Consolidated Balance Sheet

	December 31, 1999
Assets	(Dollars in thousands)
Cash and cash equivalents	$3,442,765
U.S. Treasury securities	78,633
Accounts receivable	112,569
Participants' funds	984,260
Fixed assets, less accumulated depreciation and amortization of $186,393,000	135,972
Intangible assets, less accumulated amortization of $39,537,000	17,774
Other assets	229,583
Total assets	$5,001,556

Liabilities and Shareholders' Equity	
Liabilities:	
Accounts payable and other liabilities	$ 398,990
Payable to participants	1,785,815
Notes payable	68,401
Participants' funds:	
Cash deposits	1,704,090
Other deposits	984,260
Total liabilities	4,941,556
Commitments and contingent liabilities (Note 10)	
Shareholders' equity:	
Preferred stock:	
Series A, $.50 par value – 10,000 shares authorized, issued and outstanding	300
Series B, $.50 par value – 10,000 shares authorized, issued and outstanding	300
Common stock, $100 par value – 18,500 shares authorized, issued and outstanding	1,850
Paid-in capital	950
Retained earnings:	
Appropriated	29,400
Unappropriated	27,200
Total shareholders' equity	60,000
Total liabilities and shareholders' equity	$5,001,556

The accompanying notes are an integral part of this statement.

1 Business and Ownership:

The Depository Trust & Clearing Corporation (DTCC) was established in 1999. On November 4, 1999, the shareholders of The Depository Trust Company (DTC) exchanged their ownership interest in DTC for common shares issued by DTCC, and the shareholders of National Securities Clearing Corporation (NSCC) exchanged their ownership interest in NSCC for preferred shares issued by DTCC. The consolidated balance sheet includes the combined financial position of DTC and NSCC (the Companies) at book value. This business combination qualified as a tax-free exchange.

DTC is a registered clearing agency with the U.S. Securities and Exchange Commission (SEC), a member of the Federal Reserve System and a limited-purpose trust company under New York State banking law. DTC is the world's largest securities depository and a clearinghouse for the settlement of securities trading activity. NSCC, also a clearing agency registered with the SEC, provides various services to the financial community, consisting principally of securities trade comparison, recording, clearance and settlement.

2 Summary of Significant Accounting Policies:

Basis of Presentation: The consolidated balance sheet includes the accounts of DTCC and its wholly owned subsidiaries. Intercompany accounts are eliminated in consolidation. International Securities Clearing Corporation (ISCC), a wholly owned subsidiary of NSCC, ceased operations on December 31, 1999, and its remaining assets and liabilities, which were not significant, were assumed by NSCC.

NSCC's ownership in Government Securities Clearing Corporation (GSCC) of approximately 24% is included in other assets on the consolidated balance sheet at a carrying value of $2.4 million at December 31, 1999. The equity method is used to account for this investment, limited to management's estimate of its realizable value. At December 31, 1999, NSCC also owns approximately a 10% interest in MBS Clearing Corporation (MBSCC) and a 14% interest (on a fully diluted basis) in Emerging Markets Clearing Corporation (EMCC). These investments, which are carried at their respective costs of $432,000 and $495,000, are also included in other assets.

On August 31, 1998, DTC acquired Participants Trust Company which now operates as the MBS Division of DTC with separate participants' fund requirements (see Note 3) and credit facilities (see Note 8).

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 agreement. Independent custodians designated by the Companies take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled $3,128,464,000. The counterparties to these agreements were six major financial institutions.

Overnight investments made in the commercial paper of two major U.S. bank holding companies totaling $51,628,000 are also included in cash equivalents.

U.S. Treasury securities: U.S. Treasury securities are recorded at amortized cost. The market value of these securities, which are due in less than one year, is $78,440,000. These securities were held in an account for the exclusive benefit of participants to facilitate participants' compliance with customer protection rules of the SEC.

Accounts Receivable: Accounts receivable consist of the following:

Due from the Companies' participants for services	$ 51,858,000
Cash dividends, interest and related receivables	59,595,000
Other	1,116,000
Total	$112,569,000

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

Fixed assets: Fixed assets consist of the following:

Furniture and equipment	$165,158,000
Leasehold improvement	130,792,000
Software	19,432,000
Leased property under capital leases	6,983,000
Total cost	$322,365,000

Furniture and equipment are depreciated over estimated useful lives ranging from three to seven years, principally using accelerated methods. Leasehold improvements are amortized using the straight-line method over the lives of the related leases or the useful lives of the improvements, whichever is less. Software is primarily amortized using the straight-line method over an estimated useful life of three years.

The AICPA Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," effective for fiscal years beginning after December 15, 1998, requires that certain costs incurred in the development of software be capitalized. During 1999, the Companies capitalized $14,308,000, which is net of amortization of $2,330,000.

Intangible assets: The Companies entered into agreements with the Philadelphia Stock Exchange, Inc. and certain of its subsidiaries in 1997 and the Chicago Stock Exchange, Inc. and certain of its subsidiaries in 1996 in which these corporations signed covenants not to compete with the Companies. The amounts paid for these covenants are being amortized over five years, their estimated benefit periods.

Income taxes: Deferred tax assets and liabilities represent the expected future tax consequence of temporary differences between the carrying amount and tax basis of assets and liabilities. Deferred tax assets relate principally to amortization of intangible assets, employee benefit costs and the accrual of rent expense on a straight-line basis over the lease term for financial reporting purposes, partially offset by the capitalization of software developed for internal use. The deferred tax asset of $60,907,000, included in other assets at December 31, 1999, is expected to be fully realized and, accordingly, no valuation reserve has been established.

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

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

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. Actual results could differ from those estimates.

3 Participants' Funds:

The Companies' rules require most participants to maintain deposits related to their activities at the clearing agencies. The deposits are available to secure participants' obligations and certain liabilities of the Companies, should they occur.

The DTC participants' fund consists of deposits of cash and short-term U.S. Government securities. The calculated requirements are used to record the NSCC participants' fund. Deposits to this fund are made in cash, short-term U.S. Government securities and letters of credit issued by authorized banks.

A summary of the deposits held, including deposits in excess of calculated requirements, follows:

	DTC	NSCC
Cash:		
MBS division	$ 54,363,000	$ —
Other	745,937,000	903,790,000
Securities issued or guaranteed by the U.S. Government, at market	223,907,000	530,595,000
Letters of credit issued by authorized banks	—	421,855,000

4 Transactions with Related Parties:

SIAC: Under the terms of an agreement, the Securities Industry Automation Corporation (SIAC), an entity owned by New York Stock Exchange, Inc. (NYSE) and National Association of Securities Dealers, Inc. (NASD), provides computer facilities, personnel and services in support of NSCC's operations. NYSE and NASD are shareholders of

DTCC. SIAC charges NSCC for these services based on its direct and overhead costs arising from providing such services. The agreement continues in effect unless cancelled by either party upon prior written notice. The amount payable to SIAC at December 31, 1999, was $2,046,000. If this agreement is cancelled, NSCC is contingently liable for the cost of certain SIAC office and equipment leases through December 31, 2004, aggregating approximately $12,003,000 at December 31, 1999.

NYSE and NASD: NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 1999, no amounts were due the NYSE or NASD.

EMCC: Through a wholly owned subsidiary, NSCC has entered into an agreement with EMCC to provide certain system development and operating services to EMCC. The agreement expires in 2002. At December 31, 1999, the receivable from EMCC amounted to $257,000. NSCC assumed direct responsibility for providing these services on December 31, 1999.

GSCC: NSCC has entered into an agreement with GSCC to provide various computer and other support services and office facilities. The agreement continues in effect unless cancelled by either party upon prior written notice. At December 31, 1999, the net payable to GSCC totaled approximately $12,000.

MBSCC: NSCC has entered into an agreement with MBSCC to provide various support services and office facilities. The agreement continues in effect unless cancelled by either party upon prior written notice. At December 31, 1999, the receivable from MBSCC amounted to $198,000.

5 Payable to Participants:

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities which it distributes to its participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed unless claimed by the owners of the securities through a participant or other financial institution. Cash dividends, interest, reorganization and redemption payables of $1,552,082,000 are included in payable to participants on the consolidated balance sheet. Approximately, $1,139,404,000 represents payments due January 3, 2000, that were received from issuers prior to December 31, 1999, and invested in reverse repurchase agreements as part of DTC's Year 2000 contingency plan. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws. Stock dividends payable and unclaimed are not reported on the consolidated financial statements.

Payable to participants also includes settlement accounts payable of $178,084,000 which primarily represent deposits received from NSCC participants to facilitate participants' compliance with customer protection rules of the SEC.

6 Pension and Other Postretirement Benefits:

The Companies have noncontributory defined benefit pension plans covering substantially all full-time employees of the Companies and certain affiliated companies. The pension plans are qualified under section 401(a) of the Internal Revenue Code. Pension benefits under the plans are generally determined on the basis of an employee's length of service and earnings. The funding policy is to make contributions under the plans 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.

Effective January 1, 2000, DTC amended its defined benefit pension plan covering all eligible non-bargaining unit employees. The impact of plan amendments was to increase the benefit obligation as of December 31, 1999, by approximately $17.6 million.

Retirement benefits are also provided under supplemental non-qualified pension plans for certain officers of the Companies upon retirement. The cost of non-qualified defined benefits is determined based on substantially the same actuarial methods and economic assumptions as those for the qualified pension plans. The Companies maintain certain assets in trusts to meet their non-qualified retirement benefit obligations.

The Companies also provide unfunded health care and life insurance benefits to their eligible retired employees and the eligible retired employees of certain affiliated companies. DTCC intends to combine the Companies' benefit plans.

The funded status and related components of the plans follow:

	Pension Benefits	Other Benefits
Benefit obligation at end of year:		
Qualified plans	$ 176,084,509	$ —
Other plans	30,212,457	25,115,464
	206,296,966	25,115,464
Fair value of plans' assets at end of year	175,274,567	—
Funded status	$ (31,022,399)	$(25,115,464)
Net accrued benefit cost recognized at year-end	$ (43,506,204)	$(22,484,271)
Weighted-average assumptions as of December 31:		
Discount rate	7.75%	7.75%
Expected long-term rate of return on plan assets	9.00	—
Rate of compensation increase	4.50	—

For measurement purposes, a 9.3% pre-65 and a 8.1% post-65 annual rate of increase in the per capita cost of the covered health care benefits was assumed for 1999. The rate was assumed to decrease gradually to 5% for 2007 and remain at that level thereafter.

7 Income Taxes:

DTCC, DTC and NSCC will file a consolidated federal income tax return for the period commencing on November 4, 1999. Separate state and local returns will continue to be filed by DTC; DTCC and NSCC will file combined New York State and New York City income tax returns.

8 Notes Payable and Lines of Credit:

Notes payable consists of unsecured borrowings with several domestic banks. The notes have a weighted-average interest rate of 6.78% and mature in varying amounts through 2007.

DTC maintains $3 billion ($2 billion for the MBS Division) of committed collateralized lines of credit to effect settlement. In addition, to support processing of principal and income payments, DTC maintains a $200 million committed line of credit and a $700 million uncommitted line of credit for its MBS Division. DTC also maintains a line of credit of $10 million to support potential short-term operating cash requirements. NSCC maintains a $1.2 billion committed collateralized line of credit agreement with 10 major U.S. banks to provide for potential liquidity needs. At December 31, 1999, there were no outstanding borrowings under these credit facilities.

9 Shareholders' Equity:

Appropriated retained earnings represent an amount equal to the retained earnings of NSCC at December 31, 1999. Such retained earnings are available for the satisfaction of losses arising out of the clearance and settlement of transactions at NSCC (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:

The Continuous Net Settlement (CNS) system interposes NSCC between participants in securities clearance and settlement. CNS transactions are guaranteed as of midnight on the day they are reported to the membership as compared/recorded. The failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the involved participants through the settlement process. At the close of business on December 31, 1999, open positions due NSCC approximated $2,273,661,000, and open positions due by NSCC to participants approximated $1,410,839,000 for unsettled positions and $862,822,000 for securities borrowed through NSCC's Stock Borrow Program.

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.

NSCC would be liable to the trustee if certain conditions occur for amounts which management estimates could be up to $17,000,000. At present, management is unable to determine with certainty NSCC's ultimate obligation. At December 31, 1999, the accrual for estimated liquidation losses included in accounts payable and other liabilities is $14,074,000 which includes estimated interest.

The Companies lease office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 1999.

At December 31, 1999, future minimum annual rental payments under all noncancelable operating leases follow:

Year	Amount
2000	$ 39,751,000
2001	34,287,000
2002	31,406,000
2003	31,270,000
2004	31,052,000
Thereafter	256,562,000
Total future minimum annual rental payments	$424,328,000

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

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

In the normal course of business, NSCC guarantees certain obligations of its participants under specified circumstances (see Note 10). If a participant fails to fulfill its obligations, NSCC could be exposed to risk in amounts in excess of that recorded in NSCC's balance sheet.

NSCC mitigates its exposure to risk by requiring participants to meet NSCC established financial standards for membership, monitoring compliance with other financial standards established by NSCC and by requiring participants to provide participants' 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 with NSCC and NSCC ceases to act on behalf of the participant, NSCC would liquidate that participant's guaranteed security receive and deliver obligations and apply the defaulting participant's fund deposit received to satisfy any net outstanding obligation and/or loss.

NSCC has entered into a netting contract and limited cross-guaranty agreement with DTC under which DTC has agreed to make payment to NSCC for any remaining unsatisfied obligations of the defaulting participant to the extent that DTC has excess resources belonging to the defaulting participant; in a similar manner, NSCC has agreed to make payment to DTC for any remaining unsatisfied obligations of the defaulting participant to the extent that NSCC has excess resources belonging to the defaulting participant. NSCC has also entered into limited cross-guaranty agreements separately with EMCC, GSCC, MBSCC and The Options Clearing Corporation (OCC) which provide for payments under similar circumstances. NSCC and OCC have also entered into an options settlement agreement providing for the movement of underlying securities in satisfaction of options exercised and assigned at OCC. Such agreement provides certain limited guarantees by OCC to NSCC to the extent NSCC experiences a default prior to the first settlement day possible for the securities; NSCC provides certain guarantees to OCC as well.

In the event that a deficiency still exists after the application of the DTC payment and/or payments from other clearing agencies, before NSCC may assess the membership, NSCC is required to apply against the deficiency at least 25% of its retained earnings or such greater amount to be determined by its Board of Directors. NSCC may assess the balance needed on a pro-rata basis to the remaining participants based upon their required participants' fund deposits.

As discussed in Note 1, NSCC provides various services to members of the financial community who participate in securities trade comparison, clearance and settlement. As such, NSCC 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.

Notes to Consolidated Balance Sheet

12 Combined Proforma Results of Operations (Unaudited):

The combined proforma results of the operations of DTC and NSCC, giving effect to the combination as of January 1, 1998, follows:

	For the Year Ended December 31,	
	1999	*1998*
	(Dollars in thousands)	
Revenues:		
Trading services	$391,390	$340,934
Custody services	157,750	154,934
Network services	57,016	51,304
Other services	106,367	74,119
Interest income	58,751	43,112
Total revenues	771,274	664,403
Discounts and other refunds to participants*	(152,119)	(102,620)
Net revenues	619,155	561,783
Expenses:		
Employee compensation and related benefits	308,278	284,414
Computer equipment depreciation, licences, software amortization, processing and maintenance costs	125,974	115,934
Professional fees	67,072	54,897
Occupancy	50,368	46,960
Amortization of intangible assets	13,580	13,580
Interest expense	12,321	11,181
Other general and administrative	22,392	26,086
Total expenses	599,985	553,052
Income before income taxes	19,170	8,731
Provision for income taxes	(9,320)	(3,174)
Net income	$ 9,850	$ 5,557

**Discounts amounted to $120,406,000 in 1999 and $87,103,000 in 1998. Other refunds amounted to $31,713,000 in 1999 and $15,517,000 in 1998.*

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

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

In our opinion, the accompanying consolidated balance sheet presents fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and its subsidiaries at December 31, 1999 in conformity with accounting principles generally accepted in the United States. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, NY
February 9, 2000