Consolidated Balance Sheet

	December 31, 2000
	(in thousands)
Assets	
Cash and cash equivalents	$3,751,173
U.S. Treasury securities	119,150
Accounts receivable	139,767
Participants' funds	1,214,018
Fixed assets, less accumulated depreciation and amortization of $219,106,000	149,458
Intangible assets, less accumulated amortization of $53,117,000	4,194
Other assets	272,144
Total assets	$5,649,904
Liabilities and Shareholders' Equity	
Liabilities:	
Accounts payable and other liabilities	$ 488,684
Payable to participants	2,004,959
Notes payable	56,704
Participants' funds:	
Cash deposits	1,745,800
Other deposits	1,214,018
Total liabilities	5,510,165
Commitments and contingent liabilities (Note 10)	
Preferred shareholders' equity in The Depository Trust Company	75,000
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	31,939
Total shareholders' equity	64,739
Total liabilities and shareholders' equity	$5,649,904

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

	For the Year Ended December 31, 2000
	(in thousands)
Revenues:	
Trading services	$ 490,245
Custody services	163,730
Network services	64,691
Other services	96,277
Interest income	98,778
Total revenues	913,721
Discounts and other refunds to participants	(252,484)
Net revenues	661,237
Expenses:	
Employee compensation and related benefits	345,741
Computer equipment depreciation, licenses, software amortization, processing and maintenance costs	130,925
Professional and other services	57,962
Occupancy	48,349
Amortization of intangible assets	13,580
Interest expense	14,439
Other general and administrative	41,454
Total expenses	652,450
Income before income taxes and minority interests	8,787
Provision for income taxes	(3,365)
Income before minority interests	5,422
Minority interests	(683)
Net income	$ 4,739

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

	For the Year Ended December 31, 2000
	(in thousands)
Cash flows from operating activities:	
Net income	$ 4,739
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization of fixed assets	32,708
Amortization of intangible assets	13,580
Discount accreted net of premium amortized on investments owned	(4,858)
Changes in operating assets and liabilities:	
Increase in accounts receivable	(27,195)
Increase in other assets	(42,560)
Increase in accounts payable and other liabilities	89,693
Increase in payable to participants	219,144
Increase in participants' fund cash deposits	41,707
Net cash provided by operating activities	326,958
Cash flows from investing activities:	
Maturity of U.S. Treasury securities	90,000
Purchases of U.S. Treasury securities	(125,659)
Purchases of fixed assets	(46,194)
Net cash used in investing activities	(81,853)
Cash flows from financing activities:	
Issuance of preferred stock in The Depository Trust Company	75,000
Principal payments on notes	(11,697)
Net cash provided by financing activities	63,303
Net increase in cash and cash equivalents	308,408
Cash and cash equivalents, beginning of year	3,442,765
Cash and cash equivalents, end of year	$3,751,173
Supplemental disclosure:	
Income taxes paid	$ 19,610
Interest paid	$ 9,213

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

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 interests in DTC for common shares, and the shareholders of National Securities Clearing Corporation (NSCC) exchanged their ownership interests in NSCC for preferred shares, both issued by DTCC. The consolidated financial statements include the combined financial position of DTCC, 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 a 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 financial statements include the accounts of DTCC and its wholly owned subsidiaries. Intercompany accounts are eliminated in consolidation.

NSCC's ownership in Government Securities Clearing Corporation (GSCC) of approximately 24% is included in other assets at a carrying value of $2.4 million at December 31, 2000. The equity method is used to account for this investment, limited to management's estimated of its realizable value. At December 31, 2000, NSCC also owns approximately a 10% interest in MBS Clearing Corporation (MBSCC) and 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.

The operating results of DTCC also include the activities of the Mortgage Backed Securities Division (MBS) of DTC. The MBS Division operates 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 $1,987,505,000. The counterparties to these agreements were three major financial institutions.

Overnight investments made in the commercial paper of two major U.S. bank holding companies totaling $135,532,000 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 $119,286,000. 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	$ 52,793,000
Cash dividends, interest and related receivables	69,737,000
Other	17,237,000
Total	$139,767,000

Cash dividends, interest and related receivables are presented net of an allowance for possible losses of $500,000. Other receivables are presented net of an allowance for possible losses of $300,000. Stock dividends receivable are not recorded in the consolidated financial statements.

Fixed assets: Fixed assets consist of the following:

Furniture and equipment	$172,342,000
Leasehold improvement	145,293,000
Software	43,946,000
Leased property under capital leases	6,983,000
Total Cost	$368,564,000

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.

During 2000, the Companies capitalized software which was developed internally or purchased, totaling $20,269,000; the amortization charges were $9,909,000.

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, the accrual of rent expense on a straight-line over the lease term for financial reporting purposes and a provision for losses (see Note 12), partially offset by the capitalization of software developed for internal use. The deferred tax asset of $76,051,000, included in other assets at December 31, 2000, 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. Such discounts amounted to $192,953,000 in 2000. Further, there is a policy to provide participants a monthly refund of net income earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such monthly refunds totaled $59,531,000 in 2000.

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. At December 31, 2000, short positions amounted to $34,966,000.

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.

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	$ 57,201,000	$ —
Other	658,264,000	1,030,335,000
Securities issued or guaranteed by the U.S. Government, at market	215,614,000	796,221,000
Letters of credit issued by authorized banks	—	700,436,000

The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. The earnings on these investments are passed through to participants. In 2000, such earnings totaled $113,957,000.

4 Transactions with Related Parties:

SIAC: Under the terms of an agreement, the Securities Industry Automation Corporation (SIAC), an entity owned by the New York Stock Exchange, Inc. (NYSE) and the National Association of Securities Dealers, Inc. (NASD), provides computer facilities, personnel and services in support of 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. Charges under this agreement totaled $69,796,000 in 2000. The amount payable to SIAC at December 31, 2000, was $5,984,000. 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 $10,504,000.

NYSE and NASD: NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 2000, no amounts were due the NYSE or NASD.

EMCC: In 2000, NSCC entered into an agreement with EMCC to provide certain system development and operating services to EMCC. Charges under this agreement, which are based on a determination of NSCC's cost of providing these services, totaled $1,634,000 in 2000. DTCC's expenses are presented net of these charges. The agreement expires in 2002. At December 31, 2000, the receivable from EMCC amounted to $246,000.

In 1999, NSCC entered into an arrangement with EMCC whereby NSCC pays for the computer services performed by SIAC for EMCC and charges EMCC a transaction fee based on the number of trades settled. The SIAC charges NSCC paid and the transaction fees EMCC paid during 2000 totaled approximately $948,000 and $451,000, respectively. Pursuant to this agreement, there is a cumulative difference of $915,000, which NSCC may recover through future increases in the volume of transactions or future increases to the transaction fee charged to EMCC.

GSCC: NSCC has entered into an agreement with GSCC to provide various computer and other support services and office facilities. Charges under this agreement are based on a determination of NSCC's cost of providing these services. The agreement continues in effect unless cancelled by either party upon prior written notice. Charges under this agreement totaled $6,677,000 in 2000. DTCC's expenses are presented net of these charges. At December 31, 2000, the receivable from GSCC amounted to $573,000.

MBSCC: NSCC has entered into an agreement with MBSCC to provide various services and office facilities. Charges under this agreement, which are based on a determination of NSCC's cost of providing these services, totaled $1,131,000 in 2000. DTCC's expenses are presented net of these charges. The agreement continues in effect unless cancelled by either party upon prior written notice. At December 31, 2000, the receivable from MBSCC amounted to $413,000.

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. Cash dividends, interest, reorganization and redemption payables of $1,803,975,000 are included in payable to participants on the consolidated balance sheet. 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 $97,755,000 which primarily represent deposits received from NSCC participants to facilitate participants' compliance with customer protection rules of the SEC.

6 Pension and Other Post-Retirement Benefits:

DTCC has a noncontributory defined benefit pension plan covering substantially all full-time employees of the Companies, GSCC and MBSCC. The pension plan is qualified under section 401 (a) of the Internal Revenue Code. Pension benefits under the plan are generally determined on the basis of an employee's length of service and earnings. The funding policy is to make contributions under the plan that meet or exceed the minimum funding standards under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended.

Retirement benefits are also provided under supplemental nonqualified 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 plan. The Companies maintain certain assets in trusts to meet their non-qualified retirement benefit obligations.

DTCC also provides health care and life insurance benefits to its eligible retired employees and the eligible retired employees of certain affiliated companies. The funded status and related components of the plans follow:

	Pension Benefits	Other Benefits
Benefit obligation at end of year:		
Qualified plan	$216,394,379	$ —
Other plans	43,025,702	30,239,960
	259,420,081	30,239,960
Fair value of plan assets at end of year	186,384,915	—
Funded status	($73,035,166)	($30,239,960)
Net accrued benefit cost recognized at year-end	(44,643,297)	(26,242,170)
Weighted-average assumptions as of December 31:		
Discount rate	7.50%	7.50%
Expected long-term rate of return on plan assets	9.00	—
Rate of compensation increase	4.50	—

For measurement purposes, an 8.8% pre-65 and a 7.7% post-65 annual rate of increase in the per capita cost of the covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5% for 2007 and remain at that level thereafter.

	Pension Benefits	Other Benefits
Net benefit cost	$ 19,867,081	$ 4,223,375
Additional loss recognized due to settlement	1,198,361	—
Total benefit cost	$ 21,065,442	$ 4,223,375
Employer contribution	$ 14,272,109	$ —
Benefits paid	7,625,664	465,476

7 Income Taxes:

DTCC, DTC and NSCC file a consolidated federal income tax return. DTCC and NSCC file combined New York State and New York City income tax returns; DTC files separate state and local returns. The provision for income taxes for the year ended December 31, 2000, consists of the following:

Current income taxes:	
Federal	$11,549,000
State and local	4,505,000
Deferred income tax benefit:	
Federal	(5,976,000)
State and local	(6,713,000)
Total income taxes	$ 3,365,000

The effective tax rate is greater than the 34% Federal statutory rate primarily due to state and local taxes. The accrual of restructuring expenses in 2000 (See Note 12), which is not currently deductible, increases both the current income taxes due and the deferred income tax benefit.

8 Notes Payable and Lines of Credit:

Notes payable at December 31, 2000 amounted to $56,704,000 and consists of unsecured borrowings with several domestic banks. The notes have a weighted-average interest rate of 6.78%. The annual maturities in 2001, 2002, 2003 and 2004 are $11,854,000, $12,022,000, $10,828,000 and $8,000,000, respectively; the balance matures in varying amounts through 2007. Interest expense related to these notes payable totaled $4,365,000 in 2000.

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 $50 million committed line of credit and a $350 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 $1.9 billion committed collateralized line of credit agreement with 10 major U.S. banks to provide for potential liquidity needs. At December 31, 2000, there were no outstanding borrowings under these credit facilities.

9 Shareholders' Equity:

	Preferred Stock				Retained Earnings	
In thousands	Series A	Series B	Common Stock	Paid in Capital	Appropriated	Unappropriated
Balance at December 31, 1999	$300	$300	$1,850	$950	$29,400	$27,200
Net income 2000	—	—	—	—	—	4,739
Balance at December 31, 2000	$300	$300	$1,850	$950	$29,400	$31,939

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 generally guaranteed as of midnight of the day they are reported to the membership as compared/recorded. The failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the involved participants through the settlement process. At the close of business on December 31, 2000, open positions due NSCC approximated $1,757,780,000 and open positions due by NSCC to participants approximated $1,183,596,000 for unsettled positions and $574,184,000 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 plus interest. At present, management is unable to determine with certainty NSCC's ultimate obligation. In 2000, NSCC has provided an additional $2,580,000 for estimated liquidation losses, which are included in other general and administrative expenses. At December 31, 2000, the related accrual included in accounts payable and other liabilities is $16,654,000, of which approximately $4,554,000 is estimated interest.

The Companies lease office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2000. Rent expense under these leases was $40,871,000 in 2000.

At December 31, 2000, future minimum annual rental payments under all non-cancelable operating leases follow:

Year	Amount
2001	$ 31,828,000
2002	25,418,000
2003	21,948,000
2004	20,335,000
2005	22,417,000
Thereafter	177,197,000
Total future minimum annual rental payments	$299,143,000

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 financial statements.

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 agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant failure.

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' funds 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.

12 Other Matters:

During 2000, DTC decided to restructure certain operations, which included closing its Garden City vault and relocating related operations to New York City. In connection with the Garden City operation, the leased premises will be abandoned prior to the termination of the lease and the estimated service life of the related leasehold improvements will be curtailed. In addition, certain severance costs will be incurred as this and other operations are restructured. Accordingly, a provision for losses of $24.3 million has been included in other general and administrative expenses. It consists primarily of the sum of the lease payments on the premises which will be abandoned, net of estimated sublease proceeds, the impairment in the carrying value of related leasehold improvements and the estimated severance payments.

On August 31, 2000, DTCC and Thomson Financial ESG, a unit of the Thomson Corporation, signed a definitive agreement to create a new commercial enterprise that builds on the existing trade-processing businesses of DTC and Thomson Financial ESG. The new company, Omgeo, will be structured as an equal joint venture, and will operate independently of DTC and Thomson Financial ESG. The joint venture is expected to commence operations in early 2001.

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 and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and its subsidiaries at December 31, 2000, and the results of their operations and their cash flows for the year 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 audit. We conducted our audit 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 audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

February 9, 2001