During 2003, DTCC signed agreements with the Taiwan Securities Central Depository and the Japan Securities Depository Center to foster information sharing on clearance, settlement, depository operations and risk management. DTCC also began discussions with The Canadian Depository for Securities Limited (CDS), to assess future business opportunities to work together.

In 2003, DTCC continued to foster its 13 depository links abroad. These links streamlined settlement of several cross-border merger transactions this past year, including two mergers between U.S. and Italian pharmaceutical companies.

In the European Commercial Paper (ECP) market, a product launched by DTCC, Euroclear and Clearstream International in 2002 has become the industry standard endorsed by several trade associations in Europe. Called European Pre-Issuance Messaging or EPIM, the product streamlines the issuance of ECP and related money-market instruments and is based on a service built by DTCC's depository for the U.S. commercial paper market.

In 2003, the ECP market reached a record €390 billion, up 24% from €315 billion the prior year. With several additional major dealers and agents set to go live on EPIM in 2004, this product will continue to make a significant contribution to the straight-through processing of money market instruments in Europe.

In the emerging markets, Emerging Markets Clearing Corporation (EMCC) continues to bring greater stability to the trading of emerging market debt and ensure orderly global settlement. EMCC offers trade comparison and settlement services, as well as risk management systems that guarantee the efficient and accurate settlement of cross-border trades in Brady bonds, dollar-denominated emerging market sovereign debt, quasi-sovereign issues and corporate debt.

In 2003, EMCC matched and settled 155,000 sides worth $241 billion. EMCC also maintained an unwavering high comparison rate, reaching 99% prior to settlement date.

On another front, DTCC continues to address the G30 recommendation to automate and standardize tax relief arrangements. DTCC's Global Tax Services help financial firms manage evolving international tax regulations, income tax treaty provisions and U.S. tax reporting and withholding requirements. In 2003, DTC Tax Relief Service℠, which allows customers to electronically certify shares for "at-source" or accelerated relief, was expanded to cover Puerto Rican securities, bringing the total number of eligible markets to 17. Through this service, the total amount of withholding tax relief secured by customers increased to $702 million in 2003, up 28% from $549 million the prior year.

Network Services and Technology

As DTCC's technology and supporting infrastructure have evolved over the years to meet growing market transaction volumes, settlement values, and the changing needs of customers, the guiding principle behind the transformation has always been DTCC's unwavering commitment to building and managing systems that provide certainty, security, and complete reliability to the financial services industry. DTCC's Securely Managed and Reliable Technology (SMART) network is a powerful expression of these principles.

DTCC has focused its development efforts and technology strategy in recent years on increasing the resiliency of SMART and enhancing connectivity with customers. From its modest beginnings 30 years ago as the system supporting circuits between customers' back-office terminals and DTCC's own mainframes, SMART has matured into an elaborate end-to-end, managed system that encompasses geographically-dispersed processing centers, secured and redundant communications networks and control facilities — capabilities that are truly world-class.

Through SMART, DTCC has created an electronic network of banks, broker/dealers and distributors that effectively links virtually all trading parties and provides streamlined access to the growing range of DTCC products and services.

NEW SMART PRODUCTS AND SERVICES

In 2003, DTCC continued to build and enhance the range of products and services offered to customers over SMART, including the browser-based system, Participant Browser Services (PBS). PBS, the successor to the depository's proprietary "green screen" Participant Terminal System (PTS), allows customers access to DTCC's depository and settlement functions and applications.

In the latest version of PBS rolled out to customers in 2003, access has been streamlined for the most-frequently used functions, collectively representing approximately 75% of the depository's transaction volume. In the coming months, work will focus on transitioning the remaining depository applications to this new browser-based interface, positioning DTCC to completely phase out the use of the antiquated PTS terminals in 2005.

Last year, DTCC also launched SMART/Search for Archived Reports, which provides firms with streamlined access to historical transactional reports from DTCC's repository, including past activity, positions, settlement and soon, various billing statements. SMART/Search supplies search results for customers in various formats, including viewing directly online within the browser, via file download, e-mail link or e-mail attachment.

> DTCC's development efforts and technology strategy in recent years have focused on increasing the resiliency of SMART and enhancing connectivity with customers.

CLEARING CORPORATION IN-SOURCING

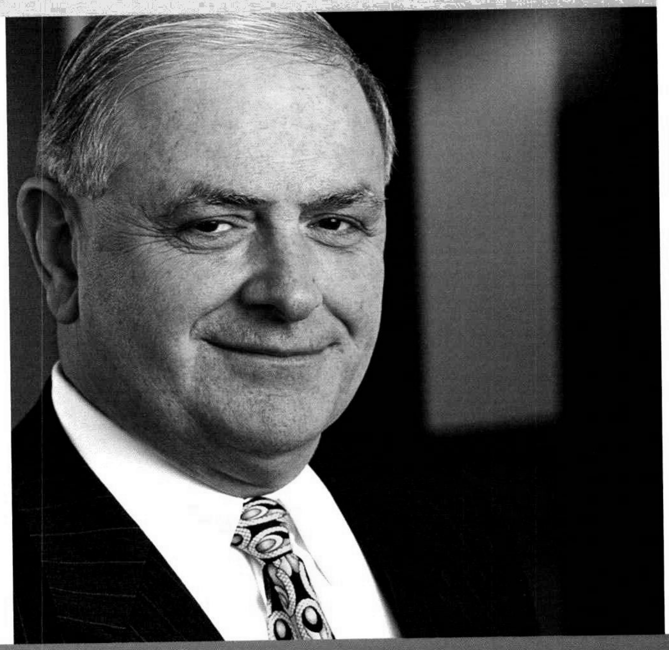
DTCC and the Securities Industry Automation Corporation (SIAC) share a long and significant history, providing the financial industry with a highly resilient core clearance and settlement infrastructure. In 2003, DTCC and SIAC worked together to integrate — or "in-source" — a range of technology support services and applications provided by SIAC into DTCC's own data processing operations.

This effort, which primarily affects DTCC's various clearing corporation subsidiaries, will produce significant cost savings for DTCC and its customers over time, as well as create consistent business continuity and data recovery plans for all subsidiaries.

With streamlined interoperability between DTCC's SMART network and SIAC's own SFTI network also announced last year, a new level of reliability for customer communications with the market infrastructure was established, as older, less robust facilities could be retired.

Scott A. Joers, Senior Vice President, US Bank, Vice Chairman, Bank Depository User Group (BDUG)

Robert D. Becker, Senior Vice President, National City Corporation, Chairman, Bank Depository User Group (BDUG)



Moving higher volumes of data over longer distances

Prior to the launch of DTCC's remote data centers, accurate, high-speed, "near real-time" data replication was challenging beyond distances of 30 miles. Last year, in conjunction with its technology partners, DTCC implemented an innovative solution that takes data replication to a whole new level. DTCC can now achieve, over the secured SMART network, high-speed asynchronous data replication over distances of more than 1,000 miles. It is this replication capacity, among other things, that allows DTCC to function over a multi-level, widely dispersed disaster recovery infrastructure. The completion of DTCC's new remote data centers and the further diversification of data communications among all processing centers help protect the industry — and by extension, the U.S. economy — from even a wide-ranging regional catastrophe.

Omgeo Forges Ahead with STP

Omgeo advanced straight-through processing (STP) on multiple fronts in 2003, with an emphasis on giving its institutional investor customers a speedy return on their STP investments. The company enhanced its cross-border central trade matching service, increased same-day affirmation rates for U.S. transactions, partnered with the industry to bring STP capabilities to a new client segment and increased fixed income volume.

Responding to customer feedback, the company rolled out a new version of Omgeo CTM, the central trade matching solution for cross-border trades and domestic trades outside the United States. The enhanced version, accessible via the Web, accelerates the integration effort required to implement Omgeo CTM, allowing firms to begin using it within two months of signing on. Customers report that the service boosts their competitive advantage, via increased operational efficiencies, reductions in costs and risk, and the capacity to process higher volumes across geographic markets.

For OASYS-Trade Match, the service providing real-time central matching for U.S. domestic transactions, customers report that their same-day affirmation rates climbed as high as 92% in 2003, up from 60-70% in 2002, and dramatically higher than the industry average of 20% in 2003. This, in turn, has driven exception processing for OASYS - Trade Match users as low as 1%. More than 100 customers are now live on OASYS-TradeMatch, double the number from one year ago.

Since its formation in 2001, Omgeo has made steady progress in achieving the vision of DTCC and Thomson Financial, which created the Omgeo joint venture to bring matching and trade reporting services to the global institutional investor market. With approximately 6,000 customers in more than 40 countries, Omgeo handled up to a million trades daily in 2003.

BRINGING STP TO NEW CUSTOMERS

On another STP front, a priority for Omgeo in 2003 was to expand its offerings to new customer segments. In addition to the traditional customer base of medium to large investment managers, broker/dealers and custodian banks, Omgeo is committed to further meet the needs of broker/dealers and smaller investment managers.

In one example of this strategy, Omgeo partnered with the broker/dealer community to launch Omgeo Allocation Manager, designed for U.S. investment managers that currently have little or no automation. The service gives these customers easy access to Omgeo's OASYS-TradeMatch via a Web interface, providing a simple, cost-effective STP solution that also increases the operational efficiency of the brokers they do business with. This innovative initiative reflects Omgeo's commitment to make STP capabilities available to all securities firms, regardless of their size. Indeed, Omgeo is exploring a similar initiative for customers outside the United States.

OASYS-Trade Match customers report that their same-day affirmation rates climbed as high as 92% in 2003, dramatically higher than the industry average of 20% in 2003.

Omgeo Allocation Manager also advances the industry goal of increasing automated allocation. Allocation is one of the most manually-driven and error-prone steps in a trade. Available within Omgeo's suite of services, the automated allocation feature is not currently being utilized by all clients. To address this, Omgeo is reaching out to customers to increase adoption of the allocation capabilities that are part of its services.

OMGEO GROWS FIXED INCOME VOLUME

Omgeo stepped up its efforts to bring greater efficiencies to the fixed income side of the business in 2003, increasing the number of investment managers using its services for debt transactions. For the year, Omgeo grew fixed income volume by more than 50%.

linking trading parties

DTCC Board of Directors

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Executive Vice President
JPMorgan Chase

Douglas H. Shulman
President
Markets, Services & Information
NASD, Inc.

Jill M. Considine
Chairman and CEO
The Depository Trust &
Clearing Corporation

Peter B. Madoff
Senior Managing Director
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Investment Securities L.L.C.

Ronald J. Kessler
Vice Chairman
A.G. Edwards, Inc.

Paul F. Costello
President, Business Services Group
Wachovia Securities, LLC

Donald F. Donahue
Chief Operating Officer
The Depository Trust &
Clearing Corporation

Thomas J. Perna
Senior Executive Vice President
The Bank of New York

John W. Cummings
Senior Vice President &
Chief Information & Services Officer
Merrill Lynch and Co., Inc.

DTCC's Board is made up of 21 directors who also serve as directors of the company's operating subsidiaries. Seventeen are from participants including international broker/dealers, correspondent and clearing banks, mutual fund companies and investment banks. Two directors are designated by DTCC's preferred shareholders: NASD and the New York Stock Exchange. The remaining two are the chairman and chief operating officer of DTCC itself. Individuals are nominated for election as directors based on their ability to represent participants of each of DTCC's operating subsidiaries, and Board committees are specifically structured to help achieve this objective. In addition, to ensure broad industry representation and expertise on key industry subjects, non-Board members serve on a number of DTCC Board committees as full voting members.

Jonathan E. Beyman
Executive Vice President
& Chief of Operations
and Technology
Lehman Brothers Holdings, Inc.

Michael C. Bodson
Managing Director &
Head of Institutional
Infrastructure Services
Morgan Stanley

George Hrabovsky
President
Alliance Global Investor Services

James P. Palermo
Vice Chairman
Mellon Financial Corporation
President
Mellon Global Securities Services

Ronald A. Purpora
Chief Executive Officer,
North American Securities
ICAP

Bradley Abelow
Managing Director
Global Operations
Goldman, Sachs and Co.

Robert H. Silver
President & Chief Operating Officer
UBS Financial Services Inc.
President
UBS Services USA LLC

Catherine R. Kinney
President, Co-Chief Operating Officer
New York Stock Exchange

Stephen P. Casper
Chief Executive Officer
Fischer Francis Trees and Watts, Inc.

Not pictured

Frank J. Bisignano
Chief Executive Officer
Citigroup Global Transaction Services
Chief Administrative Officer
Citigroup Global Corporate and
Investment Banking Group

Thomas J. McCrossan
Executive Vice President
State Street Corporation

Eileen K. Murray
Head of Global Technology,
Operations and Product Control
Credit Suisse First Boston LLC

Consolidated Balance Sheets

December 31, (in thousands)	2003	2002
Assets		
Cash and cash equivalents	$ 4,745,054	$ 5,091,439
Investments in marketable securities	144,744	116,808
Accounts receivable	163,885	150,381
Participants' funds	10,114,465	11,914,442
Fixed assets, less accumulated depreciation and amortization of $357,723,000 and $306,732,000 at December 31, 2003 and 2002, respectively	179,250	186,839
Deferred income taxes	83,517	91,716
Other assets	391,452	367,810
Total assets	$15,822,367	$17,919,435
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and other liabilities	$ 431,583	$ 406,526
Payable to participants	1,258,654	1,243,804
Long-term debt and other borrowings	307,150	258,395
Participants' funds:		
Cash deposits	3,494,092	3,887,626
Other deposits	10,114,465	11,914,442
Total liabilities	15,605,944	17,710,793
Commitments and contingent liabilities (Note 10)		
Preferred shareholders' equity in The Depository Trust Company	75,000	75,000
Class B shareholders' equity in Emerging Markets Clearing Corporation	330	330
Shareholders' equity:		
Preferred stock:		
Series A, $.50 par value and additional paid in capital – 10,000 shares authorized, issued and outstanding	300	300
Series B, $.50 par value and additional paid in capital – 10,000 shares authorized, issued and outstanding	300	300
Common stock, $100 par value – 23,655 shares authorized, issued and outstanding	2,366	2,366
Paid in capital	11,649	11,649
Retained earnings:		
Appropriated	72,930	69,819
Unappropriated	80,670	72,234
Treasury stock	(3,327)	(3,327)
Total	164,888	153,341
Accumulated other comprehensive (loss) income, net of tax:		
Minimum pension liability adjustment	(22,900)	(20,077)
DTCC's share of Omgeo's minimum pension liability adjustment	(1,059)	—
Foreign currency translation adjustment	164	48
Accumulated other comprehensive net loss	(23,795)	(20,029)
Total shareholders' equity	141,093	133,312
Total liabilities and shareholders' equity	$15,822,367	$17,919,435

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

Consolidated Statements of Income

For the Year Ended December 31,	2003	2002
(in thousands)		
Revenues:		
Trading services	$ 548,521	$ 496,938
Custody services	166,648	164,110
Network services	68,938	62,884
Other services	56,744	64,746
Interest income	76,479	85,479
Equity in net income of Omgeo	29,798	31,745
Total revenues	947,128	905,902
Discounts and other refunds to participants	(251,889)	(199,102)
Net revenues	695,239	706,800
Expenses:		
Employee compensation and related benefits	373,540	357,674
Information technology	151,551	130,554
Professional and other services	91,137	98,629
Occupancy	60,372	54,974
Interest expense	21,302	16,356
Other general and administrative	17,683	7,572
Reimbursement from affiliates	(35,620)	(43,301)
Total expenses	679,965	622,458
Income before income taxes and minority interests	15,274	84,342
Provision for income taxes	3,164	32,873
Income before minority interests	12,110	51,469
Minority interests – preferred stock dividend	(563)	(862)
Net income	11,547	50,607
Other comprehensive (loss) income, net of tax:		
Minimum pension liability adjustment	(2,823)	(20,077)
DTCC's share of Omgeo's minimum pension liability adjustment	(1,059)	—
Foreign currency translation adjustment	116	71
Other comprehensive net loss	(3,766)	(20,006)
Comprehensive income	$ 7,781	$ 30,601

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

Consolidated Statements of Cash Flows

For the Year Ended December 31,	2003	2002
(in thousands)		
Cash flows from operating activities:		
Net income	$ 11,547	$ 50,607
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
DTCC's share of Omgeo's earnings	(24,905)	(26,820)
Depreciation and amortization of fixed assets	52,522	46,939
Fixed assets disposals	2,035	4,126
Net premium amortized on investments owned	1,769	1,762
Deferred income taxes realized	9,601	16,817
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(13,504)	50,447
Increase in other assets	(29,796)	(75,721)
Increase (decrease) in accounts payable and other liabilities	20,832	(112,226)
Increase in payable to participants	14,850	60,083
(Decrease) increase in participants' fund cash deposits	(393,534)	1,658,864
Net cash (used in) provided by operating activities	(348,583)	1,674,878
Cash flows from investing activities:		
Merger of GSCC, MBSCC and EMCC (Note 1)	—	325,364
Maturity of investments in marketable securities	107,000	89,000
Purchases of investments in marketable securities	(136,705)	(105,042)
Purchases of fixed assets	(46,968)	(73,648)
Distributions received from Omgeo	30,000	10,000
Net cash (used in) provided by investing activities	(46,673)	245,674
Cash flows from financing activities:		
Proceeds from sale-leaseback transaction	63,400	—
Industrial development agency bond issuance	—	41,235
Notes payable issuance	—	17,000
Principal payments on debt and capital lease obligations	(18,307)	(11,927)
Capitalized leases	3,662	2,929
Net cash provided by financing activities	48,755	49,237
Effect of foreign exchange rate changes on cash	116	71
Net (decrease) increase in cash and cash equivalents	(346,385)	1,969,860
Cash and cash equivalents, beginning of year	5,091,439	3,121,579
Cash and cash equivalents, end of year	$4,745,054	$5,091,439
Supplemental disclosure:		
Income taxes paid, net of refunds	$ 5,862	$ 20,531
Interest paid	$ 19,608	$ 16,080

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

1 Business and Ownership:

The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports four principal subsidiaries, The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC) and Emerging Markets Clearing Corporation (EMCC). Effective January 1, 2002, the shareholders of Government Securities Clearing Corporation (GSCC), MBS Clearing Corporation (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. On December 31, 2002, the Securities and Exchange Commission (SEC) approved the merger of MBSCC into GSCC to form FICC, which commenced operations on January 1, 2003. FICC was formed to achieve greater efficiencies in the post-trade processing of fixed income securities.

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

DTC provides central securities depository and related services to members of the securities, banking and other financial industries. NSCC provides various services to members of the financial community, consisting principally of securities trade comparison, clearance, settlement and risk management services. The former GSCC and MBSCC operations are now divisions (Government Securities Division and Mortgage Backed Securities Division) of FICC, and continue to provide product-specific services to their respective participants and maintain separate collateral margin pools. The Government Securities Division (GSD) 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 users. The Mortgage Backed Securities Division (MBSD) provides trade comparison, trade confirmation, risk management, netting and electronic pool notification services to members of the mortgage-backed securities market. EMCC provides automated trade comparison, settlement and risk management services for emerging markets debt to members of the securities industry. All four principal subsidiaries are registered clearing agencies with the SEC. DTC is also a member of the Federal Reserve System and a limited-purpose trust company under New York State banking law. The members of DTCC's subsidiaries are collectively referred to as participants.

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.

On October 20, 2000, DTC issued 750,000 shares of Series A preferred stock at the par value of $100 per share, increasing their capital by $75 million under a plan adopted by the Board of Directors. Pursuant to this plan, which does not reduce the funds available in the event of a participant's failure to settle, each participant was required to purchase shares of the preferred stock. In addition, EMCC has 330 shares of Class B common stock issued and outstanding which are held by certain EMCC participants. These shares may be redeemed at the discretion of the Board of Directors upon EMCC attaining certain predetermined financial conditions. The participants' ownership in DTC and EMCC, respectively, are recorded as minority interests on the consolidated balance sheets.

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.

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 statements of income.

Omgeo's total revenue and net income in 2003 are $207,323,000 and $49,865,000, respectively. The comparable amounts in 2002 were $202,786,000 and $53,451,000, respectively. In addition, DTCC recognized its share of Omgeo's minimum pension liability adjustment totaling $1,059,000 in 2003. 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.

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.

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 $4,414,937,000 and $4,675,444,000 at December 31, 2003 and 2002, respectively. At December 31, 2003, the counterparties to these agreements were five major financial institutions that are also participants.

Overnight investments made in commercial paper totaling $20,004,000 and $28,879,000 are also included in cash equivalents at December 31, 2003 and 2002, respectively. At December 31, 2003, 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			Market Value		
(Dollars in thousands)	U.S. Treasury Securities	Corporate Notes	Total	U.S. Treasury Securities	Corporate Notes	Total
2003						
Due in one year or less	$111,693	$1,013	$112,706	$111,707	$1,020	$112,727
Due in one to two years	32,038	—	32,038	32,077	—	32,077
Total	$143,731	$1,013	$144,744	$143,784	$1,020	$144,804

	Carrying Value			Market Value		
(Dollars in thousands)	U.S. Treasury Securities	Corporate Notes	Total	U.S. Treasury Securities	Corporate Notes	Total
2002						
Due in one year or less	$106,676	$1,000	$107,676	$107,039	$1,001	$108,040
Due in one to two years	8,079	1,053	9,132	8,186	1,072	9,258
Total	$114,755	$2,053	$116,808	$115,225	$2,073	$117,298

Accounts Receivable: Accounts receivable consist of the following at December 31, 2003 and 2002:

(Dollars in thousands)	2003	2002
Due from the Companies' participants for services	$ 58,695	$ 57,077
Cash dividends, interest and related receivables	78,629	80,790
Other	26,561	12,514
Total	$163,885	$150,381

Cash dividends, interest and related receivables are presented net of an allowance for possible losses of $500,000 at December 31, 2003 and 2002. Other receivables are presented net of an allowance for possible losses of $252,000 and $509,000 at December 31, 2003 and 2002, respectively. Stock dividends receivable are not recorded in the consolidated financial statements.

Fixed Assets: Fixed assets consist of the following at December 31, 2003 and 2002:

(Dollars in thousands)	2003	2002
Land	$ 700	$ 700
Building and improvements	8,560	5,095
Leasehold improvements	171,320	168,143
Furniture and equipment	243,231	228,993
Software	106,090	87,230
Leased property under capital leases	7,072	3,410
Total cost	536,973	493,571
Less accumulated depreciation and amortization	357,723	306,732
Net book value	$179,250	$186,839

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.

DTCC capitalized software developed for internal use or purchased, totaling $18,860,000 and $18,442,000 in 2003 and 2002, respectively. The amortization of capitalized software costs was $20,148,000 in 2003 and $19,913,000 in 2002.

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 is established.

Discounts and Other Refunds to Participants: The Companies provide discounts on their billing to participants based on the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as approved by their Boards of Directors. Such discounts amounted to $203,887,000 in 2003 and $140,067,000 in 2002. DTC also 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 $2,417,000 in 2003 and $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, aggregating 130% of the short position. DTC's obligation to return such amounts to participants is reflected in payable to participants. At December 31, 2003 and 2002, short positions amounted to $18,665,000 and $24,949,000, respectively.

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

Revenue Recognition: Revenue is recognized as services are rendered.

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.

Reclassifications: Certain reclassifications of 2002 amounts have been made in the accompanying financial statements to conform to the 2003 presentation.

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 were $10,532,138,000 and $13,603,693,000, at December 31, 2003 and 2002, respectively. The deposits are available to secure participants' obligations and certain liabilities of the Companies, should they occur. All deposits of cash and securities are recorded on the balance sheet. A summary of the total deposits held at December 31, 2003 and 2002, including $4,376,649,000 and $4,388,265,000, respectively, in excess of the calculated requirements follows:

(Dollars in thousands)	2003	2002
Cash	$ 3,494,092	$ 3,887,626
U.S. Treasury and book-entry non-mortgage-backed Agency securities, at market	10,114,465	11,914,442
Letters of credit issued by authorized banks	1,300,230	2,189,890
Total	$14,908,787	$17,991,958

The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. Certain earnings on these investments are passed through to the applicable participants and are included in interest income and discounts and other refunds to participants. Such earnings totaled $45,585,000 and $49,262,000 in 2003 and 2002, respectively.

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 $57,334,000 in 2003 and $54,568,000 in 2002 and are included in information technology expenses. At December 31, 2003, the amount payable to SIAC was $745,000. At December 31, 2002, there was a receivable of

$913,000 from SIAC. If NSCC cancels this agreement, it will be contingently liable for the cost of certain SIAC office and equipment leases through December 31, 2012, aggregating approximately $924,000. NSCC and SIAC have agreed to migrate certain systems applications to DTCC, beginning in 2004.

NYSE and NASD: NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 2003 and 2002, no amounts were due to 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 $35,082,000 in 2003 and $43,301,000 in 2002 and are included in reimbursement from affiliates. Amounts receivable from Omgeo at December 31, 2003 and 2002 were $162,000 and $3,914,000, respectively.

The Options Clearing Corporation: DTCC has entered into an agreement with The Options Clearing Corporation (OCC) to provide office facilities and support services. Charges under this agreement totaled $538,000 in 2003 and are included in reimbursement from affiliates.

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 $942,228,000 at December 31, 2003 and $1,054,582,000 at December 31, 2002 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 in the consolidated financial statements.

Payable to participants also includes settlement accounts payable of $199,951,000 at December 31, 2003 and $106,063,000 at December 31, 2002, which primarily represent deposits received from NSCC participants to facilitate their 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 to the plan that meet or exceed the minimum funding standards under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended. In 2003, DTCC established a 401(h) account to fund the retiree medical plans.

Retirement benefits are also provided under supplemental non-qualified pension plans for eligible officers of the Companies 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 trust for non-qualified retirement benefit obligations. DTCC also provides health care and life insurance benefits to eligible retired employees.

On December 31, 2003, 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 projected benefit obligation to its present settlement amount from 6.75% to 6.00%, partially offset by an increase in the fair value of the plan assets due to the actual rate of return on plan assets exceeding the expected return on plan assets in 2003. As a result, in accordance with Statement of Financial Accounting Standards No. 87, DTCC recognized an additional minimum pension liability of $4,225,000 on a pre-tax basis offset by a deferred tax asset of $1,402,000 resulting in a net charge of $2,823,000 to other comprehensive loss thereby reducing shareholders' equity. The charge to shareholders' equity represents an amount not yet recognized as pension expense. The equivalent amounts for 2002 were $34,139,000, $14,062,000 and $20,077,000, respectively.

The funded status and related components of the plans follow:

(Dollars in thousands)	Pension Benefits 2003	Pension Benefits 2002	Other Benefits 2003	Other Benefits 2002
Benefit obligation at end of year:				
Qualified plan	$392,311	$316,465	$ —	$ —
Other plans	54,861	49,233	72,563	49,194
	447,172	365,698	72,563	49,194
Fair value of plan assets at end of year	280,967	200,588	2,311	—
Funded status	($166,205)	($165,110)	($70,252)	($49,194)
Net accrued benefit cost recognized at year-end	($ 31,932)	($ 49,467)	($42,959)	($38,234)
Amount recognized in the consolidated balance sheet consists of:				
Accrued benefit cost	($ 85,223)	($100,163)	($42,959)	($38,234)
Intangible asset	14,927	16,557	—	—
Accumulated other comprehensive loss	38,364	34,139	—	—
Net accrued benefit cost recognized at year-end	($ 31,932)	($ 49,467)	($42,959)	($38,234)
Weighted-average assumptions as of December 31:				
Discount rate	6.00%	6.75%	6.00%	6.75%
Expected long-term rate of return on plan assets	8.50	9.00	8.50	—
Rate of compensation increase	4.25	4.50	—	—
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year			11.00%	12.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			5.00%	5.00%
Year that the rate reaches the ultimate trend rate			2010	2008

To develop the expected long-term rate of return on assets assumption, DTCC considered actual historical returns and the future expectations for returns in each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8.5% long-term rate of return on assets assumption. The actual historical rate of return achieved by these assets have exceeded the 8.5% assumption.

Based on DTCC's target asset allocation guidelines, 60% of the plan assets are to be invested in equity securities and 40% in fixed income securities (including guaranteed investment contracts). DTCC's actual pension plan weighted-average asset allocations at December 31, 2003 and 2002, by asset category are as follows:

	Plan assets at December 31, 2003	Plan assets at December 31, 2002
Equity securities	63%	59%
Debt securities	28%	30%
Guaranteed investment contracts	9%	11%
Total	100%	100%

The components of pension and other benefits expenses follow:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	2003	2002	2003	2002
Net benefit cost	$25,109	$21,452	$8,370	$5,596
Additional (gain)/loss recognized due to:				
Curtailments	—	(325)	—	(72)
Settlements	2,156	67	—	—
Total benefit cost	$27,265	$21,194	$8,370	$5,524
Employer contribution	$35,600	$32,526	$3,645	$ —
Benefits paid, net of employee contributions	$20,564	$28,993	$1,590	$ 814

Settlements relate to the early retirement of executives who elected lump sum and periodic payments.

7 Income Taxes:

DTCC and its four principal subsidiaries file a consolidated federal income tax return. DTCC, NSCC, FICC 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 years ended December 31, 2003 and 2002, consists of the following:

(Dollars in thousands)	2003	2002
Current income taxes (benefit):		
Federal	($2,611)	$11,316
State and local	(3,826)	4,740
Deferred income taxes:		
Federal	7,291	15,166
State and local	2,310	1,651
Provision for income taxes	$3,164	$32,873

The 2003 effective tax rate is lower than the 34% federal statutory rate primarily due to tax benefits related to currrent year net operating losses and permanent differences. The 2002 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) at December 31, 2003 and 2002 are as follows:

(Dollars in thousands)	2003	2002
Employee benefits	$69,065	$69,463
Rent	13,964	13,681
Depreciation and amortization	8,072	8,266
Lease abandonment costs	234	3,138
Capitalized software developed for internal use	(6,505)	(13,033)
Other	(1,313)	10,201
Net deferred income tax asset	$83,517	$91,716

8 Long-Term Debt and Lines of Credit:

Long-term debt at December 31, 2003 and 2002 consists of the following:

(Dollars in thousands)	2003	2002
Industrial Development Agency bonds	$205,302	$205,302
Sale-leaseback obligation	62,400	—
Notes payable	34,800	49,828
Capital lease obligations	4,648	3,265
Total	$307,150	$258,395

As of December 31, 2003 and 2002, DTC had a payable to the New York City Industrial Development Agency (IDA) that was offset by an equivalent investment in IDA bonds. Interest expense related to the IDA payable was $15,381,000 in 2003 and $12,427,000 in 2002.

In March 2003, DTC and NSCC entered into a sale-leaseback transaction covering certain assets aggregating $63,400,000 with an initial payment at closing. The Companies were required to treat this transaction as a financing arrangement under generally accepted accounting principles and no gain or loss was recognized. Accordingly, DTC and NSCC will continue to depreciate the assets for accounting purposes using their normal depreciation policy. Payments under this arrangement are due in installments from 2004 to 2009. Payments over the next five years are $4,346,000, $8,065,000, $8,065,000, $8,364,000, and $9,445,000, respectively. The implicit interest rate on the obligation is 4.6%.

Notes payable at December 31, 2003 consist of unsecured borrowings totaling $19,500,000 with two domestic banks, that are also participants. The notes have a weighted average interest rate of 6.86%. The remaining maturities of 2004, 2005, 2006 and 2007 are $6,000,000, $4,500,000, $4,500,000 and

$4,500,000, respectively. Interest expense related to these notes totaled $1,685,000 in 2003 and $2,211,000 in 2002. Notes payable also include secured borrowings totaling $15,300,000 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, beginning in 2003. Interest expense related to these notes totaled $743,000 in 2003 and $229,000 in 2002.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2003, future minimum payments, including interest, which are due through 2006, total $4,929,000.

At December 31, 2003, DTC maintained a committed line of credit of $1,500,000,000 with 15 major banks, that are primarily participants, to support settlement. In addition, to support processing of principal and income payments, DTC maintains a $50,000,000 committed line of credit. DTC also maintains $35,000,000 in credit lines to support short-term operating cash requirements. During 2003, there were occasional overnight borrowings under the $50,000,000 credit line to fund principal and income payments at an average rate of 1.7% and there were no borrowings under the other credit facilities. At December 31, 2003, NSCC maintained a committed line of credit of $1,650,000,000 with 15 major banks, that are primarily participants, to provide for potential liquidity needs. NSCC also maintains a $15,000,000 credit line to support short-term operating cash requirements. During 2003, there were no borrowings under these credit facilities.

9 Shareholders' Equity:

								Accumulated Other Comprehensive Income (Loss)			
	Preferred Stock		Common	Paid in	Retained Earnings		Treasury	Minimum Pension Liability	DTCC's share of Omgeo's Minimum Pension	Foreign Currency Translation	Total Shareholders'
(Dollars in thousands)	Series A	Series B	Stock	Capital	Appropriated	Unappropriated	Stock	Adjustment	Liability Adjustment	Adjustment	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	—	—	—	—	—	—	—	—	—	71	71
Balance at December 31, 2002 . . .	300	300	2,366	11,649	69,819	72,234	(3,327)	(20,077)	—	48	133,312
Net income 2003	—	—	—	—	3,111	8,436	—	—	—	—	11,547
Minimum pension liability adjustment (net of tax benefit of $1,402)	—	—	—	—	—	—	—	(2,823)	—	—	(2,823)
DTCC's share of Omgeo's minimum pension liability adjustment . . .	—	—	—	—	—	—	—	—	(1,059)	—	(1,059)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	116	116
Balance at December 31, 2003 . . .	$300	$300	$2,366	$11,649	$72,930	$80,670	($3,327)	($22,900)	($1,059)	$164	$141,093

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 and 2003 net income of the principal operating subsidiaries of DTCC. Such retained earnings are available for the satisfaction of losses arising out of the clearance and settlement of transactions, should they arise (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 responsible participants through the settlement process. At the close of business on December 31, 2003, open positions due to NSCC approximated \$3,025,467,000 (\$1,524,077,000 at December 31, 2002), and open positions due by NSCC to participants approximated \$2,303,717,000 (\$1,092,299,000 at December 31, 2002) for unsettled positions and \$721,750,000 (\$431,778,000 at December 31, 2002) for securities borrowed through NSCC's Stock Borrow Program. At December 31, 2003, NSCC has an obligation to complete pending transactions totaling \$37.8 billion.

The GSD's netting system interposes FICC between netting GSD participants for eligible trades that have been netted. The guarantee of net settlement positions by FICC results in potential liability to FICC. Guaranteed positions that have not yet settled are margined and marked-to-market daily. Margin deposits are held by FICC; marks are debited from and credited to the responsible participants through the funds-only settlement process. At December 31, 2003, the gross amount of guaranteed positions due from netting GSD participants to FICC, which are scheduled to settle on or before January 2, 2004 approximated \$386,310,796,000 and the amount scheduled to settle after January 2, 2004 approximated \$254,562,621,000. There is an equal amount due from FICC to certain other GSD participants after consideration of deliveries pending to FICC. The equivalent amounts at December 31, 2002 were \$280,144,014,000 and \$227,525,713,000, respectively.

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, 2003, the market value of the deposits pledged totaled approximately \$6,869,000. At the close of business on December 31, 2003, guaranteed positions due to EMCC from members and guaranteed positions due from EMCC to members approximated \$249,698,000 (\$227,003,000 at December 31, 2002).

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. In 2003, NSCC accrued an additional \$1,172,000 for estimated interest on liquidation losses, which is included in other general and administrative expense. At December 31, 2003 and 2002, the amount of the accrual for potential losses included in accounts payable and other liabilities is \$3,582,000 and \$2,410,000, respectively.

The Companies lease office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2003. Rent expense under these leases was \$52,122,000 in 2003 and \$41,029,000 in 2002. At December 31, 2003, future minimum rental payments under all non-cancelable leases follow:

(Dollars in thousands)	Amount
2004	\$ 41,015
2005	38,396
2006	32,203
2007	29,497
2008	24,257
Thereafter	103,851
Total minimum rental payments	\$269,219

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

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

In the normal course of business, because NSCC, FICC 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, FICC 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, FICC and EMCC have entered into a multilateral netting contract and limited cross-guaranty agreement with DTC and OCC, under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that they have excess resources of the defaulting participant. NSCC and OCC 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.

Finally, if a deficiency still remains, NSCC, FICC and EMCC would then assess the balance of the deficiency in accordance with their rules.

As discussed in Note 1, NSCC, FICC 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.

Subsequently, due to continuing efforts to decentralize staff and operations, management decided 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 2002 and is included as a reduction of other general and administrative expenses.

Report of Independent Auditors

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 sheets 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, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 13, 2004

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DTCC

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Chief Operating Officer,
DTCC
President,
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Managing Director &
Chief Information Officer

Kevin P. Carey
Managing Director,
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Corporate Services
& Security

J. Randall Grespin
Managing Director &
Group Business Unit
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Richard R. Macek
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Chief Financial Officer,
CEO, FICC /EMCC,
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Richard B. Nesson
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