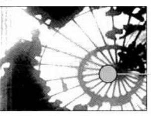
THE DEPOSITORY TRUST COMPANY

1998 annual report



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ABOUT DTC

The Depository Trust Company (DTC), the world's largest securities depository, is both a national clearinghouse for settling securities trades and a custodian for its Participant banks and broker-dealers. Owned by members of the financial industry, the depository's mission is to reduce its Participants' securities operations costs by providing safe, reliable, quality services. Registered as a clearing agency with the Securities and Exchange Commission, DTC is a limited purpose trust company organized under the New York Banking Law and a member of the Federal Reserve System.

In 1998, Participants delivered $77 trillion in securities through DTC's book-entry system, and securities under custody reached $18.7 trillion. DTC holds in custody for Participants: 83% of the shares of companies represented in the Dow Jones Industrial Average; 83% of the shares of all New York Stock Exchange–listed companies; 70% of the shares of issues included in The Nasdaq Stock Market; 71% of the shares of all American Stock Exchange–listed companies; 92% of the principal amount of outstanding corporate debt listed on the NYSE; more than 99% of the principal amount of outstanding municipal bonds; and, 99% of the commercial paper issued in the United States.

The depository's telecommunications network links 546 Participants and their institutional customers, as well as firms serving as transfer agents, paying agents, and exchange and redemption agents for securities issuers.

Nineteen ninety-eight was a year of market volatility characterized by record trading volumes. It is precisely at such times of turbulence that the true strengths of DTC, our customers, the securities exchanges, and regulators can be clearly demonstrated.

For the past 25 years, the industry has built up a national clearance and settlement system with a processing capacity equipped to meet the expanding and changing investor needs in a more challenging, complex marketplace. No better examples are the 2.5 billion shares DTC successfully settled on September 4, our single-day peak for 1998, and the unprecedented $77 trillion in annual settlement turnover. Our planning proved prudent as we processed record volumes flawlessly in 1998.

For DTC, 1998 was marked by strong financial performance, as well as capital investment to support our growth. Service revenue, excluding the Mortgage-Backed Securities (MBS) Division, exceeded $420 million, 10% ahead of 1997. Net income was $3.5 million. Revenue growth was primarily fueled by the increase in book-entry deliveries and associated transactions, which grew at

a 17% rate versus the previous year. Revenue growth (10%) versus transaction growth (17%) demonstrates the scale economies which permit DTC's fee revenue to grow at a much slower rate than transaction volumes. DTC also made a $47 million capital investment to ensure our ability to meet future trade volume increases.

As we look back, it is clear that our investment over the years in human and technical capital has helped to ensure DTC's position as an integral part of the fabric of the financial marketplace. DTC is, today:

- The world's largest securities depository with $18.7 trillion in assets, transacting $310 billion on a daily basis.
- A company quietly dedicated to providing the infrastructure to permit our capital markets to operate with safety and soundness second to none.
- An employer of 3,015 staff committed to serving our customers.

While we take great pride in our accomplishments, we are aware of industry trends that will act as drivers of DTC's future plans and strategies. The consolidation among financial intermediaries continues. The rapid and sustained growth in cross-border trading requires that DTC develop linkages with our foreign counterparts to facilitate cost and risk reduction in settlement and safekeeping.

Finally, DTC must put in place the systems and procedures to permit the domestic market to move to T+1 settlement, resulting in a significant reduction in systemic risk.

In addition to dedicating substantial resources to Y2K preparation in 1998, we also positioned DTC to begin to meet the challenges posed by these trends. To provide a safer and more efficient method of delivering securities traded in the U.S. and foreign markets, DTC forged links with several central securities depositories. We completed two-way interfaces with The Canadian Depository for Securities Ltd. and Deutsche Börse Clearing AG, and a one-way link with CAVALI ICLV, S.A., Peru's central securities depository.

We launched DTC TradeSuite,SM a comprehensive family of post-trade processing products, operating with an open systems architecture. This design puts in place the necessary foundation to build a T+1 post-trade processing environment that will act as a portal to the evolving model being developed by the Global Straight-Through Processing Association (GSTPA).

Chairman & Chief Executive Officer

Industry consolidation has led to a number of important changes at DTC. In 1998, Participants Trust Company was merged into DTC and became the Mortgage-Backed Securities Division of DTC. DTC and National Securities Clearing Corporation (NSCC) restructured their international activities, with the dissolution of International Depository & Clearing LLC and the creation of a new International Division at DTC. Additionally, NSCC's New York Window was combined with DTC's Custody and Branch Deposit services, and plans were made for NSCC to absorb DTC's mutual fund activities in 1999.

In March 1999, DTC and NSCC announced plans to combine the two companies. The goal is to create a new company, which builds on the combined talent of DTC and NSCC, to leverage our respective experience, transforming ourselves along with our customers, to meet ever-changing investor needs. Our talented and responsible staff not only stand ready to be responsive to planned changes in our industry, but also have the energy, enthusiasm, and commitment to cope with those changes we've only begun to explore.

In January 1999, I assumed the post of Chairman and Chief Executive Officer, benefiting from nearly six years as a DTC Board member. I would like to pay tribute to William F. Jaenike, who retired at the close of 1998, for his many years of solid leadership at DTC.

"We did it. We weren't just marking time. We made a difference. We made it stronger and safer. We left it in good hands. All in all, not bad." These words, a paraphrasing of Ronald Reagan, spoken by William F. Jaenike, DTC's retired Chairman and Chief Executive Officer, at an industry dinner in his honor, characterize his approach to management. Bill Jaenike appreciates the power of teamwork to accomplish goals and, reflecting on a 24-plus year career with DTC, noted that the depository's success has been based on the willingness of the industry's leaders to work cooperatively for a common good.

Bill's training for his career at DTC began in May 1970 as a member of the task force created by the Banking and Securities Industry Committee (BASIC), which was established to look for solutions to the industry's "paperwork crisis." Bill spent two and a half years with the task force, which, under the direction of BASIC, acted on projects designed to reduce the cost and improve the process of securities operations. The most significant of these was the establishment of The Depository Trust Company.

Although Bill downplays his personal contributions to the work of the BASIC task force, his efforts were widely noted. He was invited to become a member of the depository's management team and, in July 1974, joined DTC as Vice President

of Participant Services. As a key member of senior management, he was instrumental in the successful completion of virtually every project undertaken by DTC, from the expansion of the depository's Participant base to the near universal extension of services to domestic securities issues and issue types. Among the most notable of those projects were the implementation of NYSE Rule 387, the depository's Municipal Bond Program, the shortening of trade settlement from T+5 to T+3, and the industry's conversion to a same-day funds settlement system.

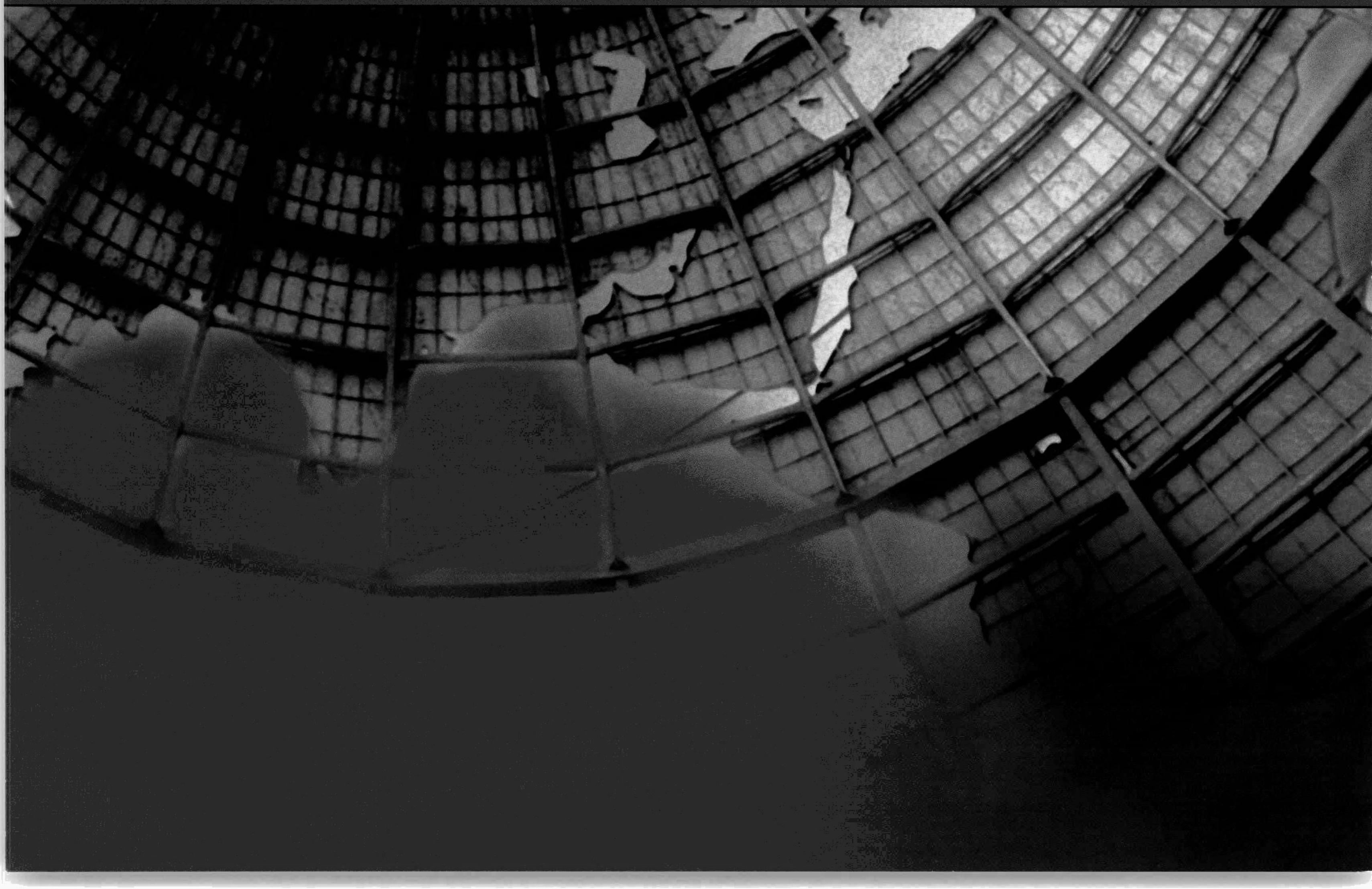
Throughout his years of service, Bill viewed his role as that of an agent of change, helping to improve clearance and settlement processing for the industry. As his role in the depository grew, leading to the positions of President in 1992 and Chairman in 1994, he never lost sight of the company's need to remain mindful and responsive to the industry and to provide the necessary forums for its needs to be expressed and acted upon. Similarly, he enlisted and focused the depository's staff on the quest for continuous improvement so that the depository operated in the most efficient and cost-effective manner possible.

Bill's influence was unmistakable. He expected excellence from DTC's staff, and the staff strove to meet his expectations. He exemplifies the qualities of integrity, honor, and fair dealing, and he has taught those values to a generation of DTC management and staff. He takes into retirement the appreciation and respect of the DTC employees he leaves behind who are committed to continue providing safe, effective, and efficient services to our Participants.

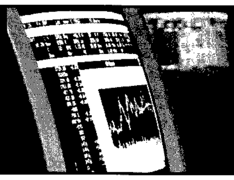
1998 highlights

year 2000

YEAR 2000

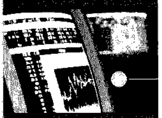


Preparing for the Year 2000 poses a tremendous worldwide challenge. For the financial services industry, the complexity and critical nature of the Y2K



problem cannot be overestimated. The industry has taken the matter very seriously and has worked aggressively to prepare for the century date change.

DTC began addressing the issues of Year 2000 in 1994 with the development of Y2K standards for its own applications. A key component of the depository's remediation strategy was to insulate Participants from making unnecessary modifications in their connections to DTC, allowing them to focus on their core business applications. With its systems essentially Y2K compliant by the end of 1997, DTC shifted its focus during 1998 to coordinating testing and promoting awareness of critical Year 2000 issues among Participants and other users of DTC services.



Full integrated testing to validate the Y2K compliance of DTC's own applications and systems was successfully completed in 1998. In planning the testing, DTC sought to satisfy the relevant criteria set forth in the Federal Financial Institutions Examination Council's Interagency Statement on testing. Results were made available so that Participants could take advantage of the successful test as a proxy for all non–mission critical DTC applications. As final preparation for Year 2000, DTC expects to repeat the test late in 1999.

June 1998 marked the inception of point-to-point Y2K testing between DTC and organizations that interface directly with the depository. Point-to-point testing demonstrates a Participant's or institutional investor's ability to connect with, and successfully process transactions through, DTC in a Year 2000 environment. Service bureaus and facilities managers are coordinating testing on behalf of organizations that interface with DTC indirectly. In addition, DTC is undertaking a thorough program for testing with major transfer agents and paying agents to ensure, on behalf of the industry, that these linkages function correctly. All of these tests will continue throughout most of 1999.

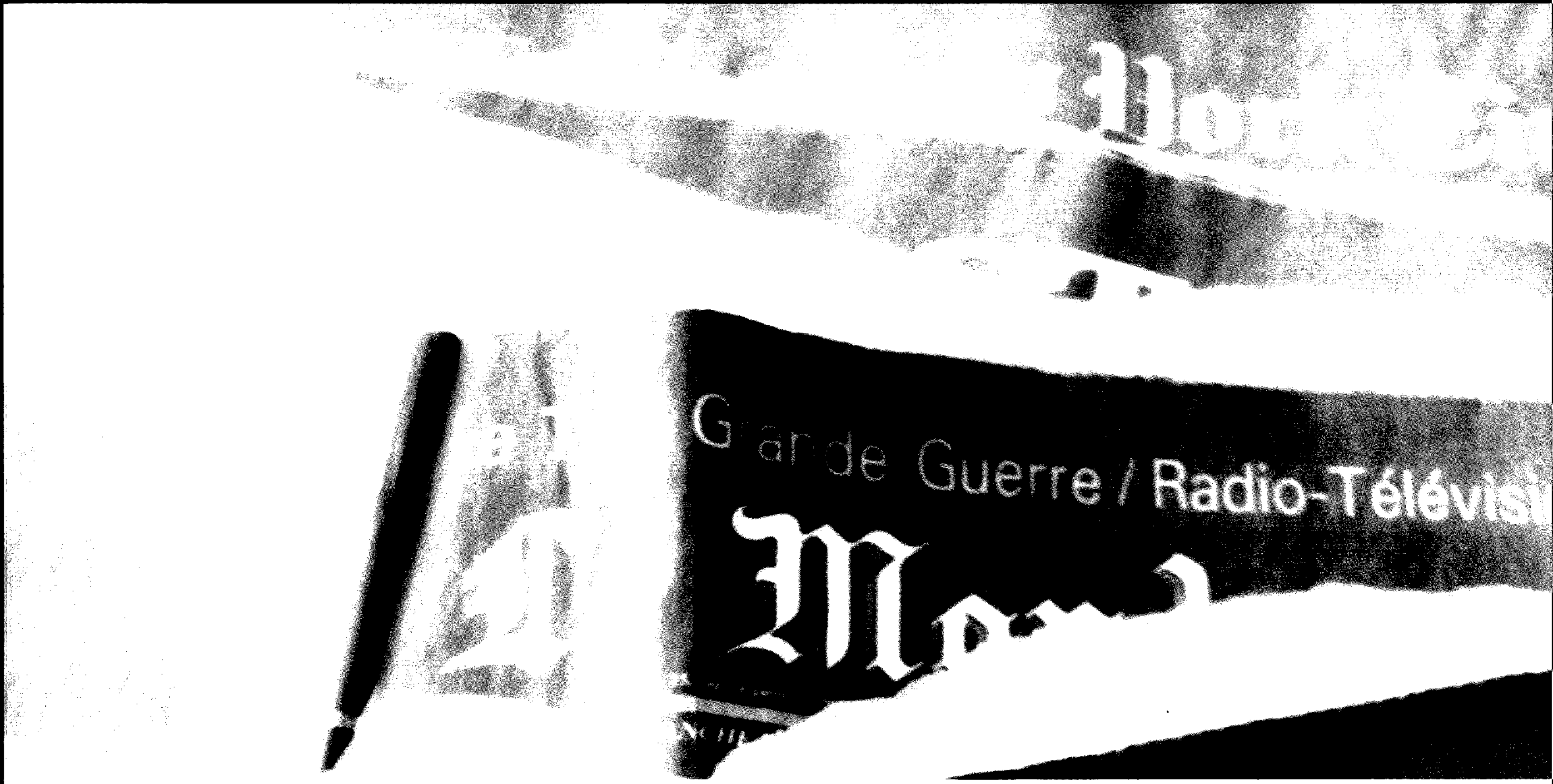
In preparation for industrywide testing, the Securities Industry Association (SIA) conducted a rehearsal or "beta" test in July 1998 to validate the testing approach and determine its applicability to the entire securities industry. With that successful beta test completed, preparations are well under way for the much bigger challenge of industrywide testing in 1999.

DTC shared its experience and expertise in many Year 2000 industry seminars. Along with the SIA, National Securities Clearing Corporation (NSCC), and the Securities Industry Automation Corporation (SIAC), DTC participated in a series of Y2K readiness forums to discuss testing requirements, contingency planning, and industrywide testing. DTC worked alongside other industry organizations in Year 2000 forums sponsored by the Federal Reserve Bank of New York.

To help raise worldwide awareness, the depository participated in the Global Round Table on the Year 2000 held by The Bank for International Settlements in Basel, Switzerland. DTC also hosted a conference attended by representatives of most of the depositories of North, Central, and South America to encourage collaboration on efforts to prepare for Y2K.

The massive effort of preparing for the century date change demonstrates, once again, the teamwork that exists in the industry. This teamwork was evidenced during industry efforts such as the move to T+3 and the conversion to same-day funds. It is this spirit of cooperation that will enable the industry to successfully greet the new millennium.

Among the many individuals contributing to the effort to focus the industry's attention on Year 2000 compliance have been, pictured from top to bottom, Joseph J. Bellantoni, Senior Vice President, DTC; George R. Juncker, Vice President, Federal Reserve Bank of New York; John Panchery, Vice President and Director, Systems and Technology, Year 2000 Project Manager, Securities Industry Association; and Michael B. Tiernan, Vice President, Information Technology, Credit Suisse First Boston Corporation.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WALL
POST

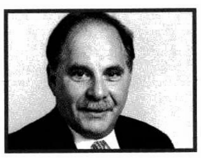
Major 1998 developments included the launch of a new product family with an open systems architecture to lay the foundation for T+1 and global straight-through processing. DTC also

forged links with several foreign central securities depositories to facilitate safer, more efficient processing of cross-border transactions. Additionally, the industry's determination to streamline its clearance and settlement system led to a number of significant changes at the depository.

Rising cross-border trade volumes and plans to further compress the settlement cycle to T+1 in the U.S. continue to fuel a number of industry initiatives focused on global straight-through processing. After 25 years supporting connectivity between broker-dealers, custodian banks, and institutional investors with its Institutional Delivery (ID) system, DTC focused its effort on the strategic redirection of ID to meet this industry challenge.

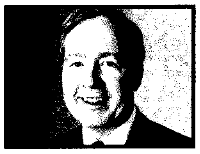
In its March 1998 memorandum *DTC's Role in the Future of Electronic Trade Confirmation (ETC) and Straight-Through Processing (STP)*, DTC announced the redesign of ID's architecture to make it compatible with major industry standard message formats and communications protocols. This fundamental shift in strategy was designed to provide users with a single point of access to the evolving industry model being developed by the Global Straight-Through Processing Association (GSTPA).

In July, DTC published its development schedule of product and service enhancements to support the new strategy. Included were those necessary to help customers benefit from DTC matching services, approved by the Securities and Exchange Commission in April 1998. Matching provides the means to automate trade agreement, replacing the existing confirmation/affirmation model with a more efficient process. A key benefit is risk reduction through earlier identification of unmatched trades, which directly reduces the number of failed trades.



The Securities Industry Association's Institutional Trade Matching Committee is concentrating on an ETC model that will enable T+1 settlement under significantly higher trading volumes. DTC is an adviser to the Committee. Pictured, from top to bottom, are Joe Anastasio, Partner, CEO North America, The Capital Markets Company; Peter T. Johnston, Vice President, Global Equity Operations, Goldman, Sachs & Co.; Steven J. Kelly, CFA, Vice President, Morgan Stanley Dean Witter; and Anthony J. Pellicci, Senior Vice President, Director of Operations, Clearing and Settlements Services, Instinet Corporation.

All these efforts culminated in the September 1998 introduction of DTC TradeSuite,SM a new product lineup that incorporates and builds on the functionality of the ID system, Standing Instructions Database (SID), and the DTC Hub. These systems deliver more than two million post-trade messages daily to over 10,000 customers.



Fidelity Investments has worked closely with DTC on the testing and implementation of TradeMatch. Pictured, from top to bottom, are Daniel Delay, Unit Manager, Institutional Trade Operations; Vincent T. Molloy, Senior Vice President; and Tammy G. Rausch, Vice President, Global Trade Operations—all from the Fidelity Accounting & Custody Services group.

Engineered to provide integration, open architecture, and expanded connectivity, TradeSuite is a comprehensive family of messaging, matching, settlement, and communications products. The elements of TradeSuite are designed to reduce the risk and cost associated with trade messaging and processing—from execution straight through to settlement—for broker-dealers, custodian banks, and institutional investors.

TradeSuite is designed to give users the flexibility to select any combination of these products:

TradeMessageSM automates the exchange of post-trade messages.

TradeMatchSM automates the comparison of investment managers' allocations with brokers' trade confirmations.

TradeSettleSM provides easy, accurate settlement processing. Trade messages can be enriched using customer account and settlement data from SID.

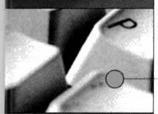
TradeHubSM provides real-time, 24-hour communications services and low-cost customer connectivity. Message translation services allow users to adopt a single standard, without regard to choices made by counterparties.

Cooperation among commercial and industry-owned service providers is essential to meet the challenges ahead. DTC is dedicated to developing strategic partnerships with providers of trading, order management, and portfolio accounting systems, as well as ETC service providers and communications networks. These links will expand connectivity for DTC's customers and offer a more flexible, transparent method for monitoring and processing trade information throughout the life cycle of a trade.

In July, Princeton Financial Systems, Inc. became the first major provider of institutional investment accounting systems to link to DTC for matching. Princeton Financial's PAM® portfolio accounting and management system transmits institutions' allocations to DTC to be matched centrally to trade input DTC receives from brokers.

In August, DTC and Financial Models Company (FMC), a company that offers a widely used ETC system in Canada, agreed to establish a bilateral interface linking two of the largest ETC systems in North America. Users of either system will be able to communicate with counterparties through the ETC provider of their choice. The agreement extends the reach of ETC systems in the marketplace, providing seamless connectivity for users of different systems.

These agreements are among the first of many strategic partnerships DTC intends to establish to broaden connectivity for its customers.



STREAMLINING Clearance and Settlement

The securities industry's determination to streamline its clearance and settlement systems to eliminate redundancies and leverage industry infrastructure led to a number of significant changes at DTC in 1998. These changes were aimed at creating a more rational, coherent structure, which can better direct both human and capital resources toward future industry challenges.

In August, Participants Trust Company (PTC) became the Mortgage-Backed Securities (MBS) Division of DTC. PTC-eligible securities had a face value of approximately $1.4 trillion at the time of the merger. Securities eligible for MBS processing include mortgage-backed pass-through and REMIC securities guaranteed by the Government National Mortgage Association, REMIC securities issued by the Department of Veterans Affairs, and selected REMIC issues of the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

The merger had no immediate effect on the services used by the 51 Participants of PTC. No major system changes are contemplated until after the century date change to avoid any conflict with industry efforts aimed at Y2K. However, in the near term, the merger has created economies of scale and resulted in reduced processing costs. This is due to a reduction in external vendor expenses and the leveraging of DTC's problem-management infrastructure, including the Customer Support Center, Help Desks, and network management team. After Year 2000, DTC plans to integrate the MBS system into DTC's system, making MBS securities DTC-eligible. Additional cost savings will result.

Since the Participants Trust Company became the Mortgage-Backed Securities Division of DTC, estimated annualized savings of $2 million have been realized. Among those continuing to guide DTC in the development of additional system functionality and business practices are, from top to bottom, Jonathan Banks, Senior Vice President, Fixed Income Services, PaineWebber Incorporated; Lisa Colby-Jones, Managing Director, Morgan Stanley Dean Witter; Lawrence J. Gallaway, Senior Vice President, DTC MBS Division; and William F. Hughes, Jr., Vice President, Mortgage Operations, Lehman Brothers Inc.

DTC and NSCC announced plans to restructure their international activities in July 1998. International Depository & Clearing LLC was dissolved and the International Division of DTC was created. DTC's International Division accepted the challenge to provide a single strategic focus for all international activities for both NSCC and DTC. These include all activities related to cross-border clearance, settlement, and custody services.

Also in July, NSCC's New York Window operation was combined with DTC's Custody and Branch Deposit services, consolidating physical securities processing at DTC. Since 1993, NSCC's Window service allowed users to immobilize certificates and outsource physical processing of securities not eligible at DTC. NSCC and DTC agreed to merge the Window services with the depository's Custody and Branch Deposit services to provide greater efficiency and economies for mutual participants.

Plans were finalized in 1998 to move DTC's mutual fund services to NSCC, thereby centralizing all mutual fund services there. Beginning in 1999, Participants accessing DTC's Fund/SERV and Networking Interfaces will process mutual fund transactions directly through NSCC. Consolidating the DTC and NSCC mutual fund product lines will eliminate redundancy and produce operational and economic benefits for DTC, NSCC, and their participants. Also, DTC Participants that directly join NSCC for Fund/SERV and Networking will have access to a broad range of NSCC mutual fund products, including the NSCC Commission Settlement Service, the Mutual Fund Profile Service, and the Defined Contribution Clearance & Settlement Service.

OTHER Key Developments

To provide a safer, more efficient method of processing securities traded both in the U.S. and foreign markets, DTC established or extended linkages with several foreign central securities depositories (CSDs). These electronic interfaces reduce the potential for failed transactions by eliminating physical movement of certificates from one depository to another.

DTC completed two-way electronic links with The Canadian Depository for Securities Ltd. and Deutsche Börse Clearing AG, becoming a participant of those respective depositories. DTC also established a one-way link with CAVALI ICLV, S.A., Peru's central depository which opened a DTC account accommodating book-entry movements of Peruvian securities that are dually traded in the Peruvian and U.S. markets.

DTC expanded links with Deutsche Börse Clearing AG (DBC) to help Participants realize operational efficiencies for cross-border trading. Pictured from DBC are, from top to bottom, Jürgen Blitz, CEO; Rüdiger Henning, Head of CSD Section; and Christian Westerholt, Senior Project Manager.

DTC's ability to custody securities abroad has increased dramatically with the widespread adoption of revisions to Article 8 of the Uniform Commercial Code in the U.S. With regulatory approval, DTC can now sub-custody securities directly at non-U.S. CSDs, and indirectly, at such CSDs through local bank custodians.

DTC's custody of collateralized mortgage obligations (CMOs) and asset-backed securities increased during 1998, focusing more attention on the need for accurate and timely disclosure and allocation of dividend and interest payments. Responding to this requirement, DTC implemented more effective procedures to track errors and automate receipt of critical payment information. A new announcement database, which includes CMOs, was initiated to enhance the collection and distribution of payment information to Participants.

At year end, DTC introduced a Domestic Tax Reporting Service. This service provides a centralized, automated repository containing year-end tax information on more than 13,000 mutual fund, Real Estate Investment Trust, and other eligible and ineligible issues. By collecting the