

NATIONAL SECURITIES CLEARING CORPORATION



CREATING
SOLUTIONS

1995 ANNUAL REPORT

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Leonardo daVinci was born in 1452. An inventor, an engineer, a scientist, a musician and an artist, his intellectual curiosity and thirst for answers was endless.

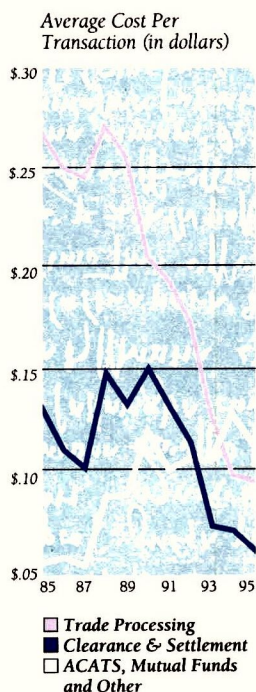
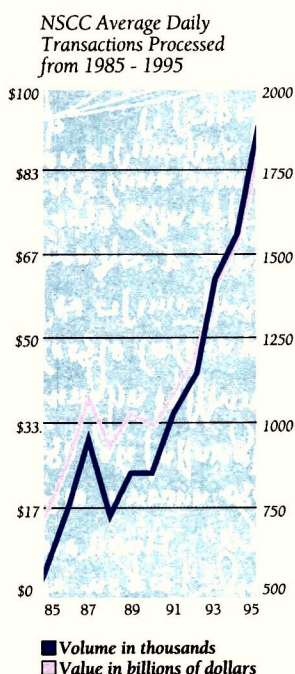
Leonardo's use of mathematics and scientific principles contributed to many ideas and inventions that are still a marvel today — architectural designs for buildings and bridges, water wheels, digging machines, bicycles, early concepts for a military tank, maps to show elevations and terrain, as well as more far reaching ideas like his flying machines, self-propelled vehicles, and devices for breathing underwater. He wrote backwards from right to left, which required a mirror to read his lengthy manuscripts. His notebooks document an extensive study of human anatomy, and his notions about the relationship of earth, the moon and sun were amazingly accurate.

We've chosen to use samples of Leonardo's work in this Annual report as both a source of inspiration — and as an interesting analogy for telling NSCC's story.

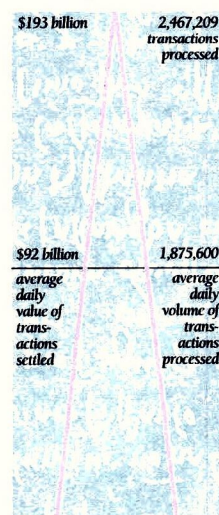
Like Leonardo, we also use knowledge as a foundation for action and objective, dispassionate thinking as a sound basis for planning.

Our inventiveness comes from an organizational desire to be forward thinking....and to create solutions that positively address trends shaping the financial services industry.

NATIONAL SECURITIES CLEARING CORPORATION (NSCC), ESTABLISHED IN 1976, IS THE NATION'S LEADING PROVIDER OF CENTRALIZED CLEARANCE, SETTLEMENT AND INFORMATION SERVICES TO OVER 1900 BROKERS, DEALERS, BANKS, MUTUAL FUNDS AND OTHER FINANCIAL ORGANIZATIONS. NSCC'S MISSION IS TO DELIVER HIGH QUALITY, INNOVATIVE SYSTEMS AND SERVICES THAT SUPPORT INDUSTRY REQUIREMENTS FOR COST EFFECTIVE, LOW RISK, HIGH VOLUME TRADE PROCESSING OF EQUITIES, BONDS AND MUTUAL FUND TRANSACTIONS. NSCC ALSO PROVIDES CLEARANCE AND SETTLEMENT SERVICES TO U.S. BROKERS TRADING IN OVERSEAS MARKETS THROUGH INTERNATIONAL SECURITIES CLEARING CORPORATION (ISCC), A WHOLLY OWNED SUBSIDIARY OF NSCC; AND BROKERS, DEALERS AND BANKS TRADING IN GOVERNMENT AND MORTGAGE-BACKED SECURITIES THROUGH TWO AFFILIATE COMPANIES, GOVERNMENT SECURITIES CLEARING CORPORATION (GSCC) AND MBS CLEARING CORPORATION (MBSCC). NSCC IS A REGISTERED CLEARING AGENCY, AND IS OWNED JOINTLY BY THE NEW YORK AND AMERICAN STOCK EXCHANGES AND THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

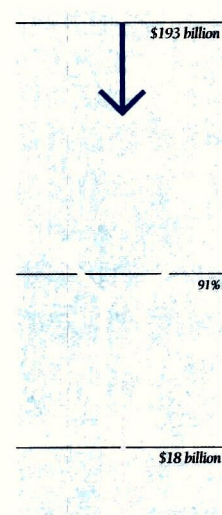


A Peak Day - Dec. 15, 1995



A Peak Volume Day in 1995 compared with NSCC's Daily Average

Netting Factor for Peak Day, 1995



NSCC reduces or nets the total number of financial obligations requiring settlement.

TO OUR PARTICIPANTS

At NSCC, we see this bias for action as a challenge to be more imaginative in creating solutions for our customers and markets which can keep pace with the industry's need to change — and more importantly, to facilitate that change.

This past year we completed some of the most important changes in recent memory for the industry — as well as NSCC. We were active participants in providing the vision and helping manage a smooth transition from five day to three day settlement, in supporting the move to effect settlement in same day funds and converting broker dealer firms who were previously members of Midwest Clearing Corp.

We handled record trading volumes and the highest number of peak trading days from each of the marketplaces in 1995. This volume, coupled with our ongoing effort to manage expenses intelligently, permitted us to return a

50% discount to our members on discountable services.

In the past, we've talked about changes in our industry from the perspective of five and ten year time frames. The robust nature and change in our markets and competitive pressures, however, have increased pressure on all of us to think and appear to act in real time — though our efforts must be based on a thorough planning process.

At NSCC, we see this bias for action as a challenge to be more imaginative in creating solutions for our customers and markets which can keep pace with the industry's need to change — and more importantly, to facilitate that change.

For example, in recent years, we have continued to enhance our services supporting both brokers and mutual funds in the processing of mutual fund orders. During 1995, NSCC's Fund/SERV system and related fund services handled record transaction volume and an ever expanding list of participants. Modifications to Fund/SERV continue to attract a growing number of no-load fund families, banks, trust departments and other financial intermediaries.

Equally significant, we've identified synergies between the processing capabilities of Fund/SERV and new requirements identified by the industry for automating

Arthur L. Thomas (left) David M. Kelly



the processing of 401 (k) plans, annuities and the transfer of retirement assets.

We were very pleased to receive in 1995, a strong endorsement from the Investment Company Institute to build new systems supporting the processing related to 401 (k) plans and the transfer of retirement assets. Our efforts in each of these new product areas will expand NSCC's participant base.

As outlined in this Annual report, NSCC has actively pursued many of the recommendations of the Vision 2000 Committee to leverage more functionality from the industry's infrastructure and further reduce risk.

The decision by the Chicago Stock Exchange to exit the businesses of clearance, settlement and depository services last fall, provided another step toward Vision 2000's call for closer coordination among industry utilities. For NSCC, this consolidation of 32 specialist, 64 full service and six municipal bond firms reflected a long sought goal for our members and was accomplished with dispatch.

We are also in pursuit of other areas where natural synergies may exist, such as combining the efforts of ISCC's Global Clearing Network with DTC's international activities.

During 1995, MBS Clearing Corporation (MBSCC) completed its move to our offices in New York and is now making use of common services provided to each of the clearing organizations affiliated with NSCC, including financial control, compliance and member firm financial surveillance.

NSCC has also actively pursued many of the recommendations of the Vision 2000 Committee to streamline costs and further reduce risk.

On the risk management front, we are pursuing the issues associated with implementing Institutional Netting. While communication regarding institutional trades is highly automated, today, these trades are still settled on a trade-for-trade basis. Bringing these trades into NSCC's Continuous Net Settlement system, would result in greater efficiency and extend risk management benefits to the industry.

The Adler Coleman Clearing Corporation insolvency in 1995 was a disappointment and presented a unique challenge to NSCC. The industry had not faced a significant firm failure like Adler since 1987. Our staff pulled together in an unprecedented effort to help us minimize the impact of this insolvency on our participants by unwinding and pairing-off streetside trading activity with corresponding institutional trades.

We worked closely with the Securities Investor Protection Corporation (SIPC) Trustee to further reduce exposure from Adler buy and sell obligations.

In response to Adler, NSCC has taken steps to establish additional risk management procedures and collateral requirements for firms involved in trading less liquid securities.

Government Securities Clearing Corporation volumes continue to grow and our expansion of services in increasing the number of market participants. In 1995, GSCC extended its services to comparison and netting of repurchase agreements (Repos), which helps reduce market risk and enables members to maximize their ability to offset repos and reverse repos for financial reporting purposes.

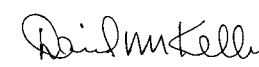
Aside from combining the strengths of its Global Clearing Network with DTC's international services, ISCC is working with the Emerging Market Traders Association (EMTA) to develop clearing capabilities for netting the trading of Brady bonds and has established a resource company to provide advisory services to emerging markets.

The pace of change and competitive pressures among our participants can sometimes affect their ability to maintain an industrywide perspective. We are grateful to our Board of Directors, who play a critical role in providing guidance and helping us build consensus throughout the industry.

One of NSCC's greatest assets as an organization is the diversity, quality and commitment of our staff. We'd like to express our thanks to them for upholding NSCC's long tradition of service to the industry



Arthur L. Thomas,
Chairman of the Board



David M. Kelly,
President and Chief Executive Officer

What is creativity? At NSCC it starts with an in-depth understanding of the issues and trends affecting our markets and diverse customer base. It is nurtured by an active and ongoing dialogue with our owners, participants and industry groups.

Our efforts are guided by a forward thinking approach to provide solutions that will help the industry reduce cost and further minimize risk through centralized, standardized automated systems.

While serving the industry as a whole, we recognize that each of our customers is unique in terms of size, business objectives, technological capabilities and the markets in which they operate. At the same time, marketplaces are constantly changing to meet investor expectations and provide broader financial opportunities.

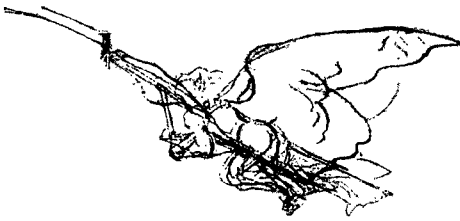
Creativity in our world is measured in part by whether our solutions have both the flexibility and functionality to meet current and future needs.

During 1995, NSCC completed a detailed market trend analysis for senior management and the Board. We looked at the growing complexity, diversity and interdependence of financial markets, identified several new areas of involvement for NSCC and established a framework to guide our long term planning.

DYNAMIC FORCES CONTINUE TO CHANGE THE SHAPE OF THE FINANCIAL SERVICES INDUSTRY. MARKETS HAVE BECOME MORE INTERRELATED, COMPLEX AND GLOBAL. GROWTH IN THE NUMBER OF NEW FINANCIAL INSTRUMENTS HAS RESULTED IN A BROADER MIX OF MARKET PARTICIPANTS.

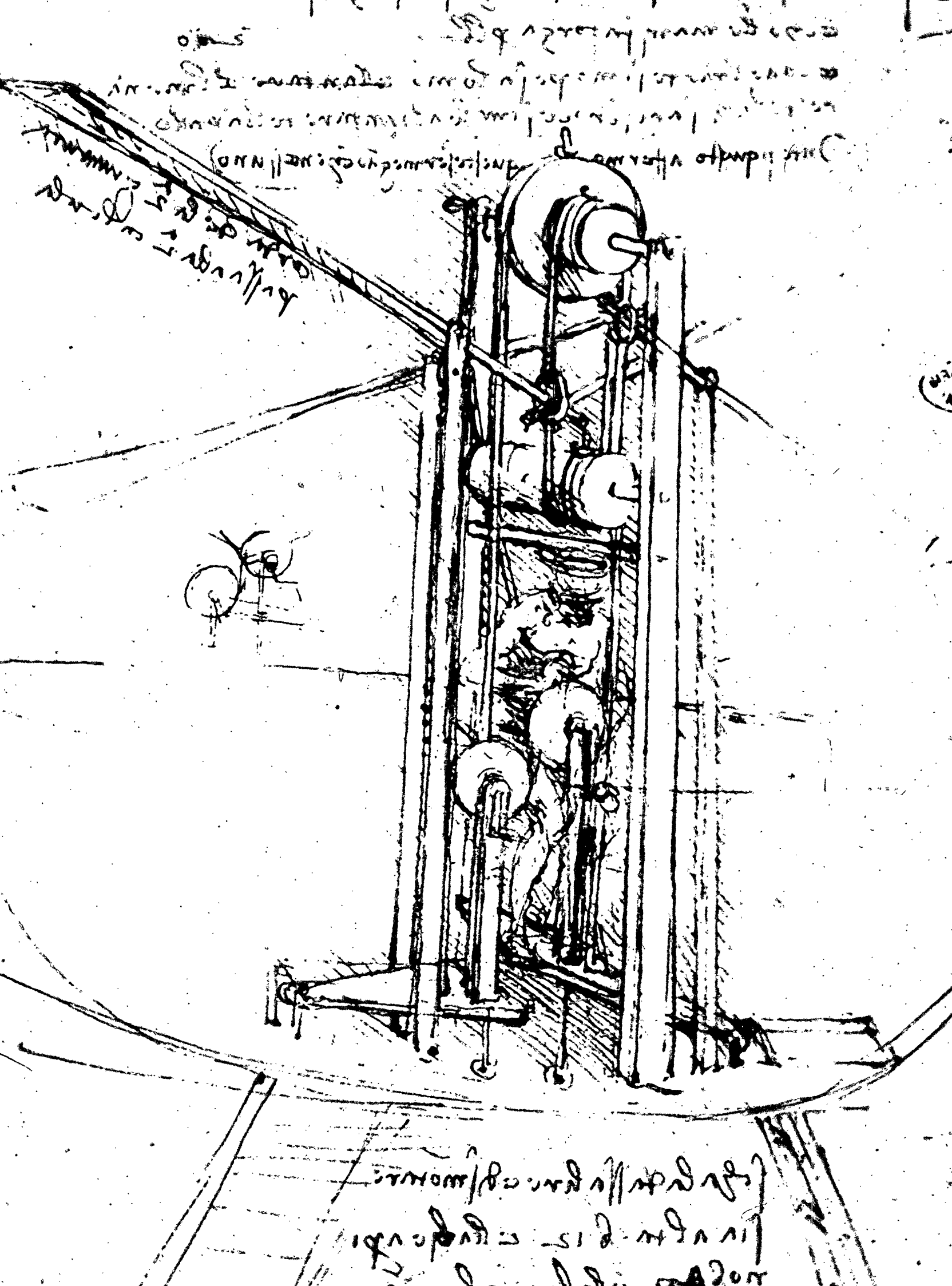
AND IMPROVED TECHNOLOGY AND TELECOMMUNICATIONS HAS BROUGHT MARKETS CLOSER TOGETHER.

Leonardo envisioned a series of flying machines, including a helicopter (at right), wings for airplanes and the idea of parachutes. His thinking was ahead of his time, but his ideas challenged others to use their imagination. At NSCC, we too, believe that sometimes to find unique solutions we have to look beyond the boundaries of current thought.



Growth and change are constants in our industry. Another constant is the reliability of solutions created by NSCC and its affiliate companies.

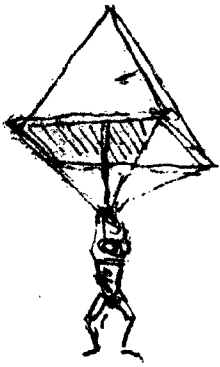
In 1995 the unprecedented number of high volume or peak trading days on the NYSE, Amex and NASDAQ marketplaces put NSCC's core post-trade clearance and settlement systems to the test on more than one occasion. On the NYSE, trading volume exceeded 400 million shares on more than 15 percent of all trading days. And NASDAQ



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volume exceeded 450 million shares on 29 percent of all trading days.

NSCC's Continuous Net Settlement (CNS) system has the capacity to handle not only routine but also unpredictable spikes in trading volume. Our CNS system can handle a trading day in excess of 2 billion shares in all markets or twice the volume ever experienced by NSCC.

In addition to ensuring capacity, NSCC plays an equally critical role in helping the industry minimize risk by significantly reducing the number of positions and the movement of funds required to cover settlement.

On a peak day in 1995, for example, the value of transactions climbed to \$193 billion or more than twice the daily average of \$92 billion. Through our Continuous Net Settlement (CNS) system, financial obligations requiring settlement were reduced from \$193 billion to \$18 billion.

Creativity at NSCC also means having a knowledgeable and experienced staff that is capable of solving unanticipated problems. During 1995, the sudden insolvency of Adler Coleman Clearing Corporation on Monday, February 27, fully tested those skills.

NSCC took quick action to guarantee \$1.6 billion in gross buy and sell contracts received before Adler's demise,

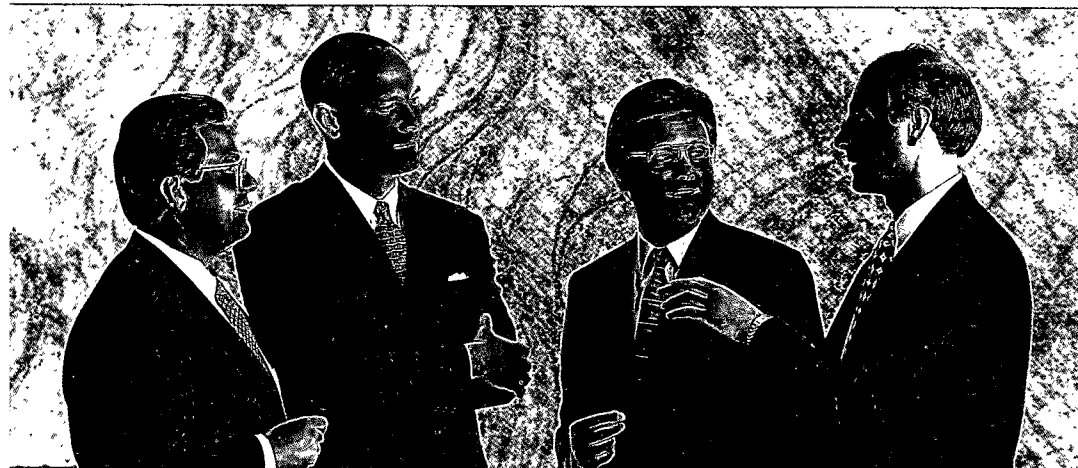
including many trades it had the option, but not the obligation to guarantee.

Next, in an unprecedented step to protect its participants, NSCC asked the Securities Investor Protection Corp. (SIPC) Trustee permission to match-up the street-side of (buy/sell) transactions with the corresponding institutional trades in the Depository Trust Company's (DTC) Institutional Delivery (ID) system.

In the end, this unparalleled effort to pair off trading activity enabled NSCC and brokers representing institutional clients to avoid going to market to buy/sell over \$60 million worth of transactions.

Other efforts followed to further reduce liability with NSCC liquidating positions in a large number of securities in which a now defunct firm made markets.

As a service organization, NSCC continuously looks beyond boundaries to contribute new ideas and solutions to minimize risk and spur industry growth.



*Right to left
Joseph Ciacciarelli, VP,
The Bank of New York
discusses the industry's
move to Same Day Funds
with Thomas J. O'Hara,
Limited Partner for
Operations at Edward
Jones, James Nowicki, VP,
Bankers Trust Company
and Peter A. Wigger, EVP
of Waterhouse Investor
Services, Inc.*

FURTHER MINIMIZING RISK

AS MARKETS BECOME MORE COMPLEX AND INTERDEPENDENT, TIME-FRAMES FOR PROCESSING TRANSACTION INFORMATION MUST BECOME MORE COMPRESSED. IN THIS ENVIRONMENT, THE ROOM FOR ERROR IN MOVING DATA, INFORMATION AND MONEY CONTINUES TO SHRINK, WHILE THE CORRESPONDING NEED TO UNDERSTAND AND MANAGE RISK BECOMES GREATER.

During 1995, NSCC led two of the most significant changes in the industry's history over the last quarter century.

The first effort involved the successful conversion of trade settlement to a three day cycle (T+3) from five days (T+5). What in hindsight now seems like a non-event was accomplished by more than 19 months of careful planning and cooperation across the industry.

The importance of a shortened settlement cycle was underscored by the Bachmann Task Force in 1993, which found the industry could reduce systemic risk by 58% by moving to T+3.

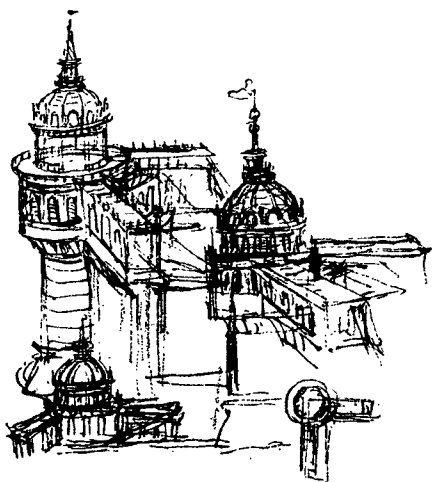
At NSCC, the move to T+3 required a revamping of over 41 major systems, 800 software programs and more than 100 changes to our rules and procedures.

Working closely with our industry advisory committee, SIAC and DTC, NSCC methodically prepared to ensure a seamless transition. We conducted extensive training and testing of systems prior to actual conversion. And our recommendation to phase in the conversion over two double settlement days last June was timed to permit firms a weekend to recover if processing backlogs developed. Fortunately, no backlogs were experienced.

The second effort in 1995 centered on supporting the industry's move to Same Day Funds Settlement (SDFS), which brings added efficiency and certainty to the payment process. Under SDFS, participants are required to wire good funds that day to settle their accounts with NSCC. This approach eliminates the risk associated with the previous method of payment by certified check, where funds are not available until the next day.

NSCC's money settlement system was completely redesigned in 1995 to accommodate Same Day Funds. A link was also established with DTC's Participant Terminal System (PTS) to facilitate real-time access to money settlement information for participants and settling banks.

In cooperation with participants, NSCC established a network of settling banks to handle wire payments. This network provides added risk management benefits by minimizing the dollar value of funds movements in the banking system. Instead of exchanging multiple checks or wires, settling banks acting on behalf of firms and NSCC will receive or pay one net amount with a single wire transfer.



How did Leonardo become an engineer-architect? He would ask workmen questions about strengthening walls. He studied the ruins of a Roman theater to understand acoustics. daVinci brought together the ideas of ancient builders as well as techniques among his contemporaries. NSCC also strives to understand and manage those elements of risk that threaten a solid foundation. And like Leonardo, our efforts are guided by tried and tested principles.

Development of additional systems to support risk management monitoring was also a high priority for NSCC in 1995. New systems have been completed to enhance surveillance capabilities of IPOs and trading in illiquid securities. Longer term, NSCC is developing a risk management data base to support the analysis of information captured by our various risk

management applications, and further strengthen our analytical capabilities.

By bringing additional trading activity into NSCC's Continuous Net Settlement (CNS) system, the risks associated with such activity can be brought under NSCC's risk management umbrella.

In 1995, after nearly a year of discussion, the industry endorsed having Regular-Way Certificated municipal bond trades processed in CNS. These securities had been excluded from CNS, because of the possibility of partial deliveries. Greater industry acceptance to use CNS has resulted in twice as many municipal bond trades entering the system, and a reduction in risk by almost \$400 million each day.

A cooperative effort with DTC during 1995 to modify timeframes for the delivery of eligible Prime Broker trades has dramatically increased the number of these trades that will settle in CNS. Through this modification, NSCC has eliminated delays and potential risk of almost \$750 million in prime broker trades having to settle in one day.

Our affiliate, Government Securities Clearing Corporation (GSCC), this past year

also extended their automated comparison, netting and risk management services to include repurchase agreements (Repos). Eligible GSCC participants will now be able to submit for comparison and netting all of their overnight and fixed-term repos, along with their regular buy/sell government securities activity. Since an average repo transaction is \$38 million, this will significantly reduce risk in this market

*Left to right
Reviewing new risk
management procedures
and systems put in place
during 1995 are Peter J.
Axilrod, First VP at
NSCC for Compliance,
Membership and Risk
Management, Theresa
Wright, Director, NSCC
Compliance and
Jeffrey F. Ingber, GSCC's
General Counsel
& Secretary.*



CREATING MORE EFFICIENCY

There is a growing recognition that increased efficiency within firms — and across the industry — will be key to maintaining a competitive advantage. Activity in markets is more aggressive, product margins are tighter and the need to leverage costs associated with transacting business is greater.

During 1995, NSCC has taken a leadership role to further streamline industry processing, and in supporting the recommendations contained in the Vision 2000 Committee's report. Vision 2000 called for

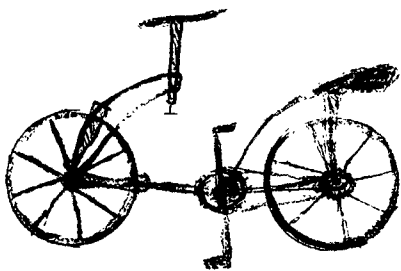
closer coordination among common industry utilities, further immobilization and eventual

elimination of certificates, expanded use of cross-collateralization and establishing standards that promote cross-border clearance, settlement and custody.

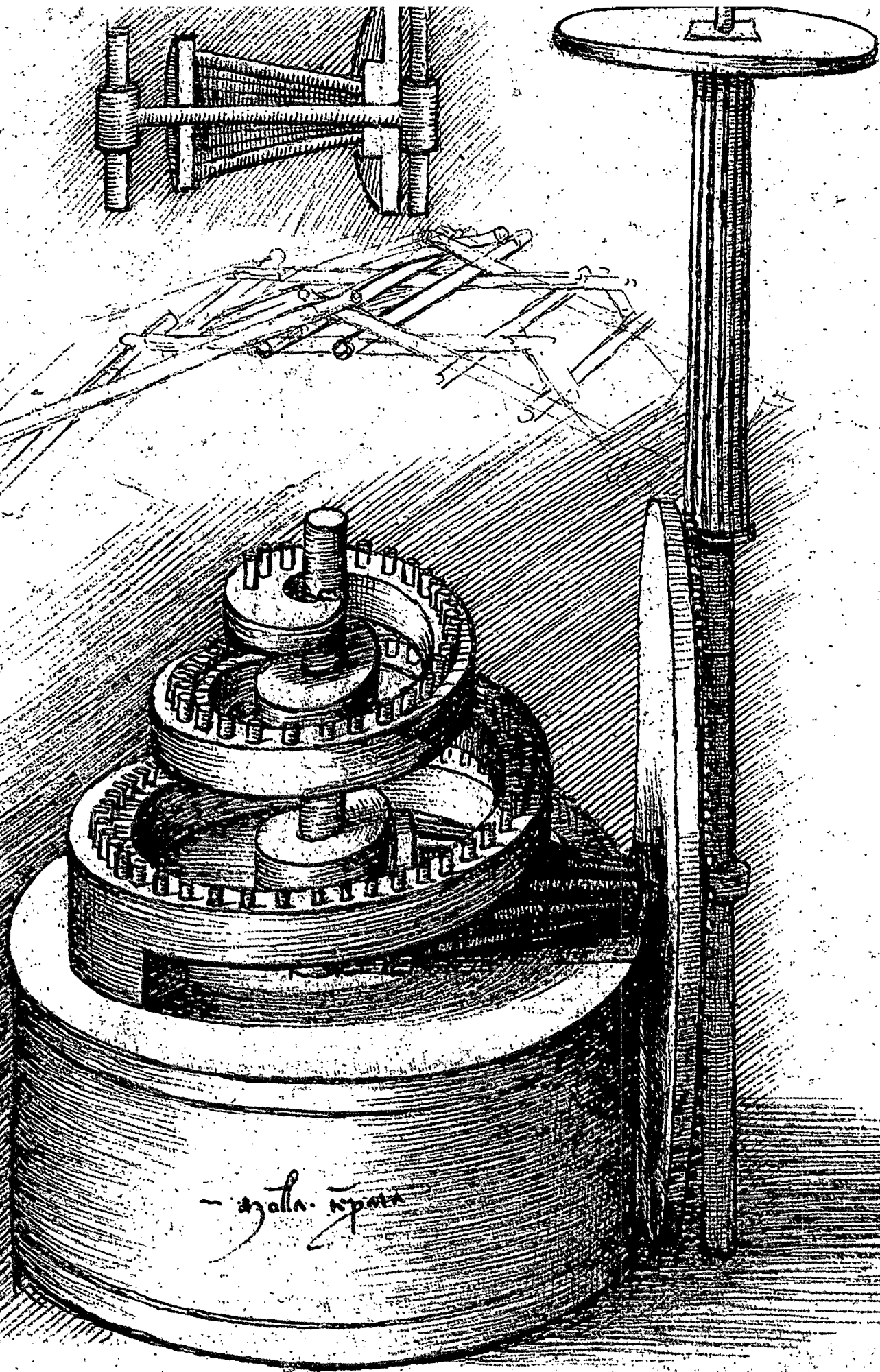
A significant NSCC initiative this past year was the conversion of Midwest Clearing Corporation (MCC) firms, following the decision by the Chicago Stock Exchange to exit the businesses of clearance, settlement and depository services.

More than 100 firms were converted to NSCC within four months, an enormous undertaking. The conversions required new telecommunications links and modification and thorough testing of systems before the move. NSCC's team of information services, membership, operations and marketing/training experts worked around the clock to ensure a smooth transition.

Nearly two years ago, NSCC launched the New York Window to support the industry's need for centralized processing and custody of physical securities. Since that time, transaction volume has nearly tripled. The number of participants has grown to 12 in 1995, and six more are expected to join the Window in early 1996.



*Left to right
Edmund Fanning, VP,
NSCC Marketing welcomes
P. Richard Sirbu, President,
AmeriTrade, George Tootle,
SVP, Operations at The
Ohio Company and Donald
Motschwiller, Managing
Director, Schonfeld Securities,
Inc. who became new
participants following the
conversion from the Midwest
Clearing Corporation.*



- azolla. xpna

l'aveza. e: ha attorno. po. effe. così azollanti. come
 pmanq. tale. e: lo strumento figurato. di sopra. di mosta. e:
 m. d'una. veza. he mobile sopra. il suo polo. e detto polo
 mo. fuscia insieme e: della sua veza. ma bene. la porta in alto

During 1995, more than 289,000 transactions were processed by New York Window, up 20% over last year. The value of these transactions reached \$925 billion. And the number of security positions held in custody increased substantially, to over 25,000 in 1995 from 1,200 the year prior.

The Window supports several goals expressed by the Vision 2000 Committee. It promotes certificate immobilization through internal processing of securities among its participants. The Window also provides a flexible platform of services that can be tailored to meet the changing requirements of participants who wish to streamline and outsource certain operating functions.

SEC approval of NSCC's Collateral Management Service (CMS) during 1995 allows us to begin offering firms access to information on clearing fund requirements and deposits at NSCC and other participating clearing entities. This information will identify excess or deficit amounts and show detailed data on underlying collateral.

Rather than having to piece together data from each clearing organization, CMS provides participants with centralized access and a full picture of their own collateral position at all clearing organizations. Access by a firm to CMS information is limited to a firm's own information.

Participating clearing entities already have the ability to view common members' clearing fund and margin deposits at other participating clearing entities. CMS gives these clearing entities access to detailed collateral information which will facilitate movement by firms of excess collateral at one clearing entity to cover a deficit at another clearing entity.

The development of CMS was strongly endorsed by the Vision 2000 task force, because they recognized the benefits CMS will offer in helping firms more effectively manage their collateral and further reduce risk to clearing entities.

Government Securities Clearing Corporation (GSCC) continued to bring efficiency and risk management benefits to the processing of transactions in the government securities market. During 1995, the value of transactions compared and settled by GSCC were over \$65 trillion.

Average daily volume reached 33,000 transactions, up 28 % over last year. The average daily value of these transactions rose to \$333 billion.

Changes to NSCC's Automated Customer Account Transfer Service (ACATS) were also completed in 1995 and will be introduced in 1996. These enhancements will increase the accuracy of ACATS by providing more detailed information on types of accounts being transferred and specific, verifiable reasons should a problem occur in transferring an account.

FINANCIAL SERVICES FIRMS WILL CONTINUE TO LOOK FOR WAYS TO STREAMLINE THEIR OWN OPERATING AND INFRASTRUCTURE COSTS. THIS WILL BE ACCOMPLISHED THROUGH IMPROVED TECHNOLOGY, MORE FLEXIBLE SYSTEMS AND OUTSOURCING. CONTROLLING COSTS WILL ALSO PUSH THE INDUSTRY TO FURTHER STANDARDIZE AND COORDINATE COMMON FUNCTIONS AND FACILITIES.



A CHANGING INVESTMENT PROCESS

Since NSCC's Fund/SERV system was introduced in 1986, it has provided the continuity and dependability sought by the industry. During 1995, the number of fund families and broker dealers joining Fund/SERV grew by more than 20%, and the system has become the de facto standard for efficient, cost-effective mutual fund order processing and settlement.

More than 272 fund families and 215 broker dealers used Fund/SERV in 1995 to process a daily average of 46,228 mutual fund transactions with a gross value in excess of \$518 million. Average daily transactions processed through Fund/SERV were up 21% last year and have more than quadrupled since 1990.

The number of no-load fund families joining Fund/SERV also jumped in 1995, to 57 from 6 in the prior year. This growth was expected following SEC approval of NSCC's plans to begin offering same-day money settlement in Fund/SERV. Most no-load and money-market mutual funds require a same-day funds processing environment. In addition, Fund/SERV is being enhanced with additional data elements required to expand usage of the system by banks and trust departments.

While many Fund/SERV participants continue to use batch and multi-batch processing, both Edward D. Jones and Smith Barney have led the way in 1995 to leverage Fund/SERV's flexible interactive processing capabilities.

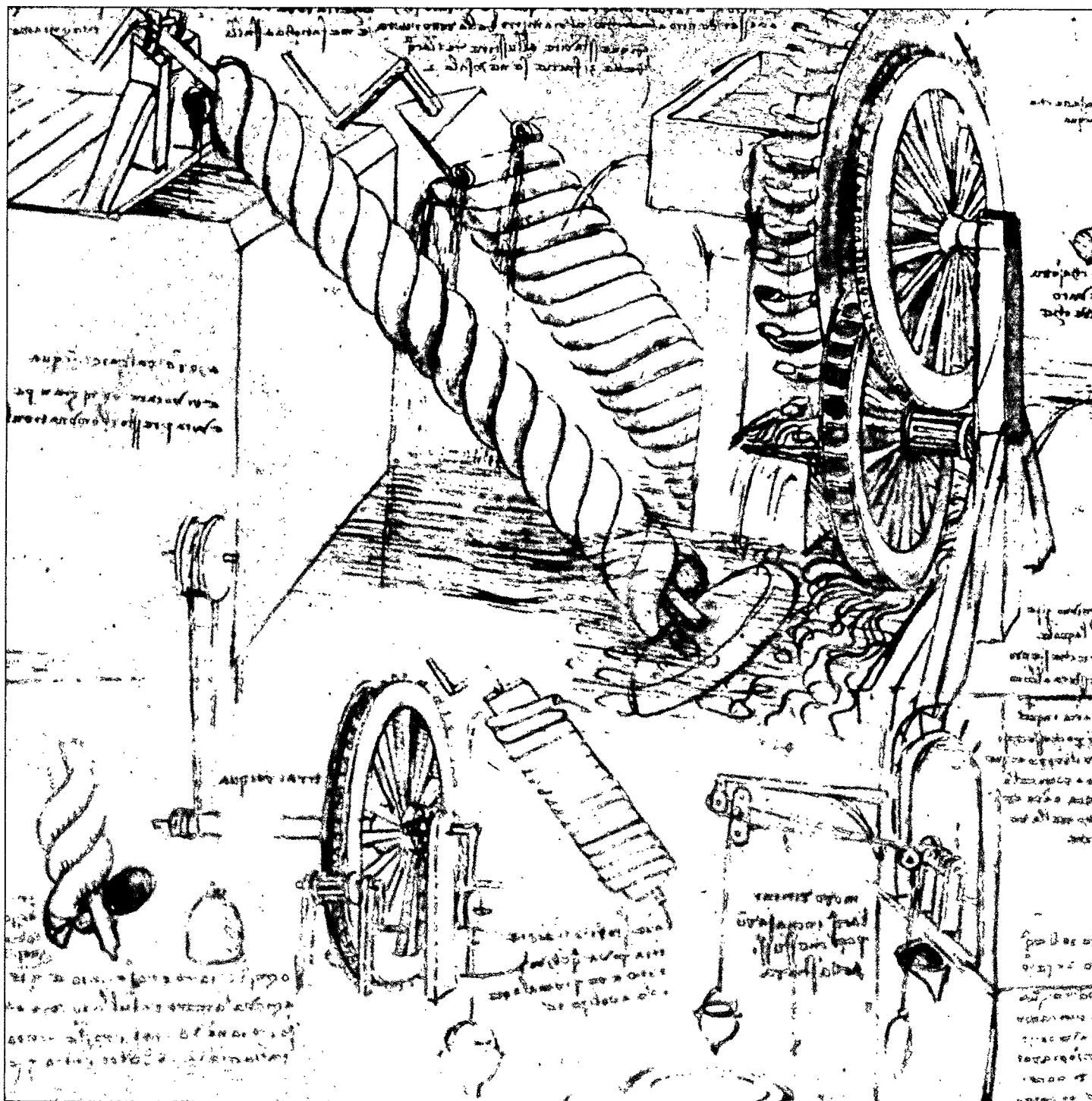
Networking, a companion service to Fund/SERV, has also experienced huge growth in 1995. Networking is an automated recordkeeping system that supports customer account maintenance and reporting, and ensures identical account records at both the fund and broker dealer. The number of subaccounts on the system exceeded 14 million during 1995, up 33% over 1994. This volume

has permitted NSCC to lower Networking fees two years in a row.

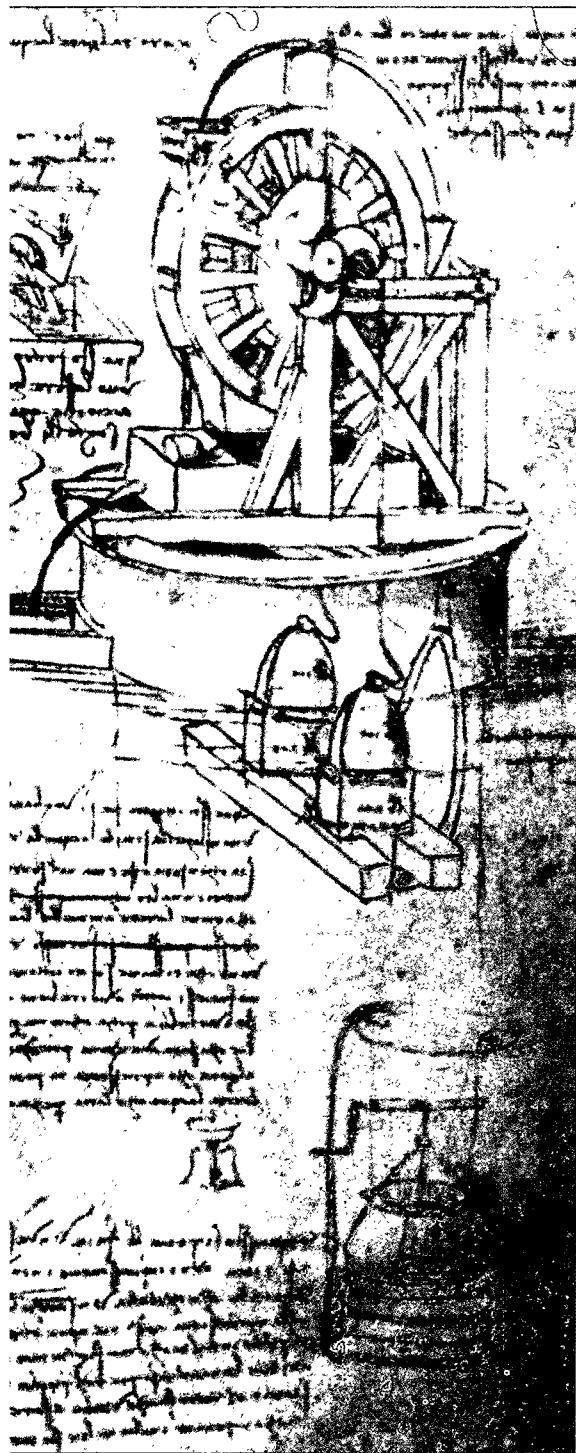
Because of NSCC's experience in delivering solutions like Fund/SERV and Networking, the mutual fund community's trade organization, the Investment Company Institute (ICI), gave NSCC a ringing endorsement in 1995 to begin building a clearinghouse to support the processing of 401(k) transactions and the transfer of retirement assets.

Comparing notes on NSCC's expanding role in supporting mutual funds are Virginia A. Klein, SVP, (at right) OppenheimerFunds Services, A Division of Oppenheimer Funds, Inc., Monica M. Smith, Systems Director, Fidelity Investments Institutional Services Company, Inc. and Paulo L. Botelho, VP, Putnam Investor Services.





IN 1995, ASSETS IN MUTUAL FUNDS EXCEEDED \$2.8 TRILLION. OVER 31 PERCENT OF ALL U.S. HOUSEHOLDS NOW OWN MUTUAL FUND SHARES. WITH RETIREMENT PLANS ALREADY HOLDING ONE-THIRD OF MUTUAL FUND ASSETS, FURTHER EXPANSION OF 401 (K) PLANS AND ANNUITIES IS EXPECTED. THIS GROWTH UNDERSCORES THE INCREASINGLY IMPORTANT ROLE OF MUTUAL FUNDS TO THE INVESTMENT PROCESS. ALONG WITH THIS GROWTH ALSO COMES A BROADER SET OF MARKET PARTICIPANTS.



Growth in 401(k) assets are expected to triple by the year 2000, to approximately \$1.2 trillion. Much of this activity today, however, involves manually intensive processing which could impede continued growth. To provide more flexible investment options, Third Party Administrators (TPA) of 401(k) plans have looked to expand choice across multiple fund complexes. At the same time, trust companies which are responsible for controlling the movement of assets must be able to monitor trading activity to complete multiple settlement obligations.

The industry needs an automated method of communicating the activities of TPAs, mutual fund complexes and trust companies. NSCC began in 1995 to look at whether the existing core processing capabilities of Fund/SERV and Networking might serve as a starting point for building this new system.

An NSCC project team, which includes representatives from the ICI, is already hard at work on automating the transfer of retirement assets. Phase I of the effort, planned for 1996, may use modifications of Fund/SERV as an interim solution permitting fund-to-fund transfers, which represent almost 40% of these transfers. Phase II will provide a longer-term solution that includes all financial services groups, including banks, insurance companies, fund groups and brokers.

The market for both fixed and variable annuities has been growing rapidly over the past several years, with increased concern on how to gain more efficiency and connectivity among market participants. During 1995, NSCC launched an effort working closely with broker dealers, insurance companies and the National Association of Variable Annuities (NAVA) to determine the feasibility of creating a centralized processing system for annuity transactions.

By year-end, with support from the industry, NSCC had begun designing a system to address the requirements for annuities processing.

Leonardo's lifelong study of how to harness water for useful purposes led to numerous ideas for hydraulic machines like the water wheel (at left). He proposed improving dams by a system of locks, linking waterways by digging canals and washing streets through the use of paddle wheels. The financial markets also have a natural flow and force. NSCC looks to bring greater efficiency by channeling the flow of trading activity through a central point.

During 1995, the International Securities Clearing Corporation (ISCC) took several dramatic steps toward furthering support for international settlement and custody, and establishing new business activities to promote the adoption of global standards.

ISCC's flagship service, Global Clearing Network (GCN) continues to streamline the previously cumbersome and costly process experienced by broker dealers trying to clear and settle securities transactions in overseas markets. GCN provides a standardized platform for communicating instructions through a central point and reporting on clearance, settlement and custody. GCN participants

also benefit from lower costs based on collective volume of all members in a given country.

GCN volume grew to more than 426,000 transactions in 1995, up 10% compared with last year. In addition, the number of participants using GCN increased to 39 broker dealers and GCN services were expanded to 12 new countries, including Columbia, Peru, New Zealand and eight new South African regional markets.

A direct and automated link to INDEVAL, Mexico's central securities depository, went live in 1995. This link allows GCN participants to gain the efficiencies of direct access to international custody services offered by INDEVAL.

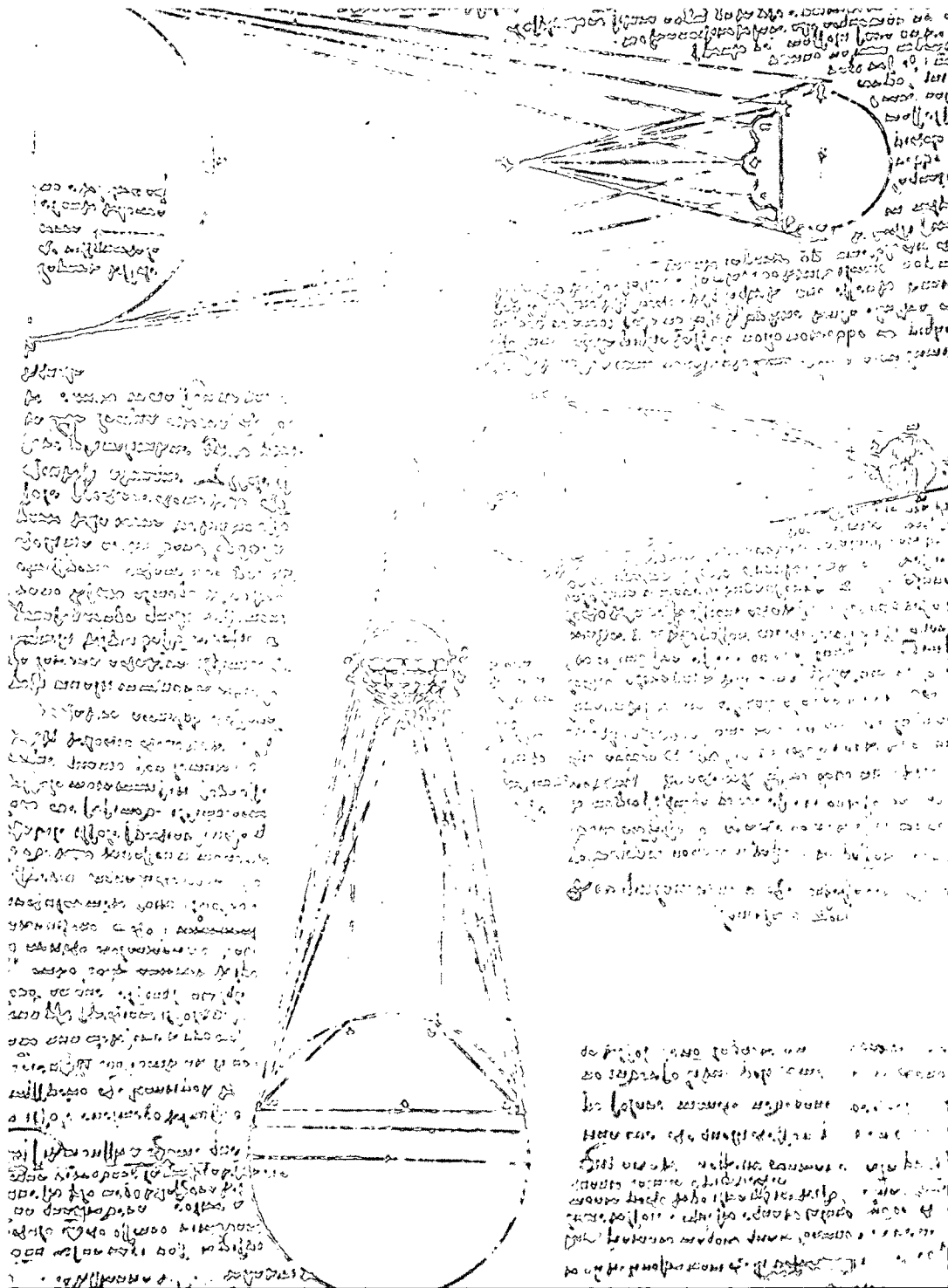
Leonardo used mathematical formulas to support his ideas that the earth was round, the moon was not luminous but reflected light from the sun, the brightness of stars was affected by their distance from earth, and that the sun had greater magnitude and power over all other planets. His calculations of earth's diameter were amazingly close in accuracy. As ISCC uses innovations in technology to bring our trading world closer together, daVinci inspires us keep looking beyond the horizon of possibilities.

*Right to left
Richard G. Beggs, EVP
& Chief Operations &
Technology Officer at
DAIWA Securities
America Inc., confers
on the rapid growth of
ISCC's Global Clearing
Network (GCN) with
two GCN Steering
Committee members,
Herbert Friedman, SVP,
Pershing, A Division of
Donaldson, Lufkin &
Jenrette and Mel
Nomkin, First VP at
Smith Barney Inc.*



Early in 1995, ISCC began to look at the range of services being offered through GCN and other service providers in the international cross-border securities arena. This review included the potential for synergies and strengthened service offerings that might be developed through a cooperative effort with the Depository Trust Company (DTC).

Following extensive discussions in 1995, the two organizations have concluded



the industry would be better served through a complementary infrastructure utilizing the experience and knowledge of both organizations. The evolution of this ISCC/DTC partnership is expected to be a high priority in 1996.

A second major effort initiated during 1995 was a proposal to support the New York Stock Exchange's pilot program to trade foreign ordinary shares on the Exchange in their home currency for T+3 settlement. The proposal, worked on by ISCC, NSCC, DTC and the Securities Industry Automation Corporation (SIAC) will be circulated for industry comment in 1996. Based on industry feedback, ISCC and NSCC will move forward in completing a process to launch this pilot program.

In cooperation with the Emerging Markets Traders Association (EMTA), ISCC was also asked this past year to determine the viability of establishing a clearance, settlement and risk management process for Brady bonds.

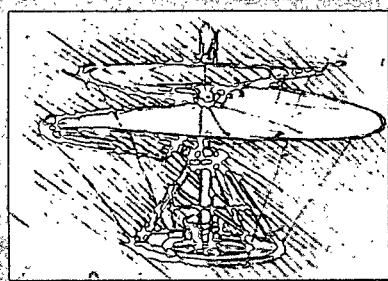
These bonds were issued following the restructuring and securitizing of bank loans to developing countries in the 1980s. Converting foreign loan portfolios into bonds eased the debt burden of these countries. The bonds are

now actively traded in secondary markets among dealers and inter-dealer brokers.

ISCC and EMTA are planning to complete their research by the second quarter of 1996, and present recommendations to their respective Boards.

Finally, ISCC has established a new subsidiary to begin providing advisory/consulting services in emerging markets. This new ISCC subsidiary will also target more well-established markets with clearing and depository systems that are still maturing (e.g. Eastern Europe and South America).

Prior to setting up this new subsidiary in 1995, ISCC and NSCC were asked to participate on a Morgan Stanley advisory committee that is providing assistance to the Depository Clearing Corporation in Moscow. ISCC also worked this past year to support the NASD which won a contract to build depositories and clearing houses in five Caribbean countries.



THE SUN SHINE ON OUR SHADES

The natural desire of men is knowledge. No obstacle can
either be addressed or overcome unless it is first understood.

Leonardo da Vinci — 1501



BOARD OF DIRECTORS

NSCC's Board of Directors plays an integral role in policy development and the establishment of corporate objectives, financial management and operational planning at NSCC and ISCC. Through its professional expertise in executive, financial and corporate management, the Board in 1995, continued to provide NSCC with guidance and direction.

The Board of Directors is made up of 20 members: 16 Participant Directors elected from participating brokers, dealers, banks and mutual funds, NSCC's President & Chief Executive Officer, and three Shareholder Directors.

GSCC's separate 15 member Board of Directors represents participants in GSCC, a full-service clearing corporation providing automated comparison, netting and settlement services for next-day and forward-settling transactions in Treasury Bills, Bonds, Notes, zero coupon securities and non-mortgage-backed Agency securities. Twelve members of the Board of Directors are participant Shareholder Directors elected to represent dealers, brokers and clearing agent banks. Additional members include two NSCC Designated Directors and the President of GSCC.

NSSC AND ISCC BOARD OF DIRECTORS



from left to right

Frank J. DeCongelo
*Managing Director
 C.S. First Boston
 Corporation*

Douglas J. Engmann
*President
 Sage Clearing
 Corporation*

David M. Kelly
*President and CEO
 National Securities
 Clearing Corporation*

Robert F. Gartland
*Managing Director
 Morgan Stanley & Co.
 Incorporated*

Arthur L. Thomas
*Chairman of the Board, NSSC
 Senior Vice President, Director
 of Global Operations Services
 Merrill Lynch, Pierce, Fenner
 & Smith, Incorporated*

John Cirrito
*Executive Vice President
 Gruntal & Co., Incorporated*

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



from left to right

Thomas F. Ryan
*President & COO
 American Stock Exchange*

Peter Quick
*President & COO
 Quick & Reilly Group Inc.*

James C. Stone, III
*Executive Vice President
 & Treasurer
 J.J.B. Hilliard, W.L. Lyons, Inc.*

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*President & COO
 D.A. Davidson & Co., Inc.*

Henry A. Lichstein
*Vice President
 Citibank, TTI*

Alfred J. Golden
*Executive Vice President
 Director of Operations
 Dean Witter Reynolds Inc.*

C. Richard Justice
*Consultant
 National Association of
 Securities Dealers, Inc.*

Dennis W. Zank
*Executive Vice President
 Operations & Administration
 Raymond James & Associates, Inc.*

Melvin B. Taub
*Senior Executive Vice President
 Smith Barney Inc.*

Not Pictured

Richard A. Edgar
*Executive Vice President
 Market Operations, Real Estate
 & Facilities
 New York Stock Exchange*

Robert F. Lucey
*Senior Managing Director
 Putnam Investments*

Louis Faust, III
*Managing Director, Global
 Operations
 Salomon Brothers Inc.*

GSCC BOARD OF DIRECTORS



from left to right

Peter J. Murray
Director
C.S. First Boston Corporation

Thomas M. Wendel
Chairman
Liberty Brokerage Inc.

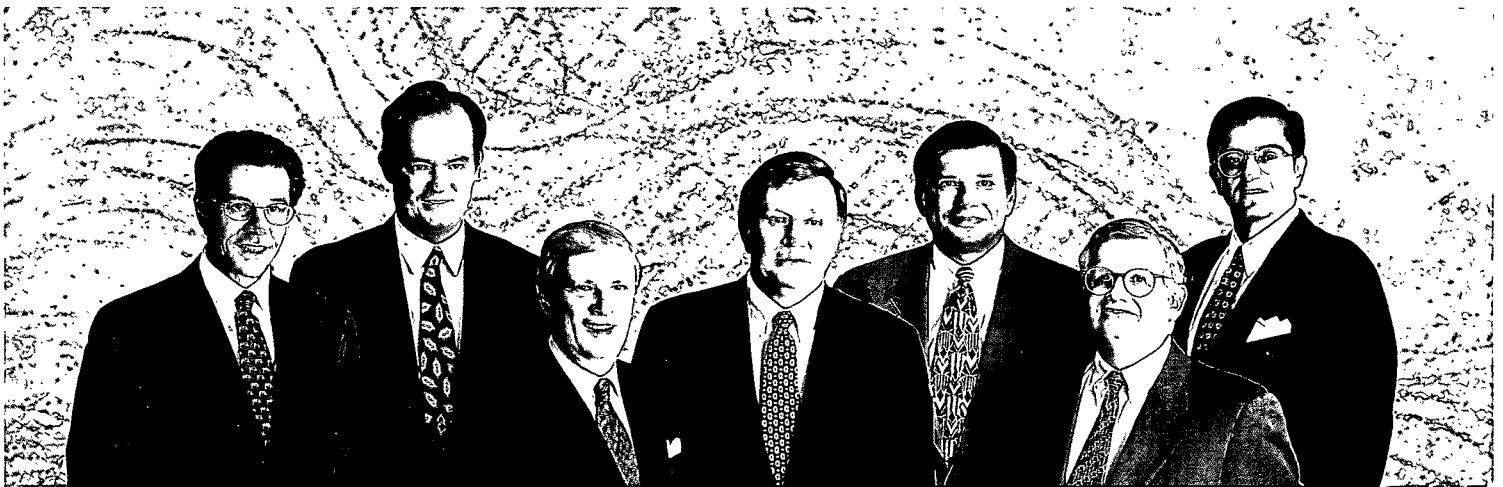
John G. Macfarlane,
Chairman of the Board, GSCC
Managing Director & Treasurer
Salomon Brothers Inc.

Charles A. Moran
President
Government Securities
Clearing Corporation

William Molloy
Managing Director
Morgan Stanley & Co.
Incorporated

Edward Almeida
Senior Managing Director
Bear Stearns & Co., Inc.

Kurt D. Woetzel
Senior Vice President
The Bank of New York



from left to right

Edward Watts, Jr.
Director
Goldman, Sachs & Co.

John M. Gavin, Jr.
Chief Financial Officer
RMJ Securities Corp.

Jeremiah F. O'Leary
Senior Vice President
Chemical Bank

David M. Kelly
President & CEO
National Securities
Clearing Corporation

Richard M. Kyjewski
Vice President
Nesbitt Burns Securities Inc.

Stephen R. Tilton
President
Garban Ltd.

Daniel Minerva
Co-President and Co-CEO
Eastbridge Capital Inc.

CONSOLIDATED BALANCE SHEETS

| December 31, (in thousands) | 1995 | 1994 |
|---|-----------|-----------|
| Assets | | |
| Cash and cash equivalents | \$477,555 | \$385,453 |
| U.S. Treasury securities | 87,522 | 100,339 |
| Accounts receivable | 5,794 | 5,794 |
| Settlement accounts receivable | 3,592 | 407 |
| Clearing fund | 349,397 | 314,480 |
| Fixed assets, less accumulated depreciation of \$6,998,000 and \$5,635,000 at December 31, 1995 and 1994, respectively | 5,423 | 4,552 |
| Other assets | 8,278 | 3,741 |
| Total assets | \$937,561 | \$814,766 |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Accounts payable | \$ 2,122 | \$ 2,860 |
| Settlement accounts payable | 277,796 | 248,632 |
| Clearing fund: | | |
| Participants' cash deposits | 261,643 | 217,177 |
| Other participant deposits | 349,397 | 314,480 |
| Other liabilities | 21,603 | 8,617 |
| Total liabilities | 912,561 | 791,766 |
| Commitments and contingent liabilities (Note 8) | | |
| Shareholders' equity: | | |
| Common stock authorized, issued and outstanding; 30,000 shares of \$.50 par value | 15 | 15 |
| Capital in excess of par | 885 | 885 |
| Retained earnings | 24,100 | 22,100 |
| Total shareholders' equity | 25,000 | 23,000 |
| Total liabilities and shareholders' equity | \$937,561 | \$814,766 |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

| <i>For the Year Ended December 31,</i> (in thousands) | 1995 | 1994 |
|--|------------------|------------------|
| Revenues: | | |
| Revenue from services | \$152,949 | \$133,193 |
| Discounts to participants | <u>60,016</u> | <u>44,781</u> |
| Net revenue from services | 92,933 | 88,412 |
| Interest income | <u>8,896</u> | <u>5,916</u> |
| Total revenues | <u>101,829</u> | <u>94,328</u> |
| Expenses: | | |
| Securities Industry Automation Corporation processing expenses | 47,999 | 48,055 |
| The Depository Trust Company fees | 12,042 | 12,265 |
| General and administrative | <u>38,658</u> | <u>31,208</u> |
| Total expenses | <u>98,699</u> | <u>91,528</u> |
| Income before income taxes | 3,130 | 2,800 |
| Provision for income taxes | <u>1,130</u> | <u>1,000</u> |
| Net income | 2,000 | 1,800 |
| Retained earnings, beginning of year | <u>22,100</u> | <u>20,300</u> |
| Retained earnings, end of year | <u>\$ 24,100</u> | <u>\$ 22,100</u> |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>For the Year Ended December 31,</i> (in thousands) | 1995 | 1994 |
|---|-----------|-----------|
| Cash flows from operating activities: | | |
| Net income | \$ 2,000 | \$ 1,800 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,812 | 1,297 |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | — | (4,791) |
| (Increase) decrease in settlement accounts receivable | (3,185) | 6,327 |
| Increase in other assets | (4,537) | (1,069) |
| Decrease in accounts payable | (738) | (1,730) |
| Increase in settlement accounts payable | 29,164 | 50,530 |
| Increase (decrease) in clearing fund participants' cash deposits | 44,466 | (6,503) |
| Increase in other liabilities | 12,986 | 1,762 |
| Net cash provided by operating activities | 81,968 | 47,623 |
| Cash flows from investing activities: | | |
| Decrease in U.S. Treasury securities | 12,817 | 10,366 |
| Purchases of fixed assets | (2,683) | (1,938) |
| Net cash provided by investing activities | 10,134 | 8,428 |
| Net increase in cash and cash equivalents | 92,102 | 56,051 |
| Cash and cash equivalents, beginning of year | 385,453 | 329,402 |
| Cash and cash equivalents, end of year | \$477,555 | \$385,453 |
| Supplementary disclosures: | | |
| Income taxes paid | \$ 941 | \$ 2,183 |

The accompanying notes are an integral part of these statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Operations:

National Securities Clearing Corporation (NSCC), a clearing agency registered with the Securities and Exchange Commission (SEC), provides various services to the financial community, consisting principally of securities trade comparison, recording, clearance and settlement. NSCC's common stock is owned equally by the New York Stock Exchange, Inc. (NYSE), American Stock Exchange, Inc. (Amex) and the National Association of Securities Dealers, Inc. (NASD).

NSCC provides discounts on its 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 its independent user Board of Directors.

(2) Summary of Significant Accounting Policies:

Principles of consolidation: The consolidated financial statements include the accounts of NSCC and its wholly-owned subsidiary, International Securities Clearing Corporation (ISCC). Intercompany accounts and transactions are eliminated in consolidation.

NSCC accounts for its investment in Government Securities Clearing Corporation (GSCC), using the equity method of accounting. NSCC's ownership interest in GSCC was approximately 17% or \$2,548,000 at December 31, 1995 and is included in other assets on the consolidated balance sheet. NSCC also owns approximately a 10% interest in MBS Clearing Corporation (MBSCC). This investment, which is carried at cost (\$432,000), is also included in other assets.

Cash equivalents: NSCC invests funds in overnight reverse repurchase agreements, which are considered cash equivalents. Such agreements provide for NSCC'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 NSCC takes possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$437,000,000 and \$330,000,000 at December 31, 1995 and 1994, respectively. At December 31, 1995, the counterparties to these agreements were six financial institutions.

Overnight investments in the commercial paper of a major U.S. bank holding company totaling \$3,298,000 and \$19,411,000 are also included in cash equivalents at December 31, 1995 and 1994, respectively.

U.S. Treasury securities: U.S. Treasury securities are considered to be held-to-maturity securities under Statement of Financial Accounting Standard (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are recorded at amortized cost. The contractual maturities, carrying value and market value of these securities at December 31, 1995 and 1994 are as follows:

| | 1995 | | 1994 | |
|-------------------------------|----------------|--------------|----------------|--------------|
| | Carrying Value | Market Value | Carrying Value | Market Value |
| Due in one year or less | \$86,519,000 | \$86,636,000 | \$ 98,818,000 | \$98,462,000 |
| Due in one through four years | 1,003,000 | 1,029,000 | 1,521,000 | 1,457,000 |
| Total | \$87,522,000 | \$87,665,000 | \$100,339,000 | \$99,919,000 |

At December 31, 1995 and 1994, \$58,503,000 and \$64,081,000, respectively, of such securities were held in an account for the exclusive benefit of participants to facilitate participants' compliance with customer protection rules of the SEC.

Settlement accounts: Settlement accounts receivable and payable arise from time lags, primarily one-day, in the settlement process with participants and other registered clearing agencies.

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.

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' Clearing Fund Deposits:

NSCC's rules require certain participants to maintain minimum clearing fund deposits based on calculated requirements. These requirements are recorded in NSCC's balance sheet. The consolidated clearing fund balance includes NSCC and ISCC clearing funds, which are available to secure participants' obligations and certain liabilities of NSCC and ISCC, should they occur. A summary of the deposits held including deposits in excess of calculated requirements at December 31, 1995 and 1994, follows:

| | 1995 | 1994 |
|---|---------------|---------------|
| Cash | \$261,643,000 | \$217,177,000 |
| Securities issued or guaranteed by the U.S. Government, at market | 217,104,000 | 223,034,000 |
| Letters of credit issued by authorized banks | 295,682,000 | 240,831,000 |

During 1995, NSCC had a \$300,000,000 committed line of credit agreement with a major U.S. bank to provide for potential additional liquidity needs. This line was not used in 1995.

(4) Transactions with Related Parties:

SIAC: Under the terms of an agreement, the Securities Industry Automation Corporation (SIAC), an entity owned by NYSE and Amex, provides computer facilities, personnel and services in support of NSCC's operations. SIAC charges NSCC for these services based on its direct and overhead costs arising from providing such services. The agreement has no expiration date and continues in effect unless prior written notice of cancellation is given by either party. Amounts payable to SIAC at December 31, 1995 and 1994, were \$2,453,000 and \$2,079,000, respectively.

DTC: NYSE, Amex and NASD own minority interests in The Depository Trust Company (DTC), whose facilities are used by NSCC. DTC fees in 1995 and 1994 included \$6,623,000 and \$6,980,000, respectively, relating to charges for NSCC participants which NSCC sponsors at DTC. Such amounts are rebilled to the related participants and are included in revenues from clearing services. Amounts payable to DTC at December 31, 1995 and 1994, were \$506,000 and \$642,000, respectively.

NYSE, Amex, and NASD: NSCC collects certain regulatory fees on behalf of NYSE, Amex and NASD. At December 31, 1995 and 1994, no amounts were due the NYSE, Amex or NASD.

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 amounted to \$3,217,000 in 1995 and \$4,832,000 in 1994. NSCC's expenses are presented net of these charges. At December 31, 1995 and 1994, receivables from GSCC amounted to \$148,000 and \$239,000, respectively.

MBSCC: During 1995, NSCC entered into an agreement with MBSCC to provide various support services and office facilities. Charges under this agreement, which are based on a determination of NSCC's cost of providing these services, amounted to \$354,000 in 1995. NSCC's expenses are presented net of these charges. The agreement expires in 1999; however, it will continue in effect unless notice of cancellation is given by either party. At December 31, 1995 and 1994, receivables from MBSCC amounted to \$61,000 and \$71,000, respectively.

(5) Income Taxes:

NSCC and ISCC file consolidated Federal, combined New York State and combined New York City income tax returns. The differences between NSCC's 36% effective tax rate for the years ended December 31, 1995 and 1994, and the 34% Federal statutory tax rate are primarily attributable to state and local taxes.

The provisions for income taxes for the years ended December 31, 1995 and 1994 consist of the following:

| | 1995 | 1994 |
|-----------------------|-------------|-------------|
| Current income taxes | \$2,191,000 | \$1,425,000 |
| Deferred income taxes | (1,061,000) | (425,000) |
| Total income taxes | \$1,130,000 | \$1,000,000 |

(6) Pension Plan:

NSCC has a trustee noncontributory defined benefit pension plan covering all eligible employees of NSCC and certain affiliated companies. Benefits under this plan are based on employees' years of service and compensation during the years immediately preceding retirement. NSCC's 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. NSCC also has a noncontributory supplemental executive retirement plan (SERP) which provides for certain benefits to identified executives of NSCC upon retirement. Although the SERP is currently unfunded, \$2,334,000 in marketable securities have been segregated in order to pay future benefit obligations of the SERP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

The securities are recorded at market value at December 31, 1995 and are included in other assets in the balance sheet. The cost of the securities approximates market value and, as such, no separate valuation component in shareholders' equity was recorded. In 1994, NSCC established a noncontributory benefit restoration plan (BRP) which restores to identified executives certain retirement income benefits which have been limited by recent changes in income tax regulations. The BRP is not funded. Aggregate pension costs for 1995 and 1994 for these plans follow:

| | 1995 | 1994 |
|-------------------------------|-------------|-------------|
| Service cost | \$1,058,773 | \$ 929,748 |
| Interest cost | 710,140 | 608,150 |
| Actual return on plan assets | (1,753,342) | 89,310 |
| Net amortization and deferral | 1,286,290 | (521,149) |
| Total pension cost | \$1,301,861 | \$1,106,059 |

The funded status of the plans at December 31, 1995 and 1994, follows:

| | 1995 | 1994 |
|---|---------------|---------------|
| Actuarial present value of benefit obligations: | | |
| Vested benefit obligations | (\$6,463,145) | (\$4,629,985) |
| Nonvested benefit obligations | (1,068,138) | (783,948) |
| Accumulated benefit obligations | (7,531,283) | (5,413,933) |
| Effect of salary projections | (4,997,933) | (3,166,610) |
| Projected benefit obligations | (12,529,216) | (8,580,543) |
| Fair value of plan assets | 8,377,025 | 6,485,301 |
| Plan assets less than projected benefit obligations | (4,152,191) | (2,095,242) |
| Unrecognized net loss (gain) | 952,059 | (42,550) |
| Unrecognized prior service cost | (292,619) | (292,601) |
| Unrecognized transitional liability | 189,363 | 220,923 |
| Accrued pension cost | (\$3,303,388) | (\$2,209,470) |

The expected rate of return on plan assets was 7.5% in 1995 and 8% in 1994. The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of accumulated benefit obligations were 7.25% and 6%, respectively, in 1995 and 8.25% and 6%, respectively, in 1994.

(7) Post-Retirement Life Insurance: NSCC's life insurance program includes payment of death benefits to beneficiaries of retired employees. During 1995, NSCC adopted the provisions of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions." The cumulative effect of this change is not material.

(8) 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, 1995, open positions due NSCC approximated \$838,510,000 (\$872,745,000 at December 31, 1994), and open positions due by

NSCC to participants approximated \$521,129,000 (\$562,580,000 at December 31, 1994) for unsettled positions and \$ 297,385,000 (\$310,165,000 at December 31, 1994) for securities borrowed through NSCC's Stock Borrow Program.

During the first quarter of 1995, an 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 whether such conditions will occur and, accordingly, the level of its ultimate obligation, if any.

At present, under a netting contract and limited cross guarantee agreement with DTC, DTC transferred to NSCC approximately \$860,000 of excess collateral of Adler Coleman Clearing Corporation. Under the terms of that agreement, NSCC remains liable to DTC for return of such monies for a period of four years from the date of transfer if DTC subsequently determines the collateral not to have been excess.

In connection with an agreement that ISCC has with the London Stock Exchange (LSE), ISCC has guaranteed the settlement obligations of ISCC's members at LSE and correspondingly, NSCC has guaranteed ISCC's obligations to LSE. ISCC's members collateralize such obligations by depositing clearing fund amounts with ISCC as required pursuant to the ISCC Member's Agreement.

NSCC is contingently liable for the cancellation of certain SIAC office and equipment leases which expire through December 31, 2003. At December 31, 1995, the aggregate contingent commitment of NSCC totals approximately \$27,500,000.

Net rental expense amounted to \$2,158,000 and \$3,024,000, in 1995 and 1994, respectively. At December 31, 1995, future minimal rental payments under all noncancellable operating leases follows:

| Year | Amount |
|--------------------------------------|--------------|
| 1996 | \$ 1,464,000 |
| 1997 | 1,439,000 |
| 1998 | 1,424,000 |
| 1999 | 1,416,000 |
| 2000 | 1,716,000 |
| 2001 through 2012 | 23,896,000 |
| Total minimum annual rental payments | \$31,355,000 |

(9) 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 8). If a participant fails to fulfill its obligations, NSCC could be exposed to risk in amounts in excess of that recorded in NSCC's settlement accounts receivable and payable.

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 clearing 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 clearing 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 the event that a deficiency still exists after the application of the DTC payment, 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 the Board of Directors. NSCC may assess the balance needed on a pro-rata basis to the remaining participants based upon their required clearing 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.

(10) Subsequent Event:

In January 1996, NSCC entered into a 10-year agreement with the Chicago Stock Exchange, Incorporated (CHX) to assume certain clearance and related services for former participants of the Midwest Clearing Corporation, an affiliate of CHX. As part of the agreement, NSCC paid approximately \$5,000,000 to CHX and assumed net lease obligations with estimated aggregate payments of approximately \$6,600,000.

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP 

February 16, 1996

To the Board of Directors and Shareholders of
National Securities Clearing Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of National Securities Clearing Corporation and its subsidiary at December 31, 1995 and 1994, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. 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 generally accepted auditing standards 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 the opinion expressed above.

Price Waterhouse LLP

New York, New York

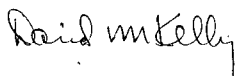
MANAGEMENT'S REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

February 16, 1996


To the Board of Directors and Shareholders of
National Securities Clearing Corporation

National Securities Clearing Corporation (NSCC) maintains a system of internal control over financial reporting which is designed to provide reasonable assurance regarding the preparation of reliable published financial statements. The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective internal control system, no matter how well designed, has inherent limitations—including the possibility of the circumvention or overriding of controls—and therefore can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control system effectiveness may vary over time.

NSCC's management assessed its internal control over financial reporting as of December 31, 1995, in relation to criteria for effective internal control described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, NSCC believes that, as of December 31, 1995, its system of internal control over financial reporting met those criteria.



David M. Kelly
President and Chief Executive Officer



Marvin B. Koehler
Senior Vice President and Treasurer

REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Price Waterhouse LLP 

February 16, 1996

To the Board of Directors and Shareholders of
National Securities Clearing Corporation

We have examined management's assertion that, as of December 31, 1995, National Securities Clearing Corporation's (NSCC's) internal control over financial reporting met the criteria for effective internal control described in "Internal Control-Integrated Framework." Management's assertion is included in the accompanying Management's Report on Responsibility For Financial Reporting.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control structure over financial reporting, testing and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

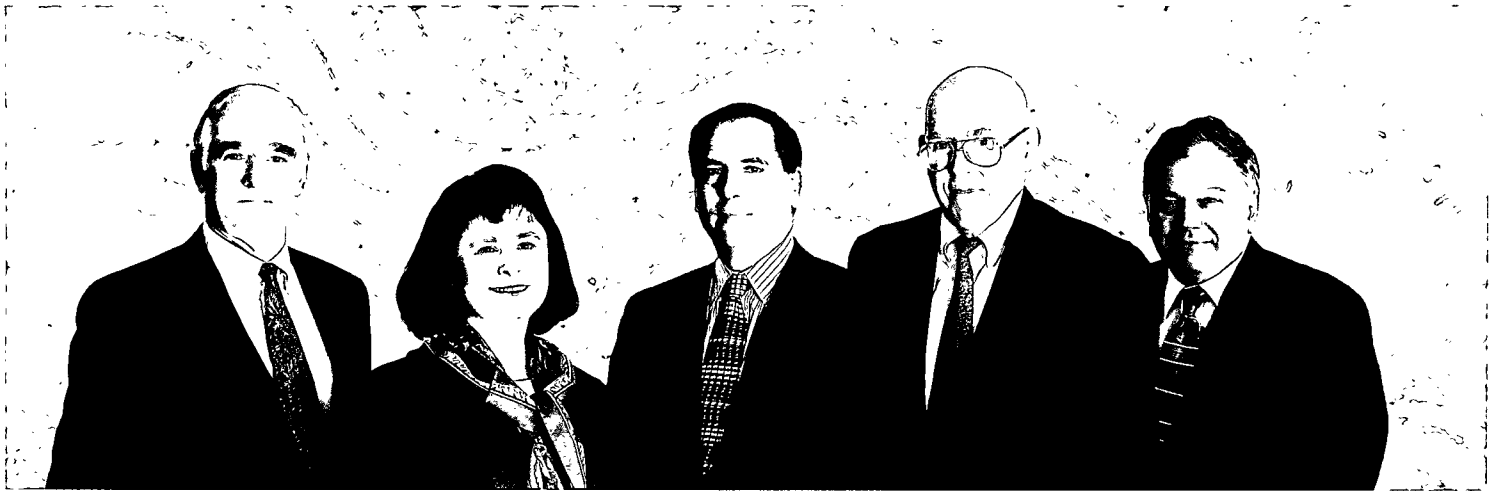
Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that, as of December 31, 1995, NSCC's system of internal control over financial reporting met the criteria for effective internal control established by the Committee of Sponsoring Organizations of the Treadway Commission is fairly stated, in all material respects, based upon criteria established in "Internal Control-Integrated Framework."

Price Waterhouse LLP

New York, New York

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from left to right

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Planning and Operations,
National Securities Clearing
Corporation

Mary Ann Callahan
Senior Vice President,
International Securities
Clearing Corporation

Thomas F. Costa
Executive Vice President,
Government Securities
Clearing Corporation

Marvin B. Koehler
Senior Vice President,
Finance; Treasurer,
National Securities
Clearing Corporation

Ralph Monda
Managing Director,
National Securities
Clearing Corporation



from left to right

Robert J. Woldow
Executive Vice President,
General Counsel & Secretary,
National Securities
Clearing Corporation

Richard W. Myers
Executive Vice President
& COO,
International Securities
Clearing Corporation

Steve Labriola
Executive Vice President,
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Communications,
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Sandy Manata
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