

□ GSCC AND MBSCC UNITE □



□ THE POWER AND THE POSSIBILITIES □

GSCC/MBSCC: ABOUT THESE NEWLY COMBINED FIXED INCOME BUSINESSES

On January 1, 2002, Government Securities Clearing Corporation (GSCC) and MBS Clearing Corporation (MBSCC) officially became operating subsidiaries of The Depository Trust & Clearing Corporation (DTCC). GSCC and MBSCC are the sole providers of centralized, automated trade comparison/confirmation, netting, settlement and risk management services for their respective markets of U.S. Government securities and mortgage-backed securities. While under the governance of the DTCC Board of Directors, the two corporations will each continue to function as separate legal entities with their own participants, rules and procedures, and risk management profiles, while operating under an integrated management structure. Both GSCC and MBSCC are clearing agencies registered with the Securities and Exchange Commission. Below are brief profiles of their specific businesses:

GSCC clears, nets and settles a broad range of U.S. Government securities transactions for brokers, dealers, banks and other financial institutions involved in this dynamic marketplace. These transactions include buy/sell and repurchase agreement transactions in, and original auction purchases of, Treasury bills, bonds, notes, zero coupon securities, Government Agency securities and inflation-indexed securities. GSCC ensures the timely, accurate and cost-efficient completion of transactions for 104 member firms and the more than 400 correspondent firms that clear through these members. In addition, GSCC's automated system is designed to provide real-time interactive communication facilities for the clearance and settlement of Government debt products.

MBS Clearing Corporation (MBSCC) operates two primary business units that serve the mortgage-backed securities marketplace: clearing services, which include trade comparison, confirmation, netting, and risk management, and Electronic Pool Notification (EPN) services, which allow customers to transmit/retrieve MBS pool information in real-time as opposed to standardized message formats. Mortgage-backed securities, bought and sold in the over-the-counter cash, forward and options markets, are backed by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA). The key participants in this market—the nation's original secondary market for loan assets—are mortgage originators, government-sponsored enterprises, registered broker/dealers, inter-dealer brokers, institutional investors, investment managers, mutual funds, commercial banks and insurance companies active in GNMA, FHLMC and FNMA. MBSCC serves 134 members, including more than 7,200 trading portfolios within EPN.

HIGHLIGHTS 2001

- THE TOTAL DOLLAR VALUE OF GOVERNMENT SECURITIES TRADES NETTED AND SETTLED IN 2001 EXCEEDED **\$353 TRILLION**, AN INCREASE OF **41%** OVER 2000.
- THE AVERAGE DAILY DOLLAR VALUE OF TERM GCF REPOS ROSE EXPLOSIVELY TO **\$165 BILLION**, AN INCREASE OF **461%** OVER 2000.
- NETTING ELIMINATED AN AVERAGE OF MORE THAN **\$1 TRILLION** EACH DAY FROM GOVERNMENT SECURITIES SETTLEMENT.
- THE VALUE OF TRANSACTIONS IN MORTGAGE-BACKED SECURITIES PROCESSED TOPPED **\$34 TRILLION**, A **51%** INCREASE OVER 2000.
- THE PAR VALUE OF TRADES IN MORTGAGE-BACKED SECURITIES ELIMINATED THROUGH NETTING ROSE TO MORE THAN **\$16 TRILLION**, A **53%** INCREASE OVER 2000.
- VOLUMES FOR ELECTRONIC POOL NOTIFICATION INCREASED **41%** OVER 2000 TO **\$6.5 TRILLION**.

TO OUR CUSTOMERS

2001 will go down as the year of unparalleled growth and change for GSCC and MBSCC in the world's largest and most liquid financial market—U.S. fixed income. It was a year in which we came together as an integrated organization to better serve the industry. It was a year in which we moved closer to sharing the benefits of real-time trade matching realized by our Government securities customers with customers in the mortgage-backed securities and other fixed income markets. It was a year in which we never missed a beat in supporting dramatic volume increases across many of our respective service and product lines. And, finally, it was a year in which we managed to accomplish all this while helping the financial services industry recover from September 11. Here is a look at the year that was....

A Successful Integration

With industry approval, GSCC and MBSCC spent the better part of 2001 consolidating and combining staffs, operations, technology and, most importantly, expertise. This effort culminated on January 1, 2002, with our official integration, along with the Emerging Markets Clearing Corporation, into The Depository Trust & Clearing Corporation (DTCC) as wholly owned clearing subsidiaries. (Created in 1999, DTCC is the holding company for five clearing corporations and a depository, and is the co-owner of Omgeo, a global joint venture with Thomson Financial.) GSCC and MBSCC will each continue to function as separate and distinct businesses with their own customers, rules and procedures, while operating under an integrated management structure.

The integration represents a significant step in responding to industry needs for greater synergies, processing efficiencies and economies of scale in service delivery and technology development in post-trade processing. Together, GSCC and MBSCC will have

far greater power to respond successfully and quickly to changes in the markets and technology, including the move to straight-through processing (STP). At the same time, integration expands the possibilities of what we can achieve with you, our customers, to develop groundbreaking new products and services that will have significant impact on your bottom lines.

Progress on Real-Time Trade Matching Technology

The benefits of integration are best exemplified by our cooperative development of Real-Time Trade Matching (RTTM) services for fixed income instruments. The purpose of RTTM is to significantly reduce intra-day market and operational risk by closing the gap between the time a trade is executed and when it is submitted to one of the clearing corporations.

We are currently expanding the RTTM platform, which GSCC developed and implemented in 2000 for U.S. Government securities, with the ultimate goal of serving as a single front-end matching engine for virtually all fixed income products. Inter-related RTTM projects are underway for mortgage-backed securities and other fixed income securities, including corporate and municipal bonds and unit investment trusts (UITs) processed by National Securities Clearing Corporation (NSCC), another DTCC subsidiary.

Centralized real-time matching is a core requirement for building an STP infrastructure for our industry. In the case of GSCC, such an infrastructure will help move the guaranteed settlement date for transactions from T+1 to T+0. For MBSCC, RTTM will help lay the foundation for the company to become the central counterparty for settling mortgage-backed securities trades. For NSCC-eligible securities, RTTM will help support the industry's move to a shortened T+1 settlement cycle.



LEFT TO RIGHT:
KENNETH MILLER
CHAIRMAN, GSCC

DENNIS J. DIRKS
CHIEF EXECUTIVE OFFICER,
GSCC/MBSCC

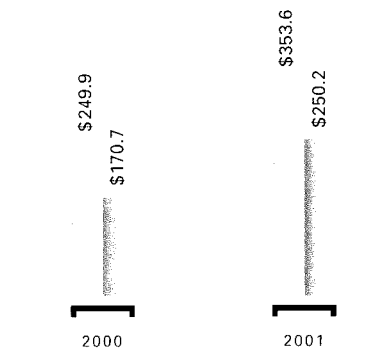


LEFT TO RIGHT:
RONALD A. STEWART
PRESIDENT, GSCC/MBSCC

EDWARD F. WATTS, JR.
CHAIRMAN, MBSCC

GSCC TOTAL DOLLAR VALUE OF TRADES IN-NET VS. DOLLAR VALUE ELIMINATED

(IN TRILLIONS OF DOLLARS)



DOLLAR VALUE INTO THE NET DOLLAR VALUE NETTED

2000 Netting Factor: 68%
2001 Netting Factor: 71%

The RTTM collaboration among GSCC, MBSCC and NSCC is a prime example of the progress we can make by working together, and the economies we can achieve by avoiding redundant technology development. But each organization also recognizes that implementing RTTM requires a combination of technology and behavior changes on the part of its customers. Industry momentum will build, segment by segment, as we continue to implement a common strategy within DTCC's clearing corporations.

Processing Record Volumes

At the same time we were creating a common RTTM platform for the fixed income industry, we also were devoting considerable operational support to our primary services that support comparison, netting, securities and funds settlement and risk management. 2001 was a year of historic growth in many of these areas.

In the Government securities market, processing volumes, and their associated dollar values, continued to climb to record highs. Strong investor demand for U.S. bonds contributed to rising volumes as the stock market stumbled and investors sought the relative stability of fixed income securities. The total dollar value of Government securities trades netted and settled in 2001 exceeded \$353 trillion. This represented an increase of 41% from 2000.

Of this amount, repurchase agreements (repos), particularly, account for the vast dollar amount of securities transactions processed through GSCC on any given day. For example, the average daily dollar value of term General Collateral Finance (GCF) Repos rose in 2001 to \$165 billion, an increase of over 461% from last year. (GCF Repos allow dealer members to freely and actively trade general collateral throughout the day by removing constraints on collateral notification and allocation.) Netting of repos continued to allow customers to maximize the presentation of their balance

sheets, which was the most significant contribution to GSCC's estimate of \$285 million in savings that it brought members last year.

At MBSCC, the volumes and associated values of mortgage-backed securities processed also jumped significantly last year. The value of transactions compared for the year topped \$34 trillion, a 51% increase over 2000. This growth was fueled by low mortgage rates as homeowners scrambled to refinance more than \$1.1 trillion of mortgages—roughly a fifth of all mortgage debt—and the addition of new MBSCC members, including Fannie Mae.

The par value of mortgage-backed trades eliminated through netting rose to over \$16 trillion, representing a 53% increase over 2000, while the resulting savings on potential clearing costs to members totaled approximately \$337 million. Volumes for Electronic Pool Notification (EPN) also rose sharply. The current face value processed increased to \$6.5 trillion in 2001, a 41% increase over 2000. Corresponding messages processed exceeded 680,000, while the number of pools delivered grew to nearly 9.1 million compared to 8.3 million in 2000.

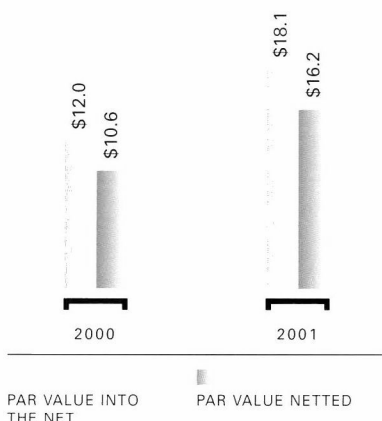
September 11 and Its Aftermath

We've stressed that 2001 was a historic year for our two organizations. However, on September 11, it also became the toughest year ever for all of us in the industry. The memories from September 11 and its aftermath—with the loss of so many colleagues, friends and associates, including GSCC Board Member Doug Gardner, (please see page 3)—will remain with us forever.

On that day, many customers and both of GSCC's settling banks were forced to evacuate their downtown offices and operate from contingency sites. Connectivity with many GSCC/MBSCC customers was interrupted.

MBSCC TOTAL PAR VALUE OF TRADES IN-NET VS. PAR VALUE ELIMINATED

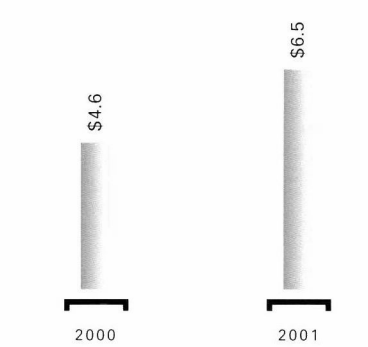
(IN TRILLIONS OF DOLLARS)



2000 Netting Factor: 88%
2001 Netting Factor: 89%

MBSCC CURRENT FACE VALUE OF EPN MESSAGES

(IN TRILLIONS)



But despite these obstacles, we never shut down. We maintained the confidence of the industry and regulatory agencies by ensuring the stability and credibility of the post-trade processing infrastructure for fixed income securities.

Working around the clock beginning September 11 and continuing for weeks, we restored connectivity and ensured the smooth functioning of our core comparison, netting, risk management and settlement services for fixed income securities—without interruption. MBSCC, working closely with The Bond Market Association, also extended deadlines for netting while shortening the pool notification period from the usual two days to one, in order to prevent massive fails in the mortgage-backed security settlement system.

We are extraordinarily proud of the dedication and resourcefulness of our employees in helping our nation and our customers manage through this crisis.

Membership Building

As always, MBSCC and GSCC worked closely with the industry throughout the year to define business opportunities and extend services. We remain committed to cultivating new members, being responsive to their needs, and improving industry awareness of the contributions we can make in post-trade processing for members.

This past year, GSCC added six new members to bring its membership to 104. Marketing efforts resulted in 21 new members for mortgage-backed securities processing services for a total of 134 members. Of these new members, 13 are buy-side customers (insurance companies, institutional players, pension funds and mutual funds), further expanding our reach into this industry segment. Both MBSCC and GSCC will continue efforts to bring the full benefits of risk protection, balance sheet netting (for repos),

cost reduction and operational efficiencies to trades with and by the “buy side” of the business.

Working with the Industry

In reviewing the events of this year, we would like to thank the members of both our 2001 Boards for their vision and guidance in bringing about our historic integration. Without their support, as well as the dedication and expertise of our employees, we would not be able to follow a strong, united course to aggressively pursue our goals.

We also want to acknowledge the role of the Securities Industry Automation Corporation (SIAC), our facilities manager, in supporting both our real-time technology initiatives, as well as the daily demands of our core businesses.

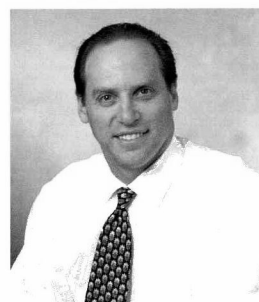
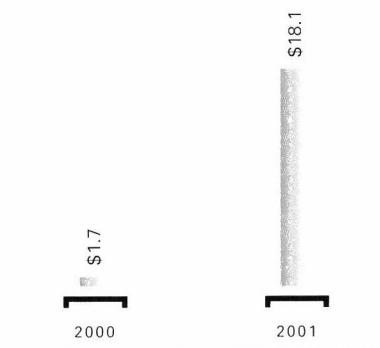
As we move forward, we’re excited about the power and the possibilities inherent in our transformation as integrated clearing organizations. By sharing technologies, resources and knowledge, we are confident that we can deliver ever greater benefits to our customers.

We will build on the traditions we always have shared—performance, customer service, risk protection and a passion for change. And we will continue to lead the way with innovative, cost-effective business solutions that translate into profitable and long-lasting benefits for your fixed income businesses.

KENNETH MILLER CHAIRMAN, GSCC	DENNIS J. DIRKS CHIEF EXECUTIVE OFFICER, GSCC/MBSCC	EDWARD F. WATTS, JR. CHAIRMAN, MBSCC	RONALD A. STEWART PRESIDENT, GSCC/MBSCC
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GSCC TOTAL DOLLAR VALUE OF GCF REPO TRADES COMPARED

(IN TRILLIONS OF DOLLARS)



DOUGLAS B. GARDNER

Remembering Doug Gardner

Douglas B. Gardner, a member of GSCC's Board of Directors, was among those who were lost in the September 11 attack on the World Trade Center. He was executive managing director of Cantor Fitzgerald, L.P., and vice chairman of e-Speed. Doug had served on GSCC's Board since December 1999, and also was a member of its Executive and Audit and Finance Committees.

"Doug provided decisive, thoughtful leadership during his tenure on our Board," said Tom Costa, managing director and chief operating officer, GSCC/MBSCC. "His clarity of vision and energetic management style were extremely rare. He was a great person, and we miss him as both a friend and colleague."

GSCC/MBSCC: CAPITALIZING ON THE POWER AND POSSIBILITIES OF INTEGRATION

2001 was a watershed year for GSCC and MBSCC. We successfully came together as an integrated team, combining technological resources and intellectual capital to help the financial services industry achieve greater efficiencies and lower costs in the post-trade processing of fixed income instruments. Early in the year, we began the functional integration of our two organizations. Our transformation was complete on January 1, 2002, when we, along with the Emerging Markets Clearing Corporation (EMCC), became wholly owned subsidiaries of The Depository Trust & Clearing Corporation (DTCC).

Industry needs are driving changes that come at a time when you, our customers, are being challenged by a marketplace that is becoming evermore competitive and cost-conscious. Integration, with its economies of scale and effective risk management, will help us to help you. In this section, we take a look at the power and possibilities that integration offers the fixed income environment.

ACHIEVING SYNERGIES WITH REAL-TIME TRADE MATCHING

Our most significant collaboration in the past year has been to steadily expand our combined technologies and expertise in the development of Interactive Messaging to support Real-Time Trade Matching (RTTM) systems for the fixed income marketplace. The RTTM expansion is part of a broader plan to provide the industry with a single front-end matching engine for virtually all fixed income products.

To achieve this goal, we utilized the RTTM system that GSCC introduced for Government securities in 2000 as the processing model to develop RTTM for mortgage-backed securities. MBSCC plans on RTTM implementation in third quarter 2002. In addition, we are working to bring RTTM capabilities to a wide range of fixed income securities eligible for processing by National Securities Clearing Corporation (NSCC), another DTCC clearing subsidiary. These include corporate and municipal bonds, unit investment trusts (UITs) and other financial instruments.

At GSCC, the RTTM system now receives more than 70% of all trade submissions on an intra-day basis with an average daily value of approximately \$1 trillion. While this percentage is lower than it was before September 11, it demonstrates significant progress from the year 2000, when almost every trade was submitted at end of day. For mortgage-backed securities, members representing 65% of the volume have committed to use Interactive Messaging to submit trades once the RTTM functionality is up and running in their marketplace.

As the industry prepares to move to a straight-through processing (STP) environment to accommodate efficient settlement on a same- or next-day basis, a centralized, automated, real-time fixed income matching system is a core requirement. The goal, of course, is to enhance risk protection services for our customers by moving the settlement guarantee (for Government securities and NSCC fixed income products) or confirmation (for mortgage-backed securities) closer to the time of trade execution.

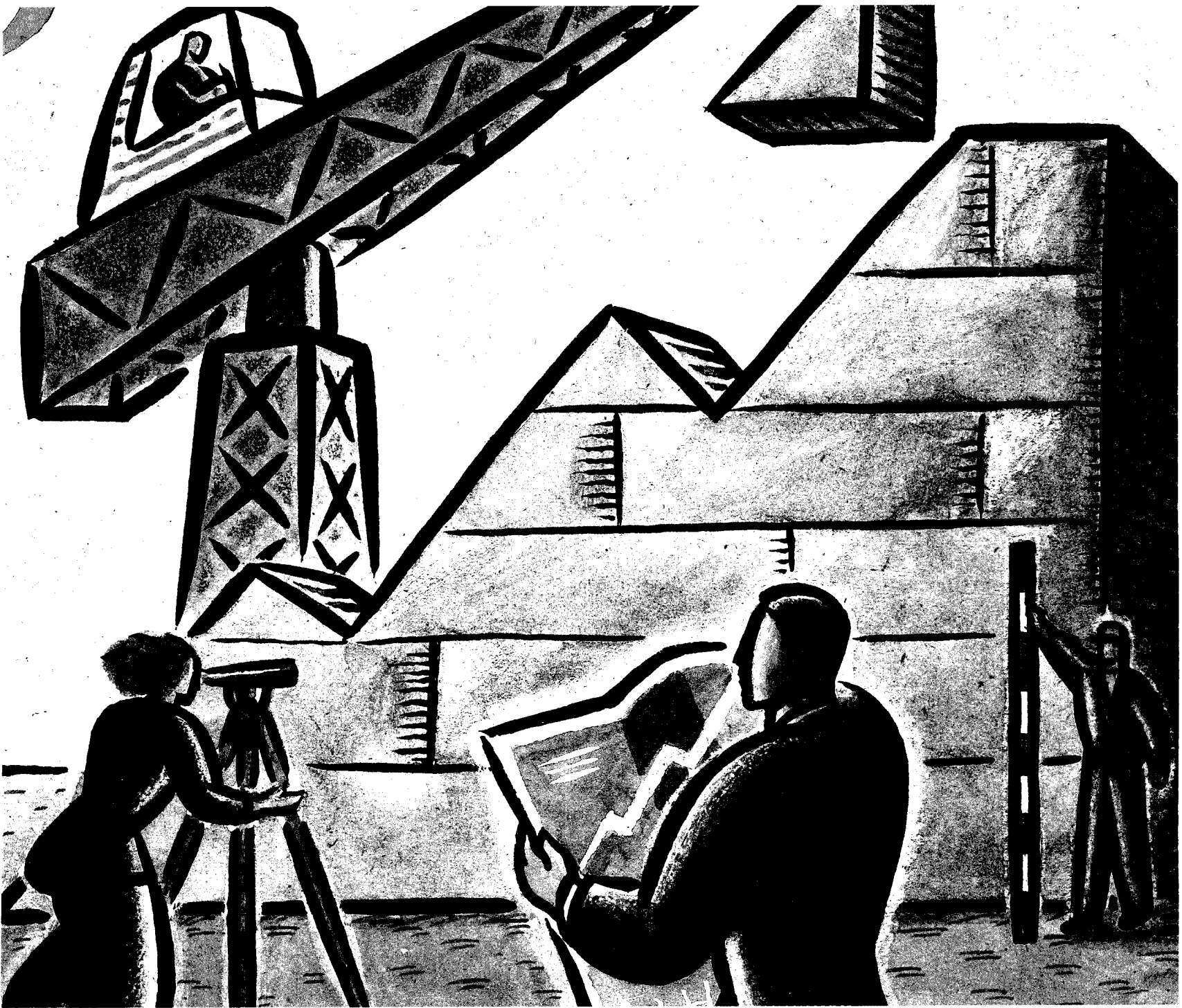
ENHANCEMENT OF PRODUCTS AND SERVICES

RTTM development in preparation for STP tops our agenda. But our ongoing objective is to administer our core businesses without service interruptions, while consistently meeting or exceeding superior performance standards in day-to-day functions. To support this effort, GSCC and MBSCC continue to enhance services to further augment our processing capabilities and meet evolving needs of the marketplace. These include:

— *Expansion of Fannie Mae and Freddie Mac mortgage-backed securities as collateral in GSCC's General Collateral Finance (GCF) Repo program.*

GCF Repos, which continue to be GSCC's fastest growing product, allow dealer members to freely

Netting of repos continued to allow customers to maximize the presentation of their balance sheets, which was the most significant contribution to GSCC's estimate of **\$285 million** in savings for customers in 2001.



TOGETHER, GSCC AND MBSCC WILL HAVE
FAR GREATER ABILITY TO RESPOND SUCCESSFULLY
AND QUICKLY TO CHANGES IN THE MARKETS
AND TECHNOLOGY.



GSCC AND MBSCC WILL CONTINUE TO LEAD
THE WAY WITH INNOVATIVE, COST-EFFECTIVE
BUSINESS SOLUTIONS THAT HAVE SIGNIFICANT
IMPACT ON OUR CUSTOMERS' BOTTOM LINES.

and actively trade general collateral repos throughout the day by removing constraints on collateral notification and allocation. GSCC, which began accepting certain Fannie Mae and Freddie Mac securities as eligible collateral in 2000, expanded these categories to include Medium Term Notes and Discount Notes in 2001. Fueled by members' growing use of an array of Fannie Mae and Freddie Mac instruments, the value of GCF transactions rocketed to more than \$18.1 trillion from \$1.7 trillion in 2001. This jump in dollar volume clearly indicates that GSCC customers are capitalizing on GCF Repos to provide ever-greater sources of liquidity across clearing banks, and opportunities for a more favorable balance sheet presentation.

— *Connection of member firms to the Fixed Income Access Network.*

GSCC developed this Access Network several years ago, in concert with NSCC, as a single communications pipeline to allow access to a number of clearing corporation services. This network is a reliable, secure, shared system that is becoming an increasingly valuable industry resource as new services are added. We continue to work with our customers and expect to complete their conversion to the Access Network by year-end 2002. A single connection to access various clearing corporations will afford fixed income customers a significant cost savings, one of the objectives of our integration.

— *Upgrades to the Electronic Pool Notification (EPN) system for mortgage-backed securities transactions.*

The EPN system, the industry standard for real-time pool notification of MBS trades, processed record volumes last year, which rose 41% over 2000 to almost \$6.5 trillion in 2001. A strong housing market, record levels of mortgage refinancing and a 10% increase in the number of MBSCC participants last year drove this increase. Therefore, in order to stay ahead of volume increases and prepare for future capacity needs, MBSCC is expanding its ability to handle continued growth. The upgrade, targeted for rollout later this year, will provide a significant increase in processor capacity that will be transparent to EPN participants. It also paves the way for implementation of future enhancements such as Web browser technologies, as well as alternative connectivity options.

— *Implementation of cross-margining agreements with other clearing entities.*

GSCC has recently implemented three separate cross-margining agreements with the Chicago Mercantile Exchange Inc. (CME), the Board of Trade Clearing Corporation (BOTCC) and the BrokerTec Clearing Company, L.L.C. (BCC). Cross-margining programs have long been recognized for both enhancing the safety and soundness of clearing systems and for allowing members to optimize their capital usage by viewing their positions at different clearing organizations as a combined portfolio. These latest moves reflect GSCC's objective to become the industry hub on behalf of the U.S. over-the-counter and debt markets for both domestic and international cross-margining. The CME arrangement enables GSCC and CME members to cross-margin buy/sell and repo activity in U.S. Government securities against Eurodollar futures contracts and futures options traded and cleared by CME. The BOTCC and BCC agreements allow their respective members to cross-margin U.S. Government securities against U.S. Treasury and Agency futures contracts and futures options.

2002 AND BEYOND

The tragic events of September 11 taught us a number of valuable business lessons, perhaps most importantly, how critical it is for our members to become Interactive Messaging users. We believe that the majority of lost transactions and resulting reconciliation issues in the Government securities marketplace could have been circumvented if real-time messaging had been in place with all our members. Interactive Messaging, predicated on the use of standardized ISO 15022 messages, allows more trades between members and clearing corporations to be compared closer to the point of execution.

The resulting savings to customers on potential clearing costs for mortgage-backed securities totaled approximately **\$337 million** in 2001.

In 2002, we remain committed to leading the industry to achieve execution of a trade at the time of submission. To encourage GSCC members' conversion to Interactive Messaging, we have moved the guaranty of settlement of eligible trades closer to the point of execution, and imposed fee surcharges for late submission of trades.

While we have made considerable progress in moving customers to point-of-execution trade submission, we recognize that a focused effort by the industry will be required to achieve full participation. We are working closely with The Bond Market Association, member focus groups and regulatory agencies to lead the industry in developing the best practices that can eliminate barriers and ingrained behaviors that prevent customers from moving to point-of-execution submission and reconciliation.

Another important RTTM-related initiative will be to introduce the RTTM Web-based User Interface later this year. This interface is an online facility that will allow GSCC, MBSCC and, eventually, NSCC members to enter all trade-related activity and to obtain real-time status information for all transactions received by the RTTM system. Currently, customers can only perform such functions on their proprietary terminal interfaces with the two clearing organizations. Customers will find the Web-based interface much more user-friendly with more sophisticated query tools to enable trade reconciliation through identification of uncomparated trades and advisories, along with the capability to resolve such items.

To further bolster the value of RTTM to its customers, GSCC also plans to implement new interactive messaging capabilities later this year that will significantly enhance RTTM functions. These include the implementation of "demand" processing and the institution of "DK" capabilities that will help achieve 100% comparison of trades intra-day. (Demand processing allows for trade matching based on unilateral input by an authorized trade submitter against an approved counterparty. "DK" capabilities allow members to notify their counterparties if they don't agree with the data submitted by them.)

Lastly, in addition to real-time trade capture and comparison initiatives, we will implement our new TXpress settlement system in late 2002. This state-of-the-art functionality will help mitigate settlement risk in the U.S. Government securities marketplace. The TXpress settlement system will replace the existing clearing bank links and provide the operational foundation for novating and settling Government securities trades on trade date. Tapping the intra-day settlement capabilities of the TXpress system also will allow us to develop Start Leg Repo services for GSCC customers to ensure the ongoing integrity and support the explosive growth of the financing markets. (Start Leg Repos are same-day settling products that currently settle outside of GSCC.)

In addition, TXpress will serve as the clearance framework to achieve central counterparty (CCP) status for mortgage-backed securities. Settlement by novation in the mortgage-backed securities market — whereby, MBSCC becomes the CCP to all net pool settlements — would literally reinvent the entire post-trade process for the industry and help achieve the ultimate goal of straight-through processing.

Whether it's TXpress, RTTM or core product enhancements, it is clear that our integration holds enormous potential for service to the industry. As individual organizations — GSCC for 15 years and MBSCC for 22 years — we have consistently and steadfastly worked to make our respective markets safer, more efficient arenas for our customers to trade in.

With our combined resources and expertise, our guiding principles only grow stronger: Anticipate and meet customer needs better, faster and more efficiently than anyone else. Deliver seamless products and services that drive costs — and risk — out of the post-trade processing business. And launch technology solutions to serve our customers' emerging needs. We look forward to sharing the power and possibilities of such a future with you.

September 11 taught us a number of valuable business lessons, perhaps most importantly, how critical it is for our members to become Interactive Messaging users.

GSCC BALANCE SHEETS

DECEMBER 31, (IN THOUSANDS)	2001	2000
ASSETS		
Cash and cash equivalents	\$ 84,138	\$ 61,443
Investments in marketable securities	17,073	28,985
Settlements receivable	35,167	—
Accounts receivable	3,837	3,406
Clearing fund	6,233,075	4,432,497
Fixed assets, net of accumulated amortization and depreciation of \$17,891,000 and \$14,379,000 at December 31, 2001 and 2000, respectively	8,753	6,778
Other assets	9,926	3,871
Total assets	\$6,391,969	\$4,536,980
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Settlements payable	\$ 35,167	\$ 1,349
Clearing fund:		
Participants' cash deposits	60,284	57,173
Other participant deposits	6,233,075	4,432,497
Other liabilities	34,297	17,531
Total liabilities	6,362,823	4,508,550
Commitments and contingent liabilities (Note 7)		
Shareholders' equity		
Common stock:		
Class A, \$0.50 par value: 75,000 shares authorized, 20,400 shares issued and outstanding at December 31, 2001 and 2000	10	10
Capital in excess of par	8,940	8,940
Retained earnings	20,196	19,480
Total shareholders' equity	29,146	28,430
Total liabilities and shareholders' equity	\$6,391,969	\$4,536,980

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

GSCC STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, (IN THOUSANDS)	2001	2000
REVENUES		
Revenue from comparison, netting, settlement and related services	\$42,794	\$35,471
Discounts to participants	—	(586)
Net revenues from services	42,794	34,885
Interest income	3,699	6,829
Total revenues	46,493	41,714
EXPENSES		
Computer equipment depreciation, licenses, software amortization, processing and maintenance costs	19,996	18,473
Employee compensation and related benefits	12,172	11,892
General and administrative expenses	6,044	3,733
Provision for possible losses	6,000	—
Occupancy costs	700	626
Professional fees	645	758
Reimbursement (from) to affiliates	(390)	1,188
Total expenses	45,167	36,670
Income before income taxes	1,326	5,044
Provision for income taxes	610	1,836
Net income	716	3,208
Retained earnings, beginning of year	19,480	16,272
Retained earnings, end of year	\$20,196	\$ 19,480

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

GSCC STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, (IN THOUSANDS)

2001

2000

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 716	\$ 3,208
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization and depreciation of fixed assets	3,912	2,773
Net premium amortized (discount accreted) on securities owned	26	(3)
Changes in operating assets and liabilities:		
(Increase) decrease in settlements receivable	(35,167)	2,008
Increase in accounts receivable	(431)	(691)
(Increase) decrease in other assets	(6,055)	367
Increase (decrease) in settlements payable	33,818	(659)
Increase (decrease) in participants' cash deposits	3,111	(39,503)
Increase in other liabilities	16,766	8,352
Net cash provided by (used in) operating activities	16,696	(24,148)

CASH FLOWS FROM INVESTING ACTIVITIES

Maturity of investments in marketable securities	25,000	4,000
Purchase of investments in marketable securities	(13,114)	(3,973)
Purchase of fixed assets	(5,887)	(4,454)
Net cash provided by (used in) investing activities	5,999	(4,427)
Net increase (decrease) in cash and cash equivalents	22,695	(28,575)
Cash and cash equivalents, beginning of year	61,443	90,018
Cash and cash equivalents, end of year	\$ 84,138	\$ 61,443

SUPPLEMENTAL DISCLOSURE

Income taxes paid	\$ 603	\$ 1,580
Interest paid	\$ 13	\$ —

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

GSCC NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS:

Government Securities Clearing Corporation (GSCC), a clearing agency registered with the Securities and Exchange Commission, provides automated real-time trade comparison, netting, settlement and risk management services for buy/sell, original issue purchase and repurchase transactions in the Government securities and financing marketplaces for brokers, dealers, banks and other market participants (see Note 9).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cash Equivalents: GSCC invests in overnight reverse repurchase agreements which are considered cash equivalents. Such agreements provide for GSCC's delivery of cash in exchange for securities having a market value of at least 102% of the amount of the agreement. Independent custodians designated by GSCC take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$84,133,000 and \$60,126,000 at December 31, 2001 and 2000, respectively. At December 31, 2001, two major financial institutions were counterparties to these agreements.

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 as GSCC has both the positive intent and ability to hold these securities to maturity. The contractual maturities, carrying

value and market value of these securities at December 31, 2001 and December 31, 2000, are as follows:

	CARRYING VALUE (IN THOUSANDS)			MARKET VALUE (IN THOUSANDS)		
	U.S. TREASURY SECURITIES	CORPORATE NOTES	TOTAL	U.S. TREASURY SECURITIES	CORPORATE NOTES	TOTAL
2001						
Due in one year or less	\$ 3,995	\$ —	\$ 3,995	\$ 4,060	\$ —	\$ 4,060
Due in one to two years	\$ 12,079	\$ 999	\$ 13,078	\$ 12,358	\$ 1,026	\$ 13,384
Total	\$ 16,074	\$ 999	\$ 17,073	\$ 16,418	\$ 1,026	\$ 17,444
2000						
Due in one year or less	\$ 23,998	\$ 1,005	\$ 25,003	\$ 23,978	\$ 1,003	\$ 24,981
Due in one to two years	\$ 3,982	\$ —	\$ 3,982	\$ 4,050	\$ —	\$ 4,050
Total	\$ 27,980	\$ 1,005	\$ 28,985	\$ 28,028	\$ 1,003	\$ 29,031

Settlements Receivable and Payable: Settlements receivable and payable arise primarily from an inability to complete the settlement process before the close of the Fedwire.

Participant Clearing Fund Deposits: GSCC accepts cash, U.S. Treasury and book entry non-mortgage-backed Agency securities, and letters of credit issued by authorized banks as clearing fund deposits, and records total deposits on its balance sheet.

Income Taxes: Deferred tax assets and liabilities are provided for the expected future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities. Deferred tax assets relate principally to depreciation and employee benefit costs. The net deferred tax asset of \$1,005,000 is expected to be fully realized and, accordingly, no valuation reserve has been established.

Fixed Assets: These assets consist primarily of computer equipment which is being depreciated over a three-year period and purchased computer software which is being amortized over a three or five-year period. The straight-line method is used to compute the depreciation and amortization.

During 2001, GSCC capitalized software developed for internal use totaling \$1,597,000; the amortization charges were \$715,000. The comparable amounts in 2000 were \$1,003,000 and \$282,000, respectively. Such software is being amortized over a three-year period.

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

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

Reclassifications: Certain reclassifications of 2000 amounts have been made in the accompanying financial statements to conform to the 2001 presentation.

3. PARTICIPANT CLEARING FUND DEPOSITS:

GSCC's rules require netting participants to maintain minimum clearing fund deposits based upon calculated requirements which, at December 31, 2001 and 2000, were \$5,101,562,000 and \$3,683,828,000, respectively. All participant deposits made to the clearing fund are available to secure participant obligations and, in certain circumstances, to satisfy other losses and liabilities of GSCC, should they occur.

A summary of clearing fund deposits held at December 31, 2001 and 2000 follows:

	2001	2000
Cash	\$ 60,284,000	\$ 57,173,000
U.S. Treasury and book entry non-mortgage-backed Agency securities, at market	5,548,241,000	4,085,991,000
Letters of credit issued by authorized banks	684,834,000	346,506,000
Total deposits	\$6,293,359,000	\$4,489,670,000

4. TRANSACTIONS WITH RELATED PARTIES:

National Securities Clearing Corporation (NSCC), a minority shareholder of GSCC, provides various computer services to GSCC through the Securities Industry Automation Corporation (SIAC) under NSCC's agreement with SIAC. NSCC also provides other support services and office facilities to GSCC. Further, GSCC provides software development services to NSCC. The net amounts payable to NSCC at December 31, 2001 and 2000 were \$400,000 and \$573,000, respectively.

GSCC also provides software development and related services to MBS Clearing Corporation (MBSCC) under an arrangement which commenced in 2001. NSCC owns 10% of MBSCC. The amount receivable from MBSCC at December 31, 2001 was \$112,000.

A summary of these charges, which are provided at cost, for the years ended December 31, 2001 and 2000 follows:

	SIAC	OCCUPANCY	OTHER, NET	TOTAL
2001				
NSCC	\$5,423,000	\$628,000	\$ 523,000	\$6,574,000
MBSCC	—	—	(913,000)	(913,000)
Total	\$5,423,000	\$628,000	\$ (390,000)	\$5,661,000
2000				
NSCC	\$4,916,000	\$573,000	\$1,188,000	\$6,677,000

GSCC is contingently liable for a portion of NSCC's office lease which expires on December 31, 2012. At December 31, 2001, the contingent commitment of GSCC for the remaining lease period totals approximately \$5,427,000.

5. INCOME TAXES:

GSCC files Federal, New York State and New York City income tax returns. The differences between the 34% Federal statutory rate and GSCC's 46% and 36% effective tax rates for the years ended December 31, 2001 and 2000, respectively, are primarily attributed to state and local taxes.

The provisions for income taxes for the years ended December 31, 2001 and 2000 consist of the following:

	2001	2000
Current income taxes	\$ 757,000	\$ 1,664,000
Deferred income taxes	(147,000)	172,000
Total income taxes	\$ 610,000	\$ 1,836,000

6. POST-RETIREMENT BENEFIT PLANS:

All eligible employees of GSCC participate in The Depository Trust & Clearing Corporation's (DTCC's) trustee, noncontributory defined benefit pension plan. DTCC owns 100% of the outstanding shares of NSCC. In addition, GSCC participates in DTCC's noncontributory supplemental executive retirement and benefit restoration plans which provide for certain benefits to identified executives of GSCC upon retirement. Further, GSCC participates in DTCC's life insurance program which provides payment of death benefits to beneficiaries of eligible retired employees and DTCC's health insurance program which provides benefits to eligible retired employees. In 2001, costs for these plans aggregated \$890,000 and were determined based upon actuarial calculations using information related to all eligible GSCC employees. Disclosures of post-retirement benefit obligations, expense components and actuarial assumptions for the DTCC plans are included in DTCC's 2001 financial statements.

7. COMMITMENTS AND CONTINGENT LIABILITIES:

GSCC's netting system interposes GSCC between netting participants for eligible trades that have been netted. The guarantee of net settlement positions by GSCC results in potential liability to GSCC. Guaranteed positions that have not yet settled are margined and marked-to-market daily. Margin deposits are held by GSCC; marks are debited from and credited to the responsible participants through the funds-only settlement process. At December 31, 2001, the gross amount of guaranteed positions due from netting participants to GSCC which are scheduled to settle on or before January 2, 2002 approximated \$244,053,305,000; the amount scheduled to settle after January 2, 2002 approximated \$229,094,335,000. There is an equal amount due from GSCC to certain other participants after consideration of deliveries pending from GSCC.

The terrorist attacks of September 11, 2001 caused significant disruption in the financial marketplaces. As a result, GSCC has been presented with claims for reimbursement of certain costs by its clearing banks and others. These claims, amounting to approximately \$12 million, are in the process of being negotiated. The statement of income and retained earnings reflects management's best estimate that these claims will ultimately be resolved for \$6 million, although the actual settlement amount may be higher or lower.

In the ordinary course of its business, GSCC may become involved in legal proceedings and litigation. In the opinion of management, after consulting with outside counsel, the outcome of such proceedings and litigation will not materially affect GSCC's financial statements.

8. OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK:

In the normal course of business, because it guarantees certain settlement obligations of its netting participants (see Note 7), GSCC could be exposed to credit risk. GSCC mitigates its exposure to credit risk by requiring such participants to meet minimum financial standards for membership, verifying compliance with financial and other standards, monitoring financial status and trading activity, requiring participants to meet daily mark-to-market obligations, and requiring participants to provide clearing fund deposits (see Note 3) in the form of cash, U.S. Treasury and book entry non-mortgage-backed Agency securities, and eligible letters of credit.

If a participant fails to fulfill its settlement obligations to GSCC and GSCC determines that such participant is insolvent, GSCC would liquidate that participant's netted security positions and apply the failed participant's margin and mark-to-market deposits, including clearing fund deposits, to satisfy any outstanding obligation and/or loss. GSCC has entered into a limited cross-guaranty agreement separately with NSCC, Emerging Markets Clearing Corporation (EMCC) and MBSCC, under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that these agencies have excess resources belonging to the defaulting participant.

In the event that a deficiency still exists, GSCC would satisfy the deficiency by assessing the participants with whom the defaulting participant most recently conducted trading activity subject to various priorities and limitations as defined in GSCC's Rules. If one or more of such participants does not pay its assessment, GSCC would satisfy such deficiency by utilizing 25% of its retained earnings, or such greater amount of retained earnings to be determined by the Board of Directors. Thereafter, if necessary, each remaining participant would be assessed on an equal basis up to \$50,000. Finally, if a deficiency still

remains, GSCC would assess all remaining participants on a pro-rata basis based upon their average daily level of required clearing fund deposits over the prior year; however, any such remaining participant may limit its additional liability to the amount of its required clearing fund deposit by terminating its membership in GSCC. Further, certain interdealer brokers have an absolute cap of \$5,000,000 on losses associated with each insolvency.


As discussed in Note 1, GSCC provides automated trade comparison, netting, settlement and risk management services for buy/sell, original issue purchase and repurchase transactions in the Government securities and financing marketplaces for brokers, dealers, banks and other market participants. As such, GSCC has a significant group concentration of credit risk since its participants may be impacted by economic conditions affecting the securities industry. As described above, such risk is mitigated in a number of ways.

9. SUBSEQUENT EVENT:

Effective January 1, 2002, the shareholders of GSCC's Class A common stock exchanged their ownership interest in GSCC for common stock issued by DTCC. Similar exchanges occurred at MBSCC and EMCC. The primary purpose of these exchanges was to achieve greater efficiencies between DTCC and the above companies by streamlining core processes, improving communication and technology innovation, strengthening risk management, expanding opportunities for cross-margining and positioning the industry for increased growth in global trading activity. The persons elected to serve on the Board of Directors of GSCC will also serve as directors on the Boards of DTCC and each of its other domestic subsidiaries.

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS LLP
1177 AVENUE OF THE AMERICAS
NEW YORK, NY 10036

PRICEWATERHOUSECOOPERS 

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF GOVERNMENT SECURITIES CLEARING CORPORATION

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of Government Securities Clearing Corporation at December 31, 2001 and 2000, and the results of its operations and its 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.



February 8, 2002

MBSCC BALANCE SHEETS

DECEMBER 31, (IN THOUSANDS)

2001

2000

ASSETS

Cash and cash equivalents	\$ 120,424	\$ 168,737
Accounts receivable	934	14
Participants' deposits	2,966,606	1,698,168
Fixed assets, less accumulated depreciation of \$2,562,000 and \$2,109,000 at December 31, 2001 and 2000, respectively	1,092	698
Other assets	2,280	1,424
Total assets	\$3,091,336	\$1,869,041

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Accounts payable and accrued liabilities	\$ 8,950	\$ 6,745
Participants' deposits:		
Cash	110,780	159,128
Other	2,966,606	1,698,168
Total liabilities	3,086,336	1,864,041

Stockholders' equity:

Common stock, no par value:		
Class A: 50,500 shares authorized, 38,346 shares issued and outstanding at December 31, 2001 and 2000	1	1
Class B: 5,000 shares authorized, 4,260 shares issued and outstanding at December 31, 2001 and 2000	432	432
Retained earnings	4,567	4,567
Total stockholders' equity	5,000	5,000
Total liabilities and stockholders' equity	\$3,091,336	\$1,869,041

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

MBSCC STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, (IN THOUSANDS)

2001

2000

REVENUE

Fees billed to participants	\$33,051	\$ 21,620
Discount to participants	(18,974)	(10,127)
Net revenue from operations	14,077	11,493
Interest income	393	423
Total revenue	14,470	11,916

EXPENSE

Employee compensation	5,856	5,609
Systems and related support	3,146	2,728
Rent, maintenance and utilities	262	261
Professional and other services	4,158	2,166
General and administrative	595	728
Depreciation and amortization	453	424
Total expense	14,470	11,916
Income before income taxes	—	—
Income tax provision:		
Current	154	108
Deferred	(154)	(108)
Total income tax provision	—	—
Net income	—	—
Retained earnings, beginning of year	4,567	4,567
Retained earnings, end of year	\$ 4,567	\$ 4,567

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

MBSCC STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, (IN THOUSANDS)

2001

2000

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$	—	\$	—
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization		453		424
(Increase) decrease in operating assets:				
Accounts receivable		(920)		1,063
Other assets		(856)		(248)
Increase (decrease) in operating liabilities:				
Accounts payable and accrued liabilities		2,205		2,182
(Decrease) increase in participants' cash deposits		(48,348)		138,508
Net cash (used in) provided by operating activities		(47,466)		141,929
Cash flows from investing activity—purchase of fixed assets		(847)		(311)
Net (decrease) increase in cash and cash equivalents		(48,313)		141,618
Cash and cash equivalents, beginning of year		168,737		27,119
Cash and cash equivalents, end of year		\$ 120,424		\$ 168,737
Supplementary disclosures—net income taxes paid		\$ 452		\$ 159

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

MBSCC NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS:

MBS Clearing Corporation (MBSCC), a clearing agency registered with the Securities and Exchange Commission, provides trade comparison, confirmation, risk management, netting and electronic pool notification services to participants in the mortgage-backed securities market. MBSCC provides discounts on billing for trade comparison services based upon the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as determined by its Board of Directors. MBSCC's participants own 90% of its outstanding shares; National Securities Clearing Corporation (NSCC), a wholly owned subsidiary of The Depository Trust & Clearing Corporation (DTCC), owns the remaining shares (see Note 7).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cash Equivalents: MBSCC invests funds in overnight reverse repurchase agreements, which are considered cash equivalents. Such agreements provide for MBSCC's delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreement. An independent custodian designated by MBSCC takes possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$120,213,000 at December 31, 2001. At December 31, 2001, one major financial institution was counterparty to this agreement.

Participants' Deposits: MBSCC accepts cash, securities issued by the U.S. Government or Government-sponsored enterprises and letters of credit issued by authorized banks as participants' deposits and records total deposits on its balance sheet.

Fixed Assets: Fixed assets consist primarily of computer hardware which is depreciated on a straight-line basis over three or five years.

Income Taxes: Deferred tax assets and liabilities are provided for the expected future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities. The net deferred tax asset of \$826,000 is expected to be fully realized and, accordingly, no valuation reserve has been established.

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

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of 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 2000 amounts have been made in the accompanying financial statements to conform to the 2001 presentation.

3. PARTICIPANTS' DEPOSITS:

The rules of MBSCC require its participants to maintain a minimum deposit in cash and to make additional deposits to cover margin requirements to secure participants' obligations. Additional amounts may be assessed against participants in accordance with MBSCC's rules.

A summary of the deposits held at December 31, 2001 and 2000 follows:

	2001	2000
Cash	\$ 110,780,000	\$ 159,128,000
Securities issued by the U.S. Government or Government-sponsored enterprises, at market	2,366,496,000	1,090,912,000
Letters of credit issued by authorized banks	600,110,000	607,256,000
	\$ 3,077,386,000	\$ 1,857,296,000

MBSCC invests participants' cash deposits in overnight reverse repurchase agreements. The earnings on deposits in excess of the required minimum are passed through to participants and are not included in interest income. In 2001 and 2000, such earnings totaled \$9,896,000 and \$5,791,000, respectively. MBSCC has entered into a limited cross-guaranty agreement separately with NSCC and Government Securities Clearing Corporation (GSCC) under which these entities have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that these entities have excess resources of the defaulting participant.

4. TRANSACTIONS WITH RELATED PARTIES:

NSCC provides various support services and office facilities to MBSCC. The costs of providing these services are charged to MBSCC in accordance with the provisions of a service agreement. The agreement continues in effect unless canceled by either party upon six months prior written notice. Charges to MBSCC pursuant to this agreement totaled approximately \$1,113,000 in 2001 and \$1,131,000 in 2000. Amounts payable to NSCC at December 31, 2001 and 2000 were \$296,000 and \$413,000, respectively.

GSCC provides software development and related services to MBSCC. NSCC owns 24% of GSCC. The charges under this arrangement, which commenced in 2001, totaled approximately \$913,000. The amount payable to GSCC at December 31, 2001 was \$112,000.

MBSCC is contingently liable, under a service agreement, for a portion of NSCC's office lease which expires on December 31, 2012. At December 31, 2001, the contingent commitment of MBSCC for the remaining lease period is approximately \$2,063,000.

5. INCOME TAXES:

MBSCC files Federal, New York State and New York City income tax returns. The tax effect on temporary differences that give rise to significant portions of deferred tax assets relate principally to depreciation and employee benefit costs.

6. POST-RETIREMENT BENEFIT PLANS:

All eligible employees of MBSCC participate in DTCC's trustee, non-contributory defined benefit pension plan. In addition, MBSCC participates in DTCC's noncontributory supplemental executive retirement and benefit restoration plans which provide for certain benefits to identified executives of MBSCC upon retirement. Further, MBSCC participates in DTCC's life insurance program which provides payment of


death benefits to beneficiaries of eligible retired employees and DTCC's health insurance program which provides benefits to eligible retired employees. In 2001, costs for these plans aggregated \$477,000 and were determined based upon actuarial calculations using information related to all eligible MBSCC employees. Disclosures of post-retirement benefit obligations, expense components and actuarial assumptions for the DTCC plans are included in DTCC's 2001 financial statements.

7. SUBSEQUENT EVENT:

Effective January 1, 2002, the shareholders of MBSCC's Class A and Class B common stock exchanged their ownership interests in MBSCC for common stock issued by DTCC. Similar exchanges occurred at GSCC and the Emerging Markets Clearing Corporation. The primary purpose of these exchanges was to achieve greater efficiencies between DTCC and the above companies by streamlining core processes, improving communications and technology innovation, strengthening risk management, expanding opportunities for cross-margining and positioning the industry for increased growth in global trading activity. The persons elected to serve on the Board of Directors of MBSCC will also serve as directors on the Boards of DTCC and each of its other domestic subsidiaries.

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS LLP
1177 AVENUE OF THE AMERICAS
NEW YORK, NY 10036

PRICEWATERHOUSECOOPERS 

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF MBS CLEARING CORPORATION

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of MBS Clearing Corporation at December 31, 2001 and 2000, and the results of its operations and its 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.



February 8, 2002

**GSCC AND MBSCC OFFICERS
AND DIRECTORS**

DENNIS J. DIRKS
Chief Executive Officer

RONALD A. STEWART
President

THOMAS F. COSTA
Managing Director and
Chief Operating Officer

RICHARD R. MACEK
Chief Financial Officer and Treasurer

DAVID P. BUCKMASTER
Managing Director-Operations/QA,
Planning and Business Development

JEFFREY F. INGBER
Managing Director,
General Counsel and Secretary

LYNN DOUGLAS
Managing Director-Marketing,
Participant Services and Administration

STEVEN M. JUKOFSKY
Managing Director-Contract Negotiations,
Staffing and Compensation

ROBERT P. PALATNICK
Managing Director-Technology

NEAL J. ARBON
Managing Director-Development

VIRGINIA W. HANSON
Managing Director-Planning

STEVEN D. KLING
Managing Director-Systems

SALVATORE J. MATERA
Managing Director-Development

THOMAS A. QUARANTA
Managing Director-Participant Services

DENNIS J. PAGANUCCI
Managing Director-Marketing

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Managing Director
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President, GSCC

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First Vice President
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RONALD A. STEWART
President
MBS Clearing Corporation

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