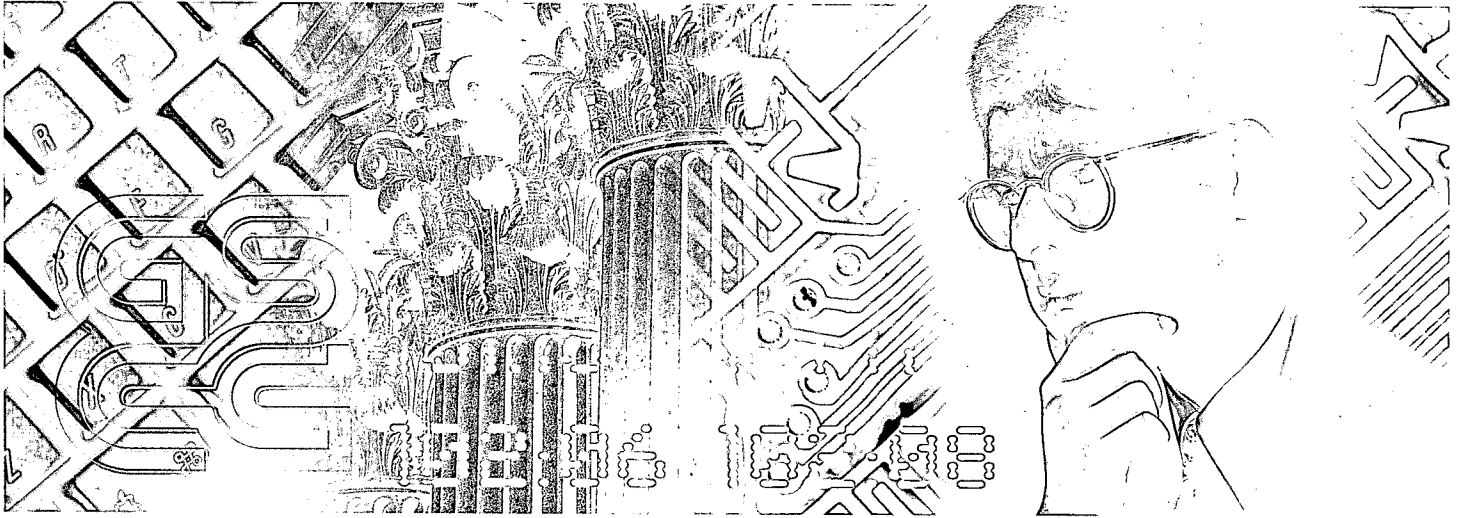




<i>Government</i>	<i>Securities</i> 1996	<i>Clearing</i> Annual Report	<i>Corporation</i>
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Government Securities Clearing Corporation (GSCC) clears and settles a broad range of U.S. Government securities transactions for brokers, dealers, banks and other financial institutions involved in this dynamic marketplace. These transactions include buy/sell and repurchase agreement transactions in, and original auction purchases of, Treasury bills, bonds, notes, zero-coupon securities and inflation-indexed securities.

By providing highly sophisticated, fail-safe automated trade comparison, netting and settlement processing services, GSCC ensures the timely, accurate and cost-efficient completion of transactions for more than 100 member firms and the more than 400 correspondent firms that clear through these members. Underlying GSCC's systems is a risk-management process that provides stability to the marketplace and our participants by minimizing the risks arising from the process of clearing and settling Government securities.

Established in 1986 by the National Securities Clearing Corporation (NSCC), GSCC is a clearing agency registered with, and regulated by, the Securities and Exchange Commission. Owned primarily by its members, GSCC is guided by a Board of Directors that reflects the organization's membership; it includes representatives from the large community of dealers, brokers and other financial entities that trade in or clear U.S. Government securities.

In the photos:

p.4: Dina De Luca;

*p.5: (l) Thomas Quaranta,
(r) Marc Golin;*

p.6: Gary Woodyard;

p.7: Adrian Collymore;

*p.8: (l) Steven Kling,
Barbara Reifer, Richard
Visco, (r) Marie Sullivan,
Robert Trapani;*

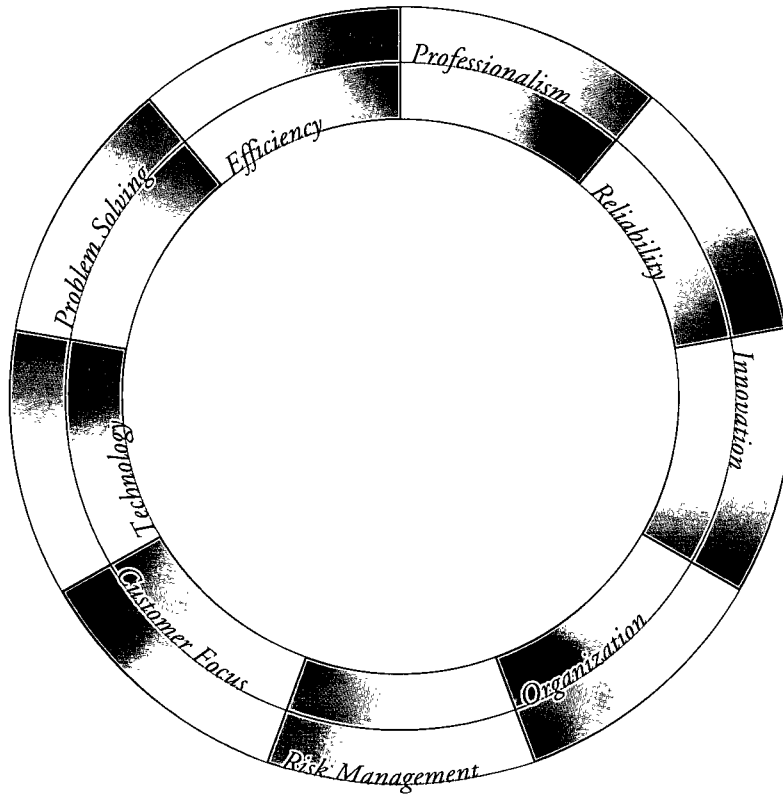
p.10: Eugene Ing;

p.11: Suzanne Roberts

Our **Mission**

<i>To be the premier centralized</i>	<i>post-trade infrastructure</i>		
		<i>for the world's largest</i>	<i>securities marketplace</i>

Our Core Competencies:



To OUR Participants

<i>Substantial increases</i>	<i>in the number and value</i>	<i>of U.S. Government</i>	<i>securities processed</i>
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David M. Kelly

Sal Ricca

Edward F. Watts, Jr.

To remain the premier provider of post-trade processing services, GSCC is developing systems to support the industry's future demands.

The U.S. Government securities market, already the largest and most liquid marketplace in the world, is speeding toward a new paradigm for the way it will conduct business into the next century. The dollar value and velocity of trading continue to accelerate; the variety of financial instruments traded continues to grow.

In this robust environment, Government Securities Clearing Corporation (GSCC) posted substantial increases in both the number and value of U.S. Government securities processed in 1996. For the year, volume rose to 8.9 million transactions and dollar value climbed to \$108 trillion from \$83 trillion in 1995. Average daily volume rose to 37,081 transactions worth \$433 billion.

GSCC's record of growth reflects our ability to provide superior comparison, clearance and settlement services to the cash market, as well as an increasing array of automated, centralized systems for the fast-growing repurchase agreement (repo) segment of the marketplace.

Beginning with automated netting and guaranteed settlement of the close legs of overnight and term repos in 1995, GSCC added

additional services — for blind-brokered repos, repo-to-maturity and repos that permit substitution of collateral — in 1996.

Our goal is to automate all aspects of repo start and close leg processing. The next phase of development includes systems to handle forward-starting, general collateral repos; open repos, which have no set term; and services to attract the buy side of repo transactions.

GSCC also created systems in 1996 to clear, net and settle recently introduced Treasury Inflation-Indexed Securities, which have a fixed coupon but floating principal pegged to inflation. GSCC worked with the Public Securities Association on the pricing procedure so we can compute final money based on standardized participant submissions.

By broadening and enhancing our services, GSCC has attracted a number of new participants. But to remain the preeminent provider of centralized trade comparison, netting and settlement for a Government securities market that operates around the clock, around the globe, GSCC must develop systems to support the industry's rigorous demands in the future.

In 1996, therefore, GSCC recognized the need to reengineer our systems platform to meet the changing requirements of the Government securities industry.

The goal of our reengineering effort is to provide real-time, on-line, interactive communications with our participants 24-hours a day, if necessary. Trades will be immediately acknowledged, compared, guaranteed and then settled where and when appropriate.

GSCC intends to become a more integral part of the entire post-trade processing chain by positioning our services closer to the point of trade. Taking on post-trade connectivity and more of the internal processing now being done by participants can provide substantial benefits, including a settlement guarantee that eliminates credit concerns and promotes better cash management. Many broker-dealers have already decided that processing should not be a central competency for them. By GSCC absorbing an increasing range of processing responsibilities, participant firms can concentrate more of their efforts and capital on trading activities.

GSCC has and will continue to look for opportunities to provide our members with services that allow them to make efficient use of their capital. As a common counterparty to our members' trades, GSCC provides balance sheet netting benefits in excess of 50%.

We are also moving forward on adopting standardized message formats, communications protocols and systems interfaces. We will introduce SWIFT-like message formats to permit communication directly with trading systems. These messages will be transmitted by MQ Series message exchange software, which is compatible with platforms used by many participants and other clearing corporations. Starting in 1997, we will use World Wide Web technology for our user interface. It will provide a single, user-friendly, easily expandable entryway into GSCC for participants and clearing banks.

Rest assured that whatever alterations GSCC makes, our charter remains immutable. The foundation of our business continues to be post-trade processing services that can increase efficiency, reduce cost, mitigate risk — and are 100% reliable.

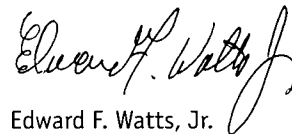
While introducing new technology solutions is always exciting, we must be certain that our systems and platform also support GSCC's more traditional business objectives. On the following pages we describe how GSCC is integrating our business objectives — a growing participant base, highly reliable systems, extraordinary levels of service — with new technology as we build for tomorrow.

With the active involvement of our participants, GSCC has developed both a vision for the future and an actionable plan to get there. Their input has been invaluable during this period of analysis and design, and we are extremely grateful to them.

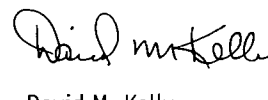
Our thanks, too, for the guidance and support of our Board of Directors. Because our Board members are hands-on operations, technology and business managers of broker-dealers, inter-dealer brokers and clearing agent banks, they provide an essential reality check on our strategies and our risk-management activities.

Our staff is a diversely talented group with broad understanding of the U.S. Government securities marketplace. They are an asset not only to GSCC, but to the entire industry.

GSCC has developed a thoughtful perspective on the challenges that are ahead and an aggressive action plan to meet them. With the continued support of market participants, we have the utmost confidence in our ability to facilitate further growth in the U.S. Government securities marketplace.



Edward F. Watts, Jr.
Chairman of the Board
Government Securities Clearing Corporation



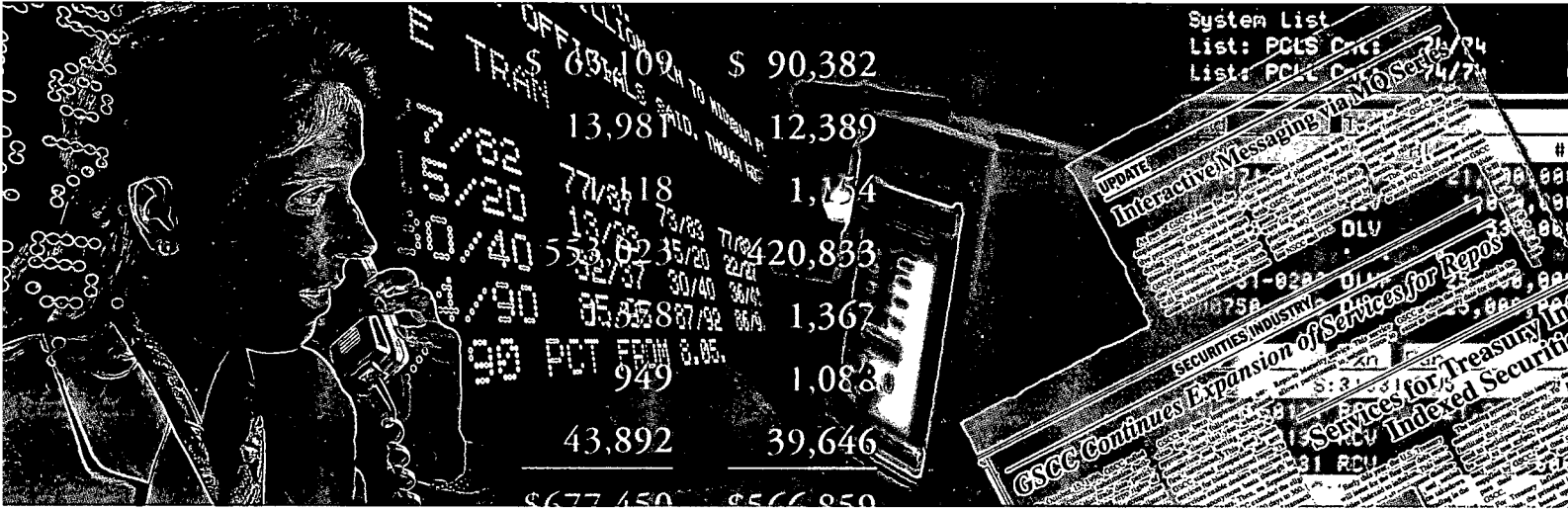
David M. Kelly
Vice Chairman
Government Securities Clearing Corporation



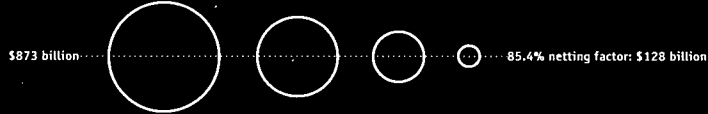
Sal Ricca
President and Chief Operating Officer
Government Securities Clearing Corporation

Growing Participant Base

Bring efficiency	cost savings and	risk management to	post-trade processing
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Effect of Netting on a Peak Volume Day



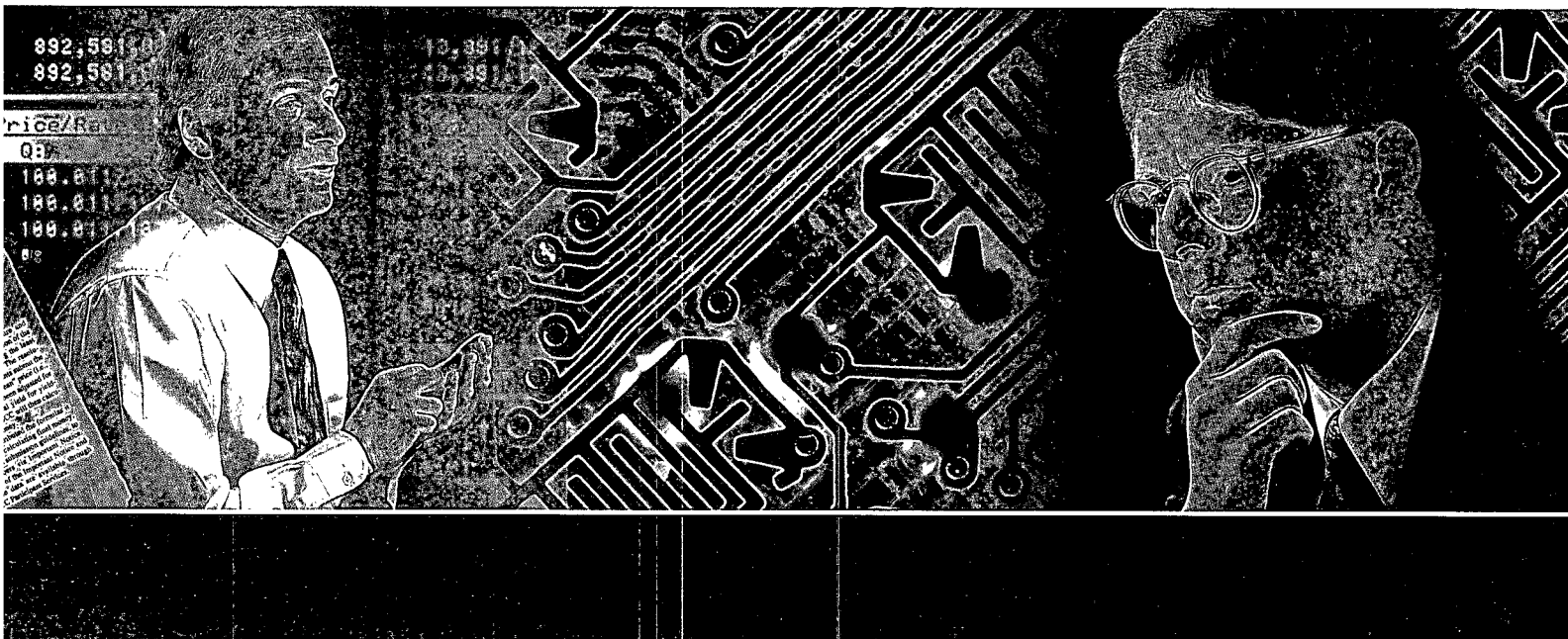
Our netting system mitigates market risk by eliminating four out of five securities and payment obligations.

A Growing Participant Base: Since 1988, a growing list of participants — brokers, dealers, banks and other institutions — has looked to GSCC to bring efficiency, cost savings and risk management to post-trade processing. As we move toward a real-time, interactive environment, GSCC expects to attract still more users due to the increased functionality of our new platform.

Results in 1996 reflected growing marketplace confidence in our capabilities and the impact of new services. The average daily value of U.S. Government securities trades handled by GSCC increased to \$433 billion in 1996, up from \$334 billion in 1995. In just four years, GSCC has more than doubled the dollar value of transactions processed each year, reaching \$108 trillion in 1996. Average daily transaction volume was 37,081, up 12% over last year. Of the more than \$80 trillion that went into netting, \$57 trillion was eliminated from settlement. GSCC's revenues in 1996 rose 10% over the prior year.

When GSCC implemented its core trade comparison system for U.S. Government securities eight years ago, we applied the latest developments in systems technology to the challenges of a marketplace outgrowing its ability to process transactions. Today, GSCC is the premier provider of automated trade comparison, netting and settlement services for next-day cash trades, forward

<i>Provide centralized</i>	<i>trade comparison</i>		
		<i>netting and</i>	<i>settlement services</i>



settling cash trades and repurchase agreements involving U.S. Government securities, as well as of Treasury auction takedown processing, yield-to-price conversion and executing firm processing.

Our trade comparison system receives, confirms and matches specific information on the buy and sell sides of a securities transaction. If all data matches, the comparison generates a binding contract between the two parties and is ready to enter the netting and settlement process.

GSCC's netting and settlement system combines all daily buy/sell, repo and Treasury auction purchase transactions, by individual security, to provide a single net settlement position per firm. We then become the contra party, guaranteeing that the trade will be settled.

GSCC introduced centralized, automated systems for clearing and settling repurchase agreements (repos) in 1995, offering automated netting and guaranteed settlement of the close legs of overnight and term repos, as well as forward repos. With GSCC guaranteeing settlement for all transactions that are netted, participants have the advantage of netting for accounting purposes under FASB Interpretation No. 41, which permits the offsetting of repos and reverse repos.

In 1996, GSCC added comparison and netting services for blind-brokered repos, enabling dealers to execute repos on an anonymous basis through interdealer brokers. And to further expand

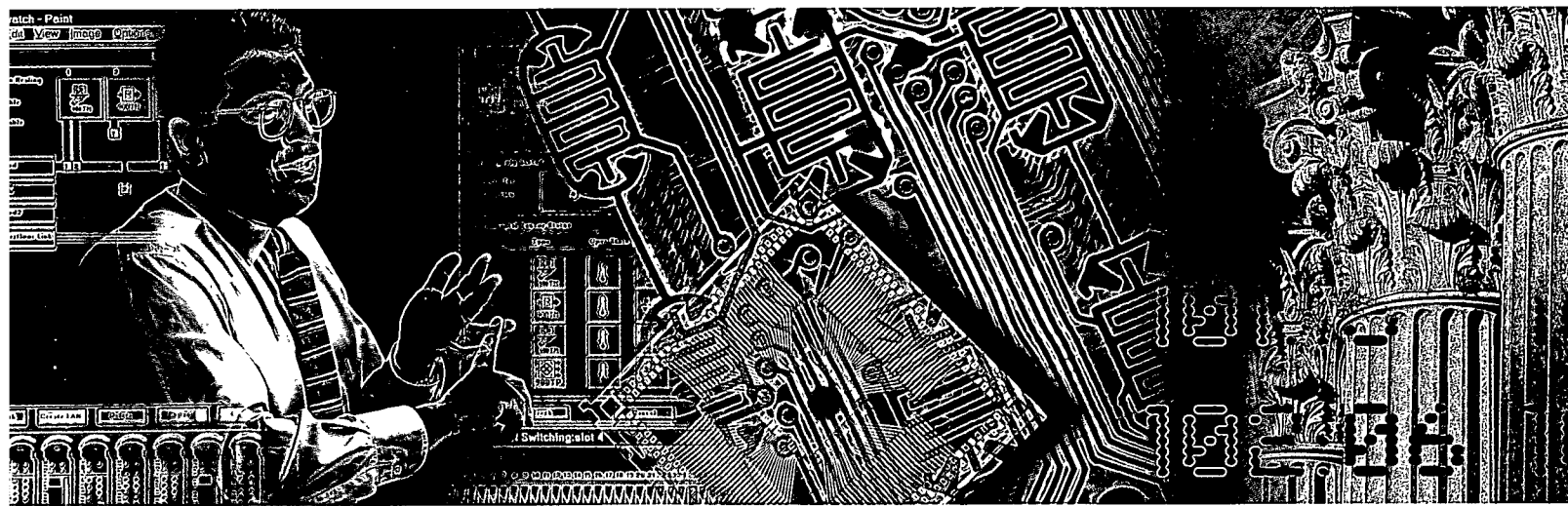
Highly **Reliable** Systems

Enviably record

of reliability

and consistency

of service



Value of Transactions Netted and Settled (Dollars in Trillions)	Year	Value (Dollars in Trillions)
	1996	\$80.3
	1995	\$65.9
	1994	\$63.3
	1993	\$54.4
	1992	\$44.2

Risk management is a priority issue for GSCC, and we utilize a variety of risk-management techniques.

the number and variety of repos eligible for comparison and netting, we implemented services for repo-to-maturity and automated collateral substitution.

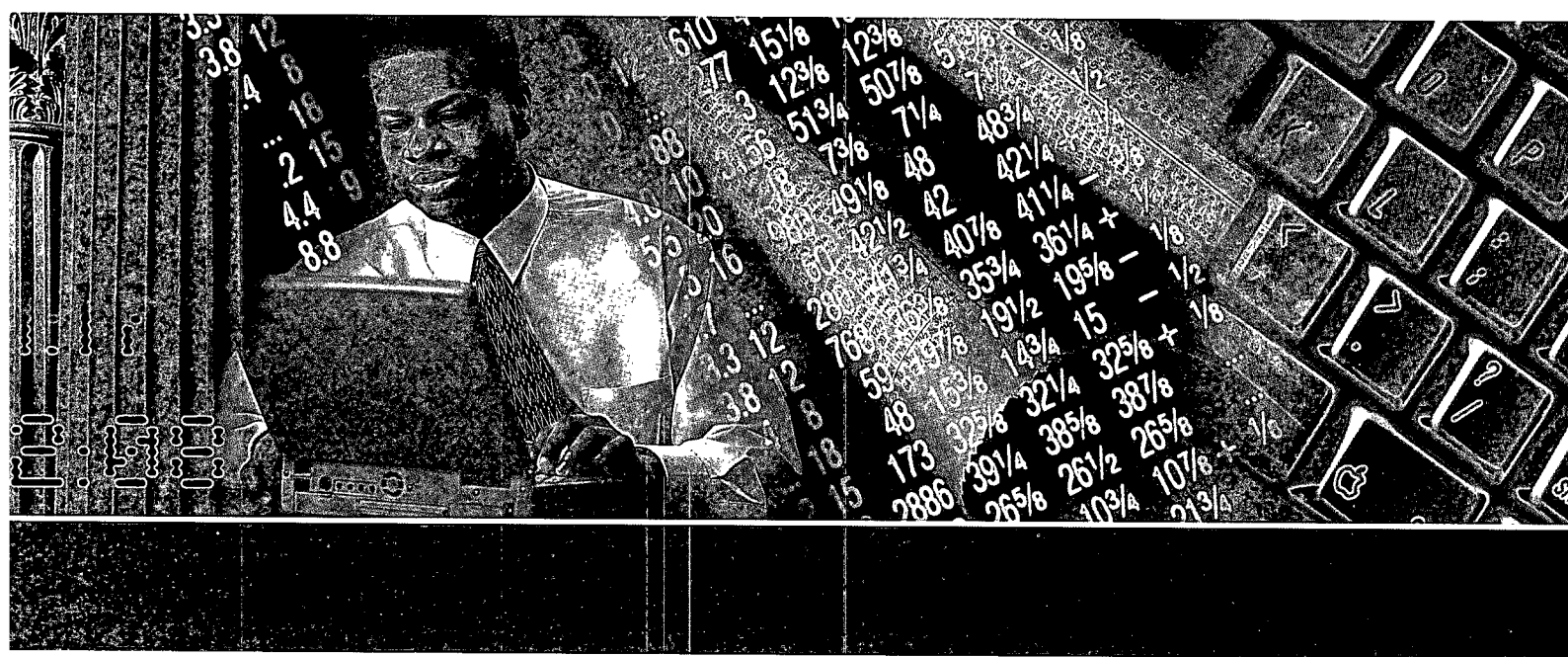
GSCC plans the full and complete automation of all aspects of repo start and close leg processing. Now being developed are systems to handle forward-starting, general collateral repos and open repos, which have no set term, as well as services to attract the buy side of repo transactions.

In 1996, GSCC also developed systems to compare, clear and settle new Treasury Inflation-Indexed Securities, which have a fixed coupon but floating principal. The initial issuance by the Treasury Department was netted and settled through GSCC's auction takedown process early in 1997. Subsequent distributions and secondary trading are also eligible for netting and settlement services.

Risk management is a priority issue for GSCC, and we utilize a variety of risk-management techniques, including:

- multiple membership categories with high minimum financial standards;
- conservative and dynamically calculated margin and collateral requirements;
- a forward-margin procedure that revalues forward-settling cash trades and term repos by marking them daily from contract value to market value; and

<i>Systems</i>	<i>capacity for</i>		
		<i>rising volume</i>	<i>and volatility</i>



– a multi-stage Loss Allocation Procedure that ensures a systemic failure of the settlement process will never occur.

In addition, our netting system mitigates market risk by eliminating four out of five securities and payment obligations on an average daily basis.

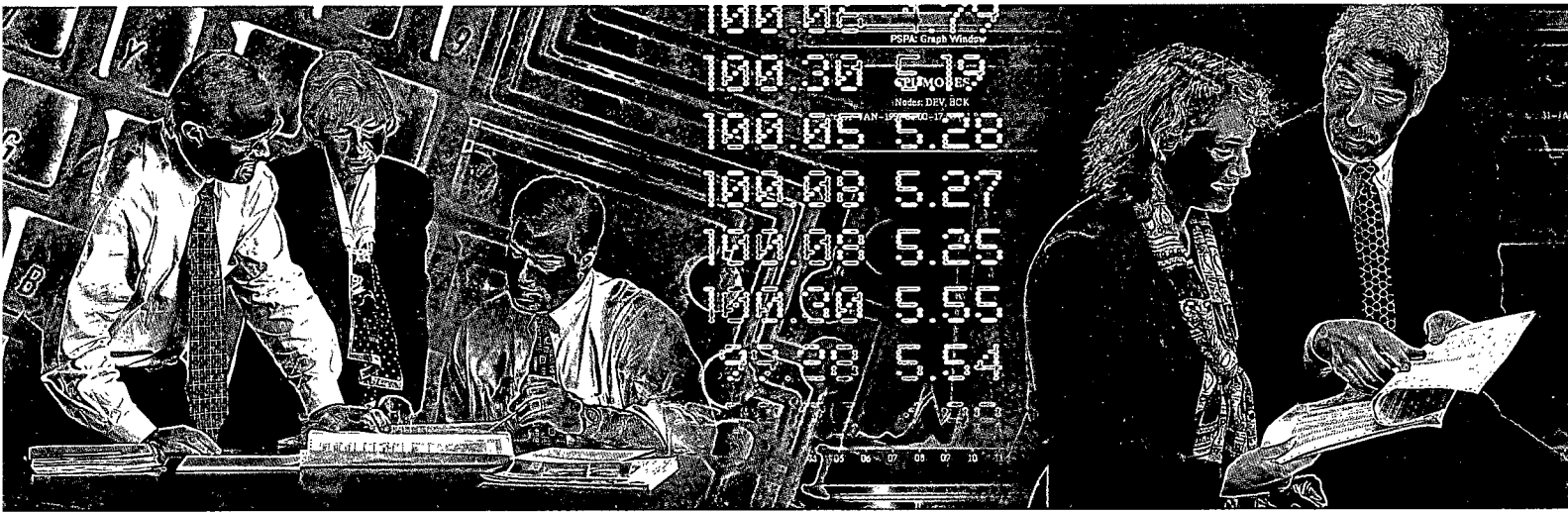
Highly Reliable Systems: GSCC has an enviable record of reliability and consistency of service — eight years without a systems outage. Early on, we recognized that the reliability of our systems affects the entire Government securities industry. Clearing and settlement reliability is key to the confidence broker-dealers and the Treasury Department need to maintain a stable marketplace.

Market participants also demand certainty that GSCC has systems capacity far exceeding the daily average number of transactions processed and can provide dependable processing in times of rising volume accented by striking volatility. GSCC’s capacity has more than doubled since 1988, and we continuously monitor the marketplace and adjust capacity accordingly.

Working with the Securities Industry Automation Corporation (SIAC), our facilities manager, GSCC has in place fail-safe measures that range from emergency backup generators to multiple points

Exceptional Service

<i>Objectives flow</i>	<i>directly from</i>	<i>participants'</i>	<i>business needs</i>
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A Peak Volume Day Compared with Daily Average of Trades Entering the Net

Average daily volume:
28,916 transactions
\$320 billion

Peak volume day:
70,000 transactions
\$873 billion

To provide exceptional service, we must keep development and enhancement of services and products a partnership effort.

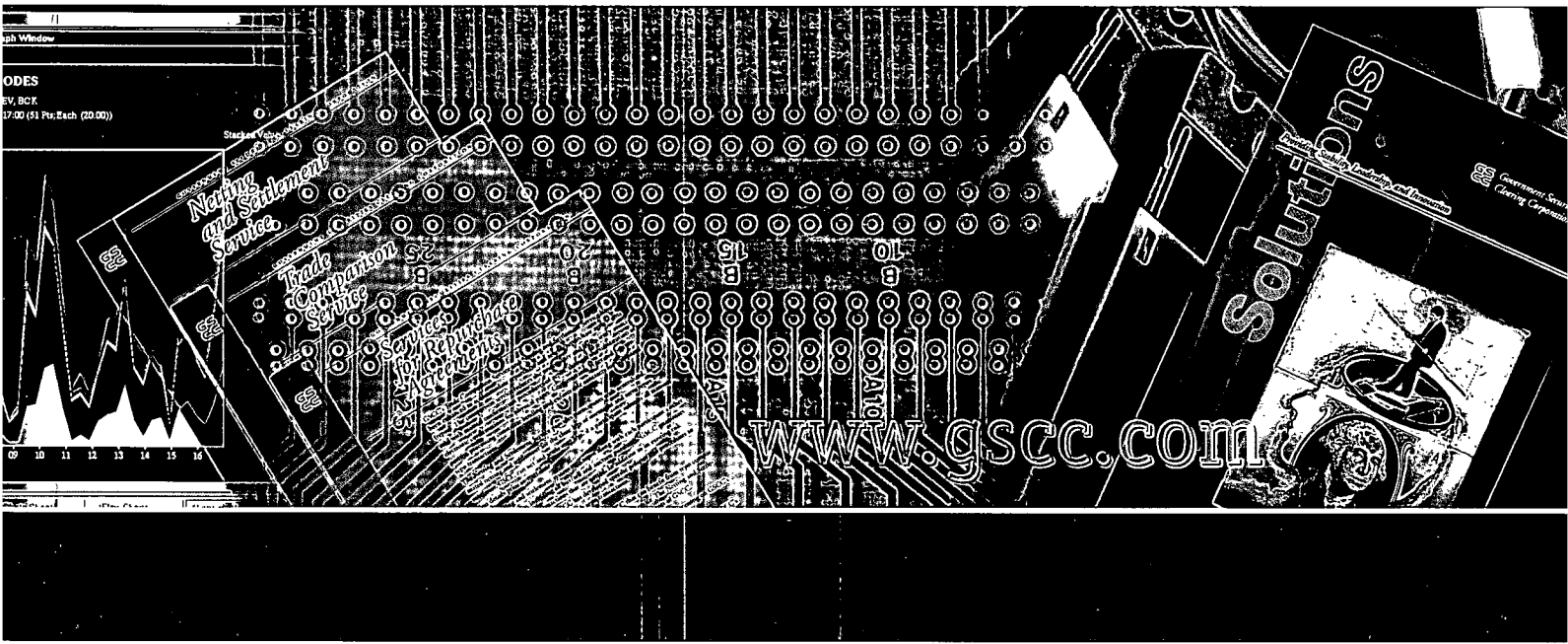
of entry for communications lines. GSCC also maintains geographically separated, dual operating sites that offer full redundancy and avoid a single point of failure.

The real-time interactive processing we are now developing will support the industry's initiative for straight-through processing and enable transactions to settle through GSCC on the same day they are executed. In addition, GSCC will migrate toward standardized message formats, communication protocols and systems interfaces. We also have chosen technology that will provide the flexibility to handle batch and multi-batch processing along with interactive.

We plan to introduce a Web-based user interface to provide a single, easily expandable entryway into GSCC. Initially, participants will use this Web-based portal to submit and modify trade data, track trade status and access reports and other information on-line. As the service evolves, it will provide a complete repository of on-line information, including reference materials, as well as allow participant-driven *ad hoc* reporting capabilities and other analytical tools.

Exceptional Service: Because our customers are also our shareholders, GSCC's objectives flow directly from their business requirements. This close relationship requires a level of customer service that

<i>Development</i>	<i>of services</i>	<i>in partnership</i>	<i>with participants</i>
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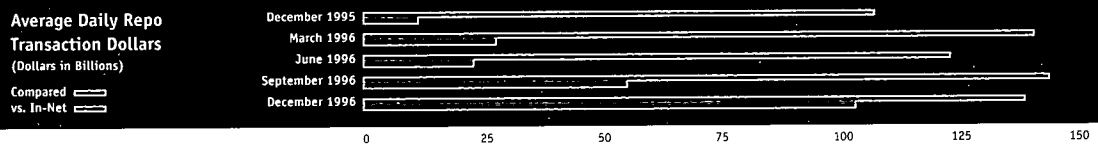
goes well beyond responding to inquiries promptly or finding practical solutions to day-to-day operational issues. To provide extraordinary service, we must make the development and enhancement of services or products a partnership effort with our participants.

The white paper recently sent to participants, soliciting their views on the direction of our on-line, interactive systems and platform, is but one example of the strong communications links between GSCC and our members. We will form an Implementation Committee composed of member representatives to help develop systems and business requirements necessary to implement these changes. Our Participant Services Representatives are a critical conduit for communication between members and GSCC. We also benefit from the first-hand experience of our Board of Directors, which consists of representatives from dealers, brokers and clearing agent banks involved in U.S. Government securities. Our people meet regularly with user and advisory groups and participate in many industry forums.

Participants seek input from GSCC as well. We frequently consult on new in-house systems and vendors and work with participants to test communications lines. As we make the complex move to interactive processing, we plan extensive analysis of our participants' existing systems, helping

Building for Tomorrow

<i>Real-time</i>	<i>on-line</i>		
		<i>interactive</i>	<i>communications</i>



GSCC is realizing a broader goal — to facilitate industry expansion in a worldwide, around-the-clock marketplace.

them to upgrade, where necessary, for real-time communication.

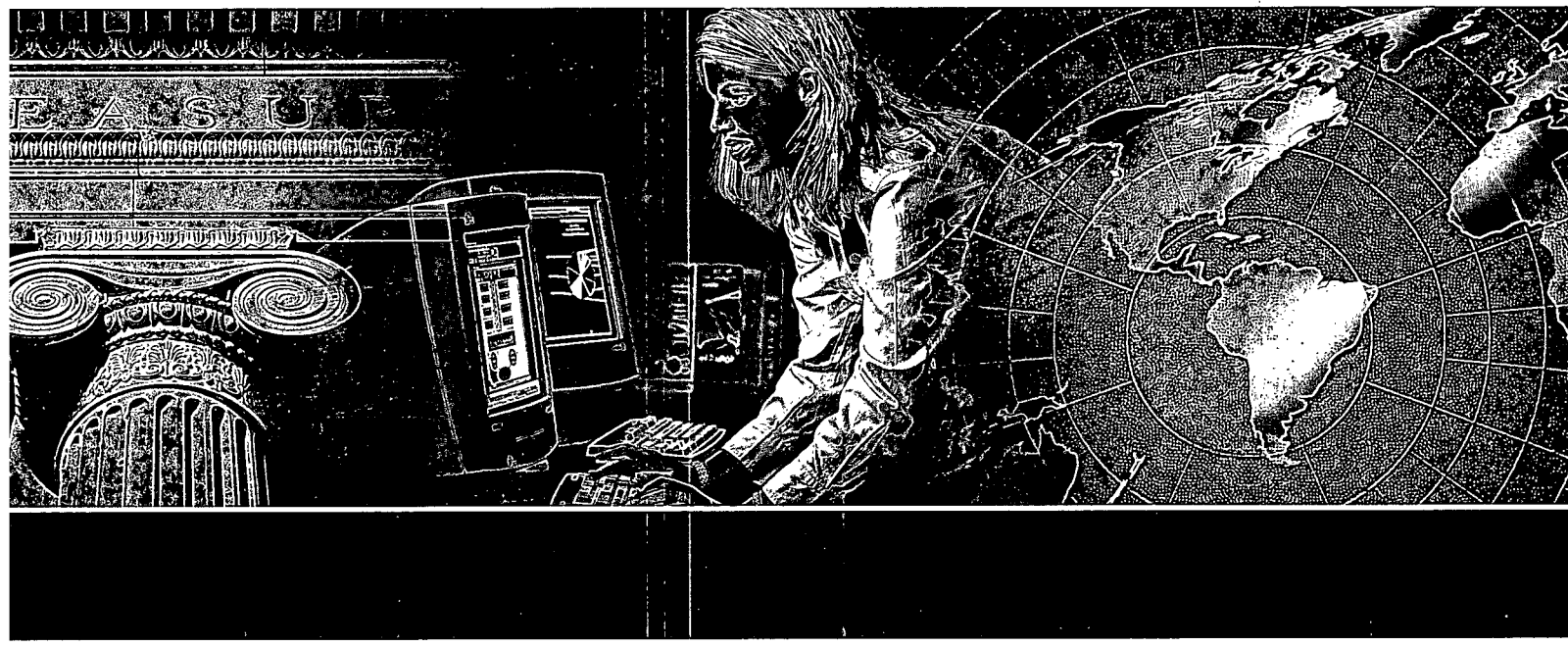
A central element in GSCC's participant services program is training. Offered in-house and on-site, our training programs bring members up-to-speed on new services and review existing services so that turnover in participant staff does not affect the quality of clearance and settlement. Recently, GSCC has offered a "refresher" course in basic comparison and netting for hands-on users.

A growing link between participants and GSCC is our Web site, found at www.gsc.com. Important notices, participant and contact lists, articles on technology and news about GSCC are now instantly available, and other frequently requested information is quickly being added. Since the site became available in early 1997, it has had more than 1,000 hits per day.

Building For Tomorrow: Our post-trade processing systems must keep pace with the external environment in which our participants operate. The U.S. Government securities market is growing rapidly in dollar value and number of trades. Trading hours and FedWire settlement hours are increasing.

GSCC's response to this growth is to develop real-time, interactive processing. The solutions we have chosen offer enormous efficiencies to our participants. Capturing all trades intra-day,

<i>Straight-through</i>	<i>processing and</i>	<i>same-day settlement</i>	<i>of transactions</i>
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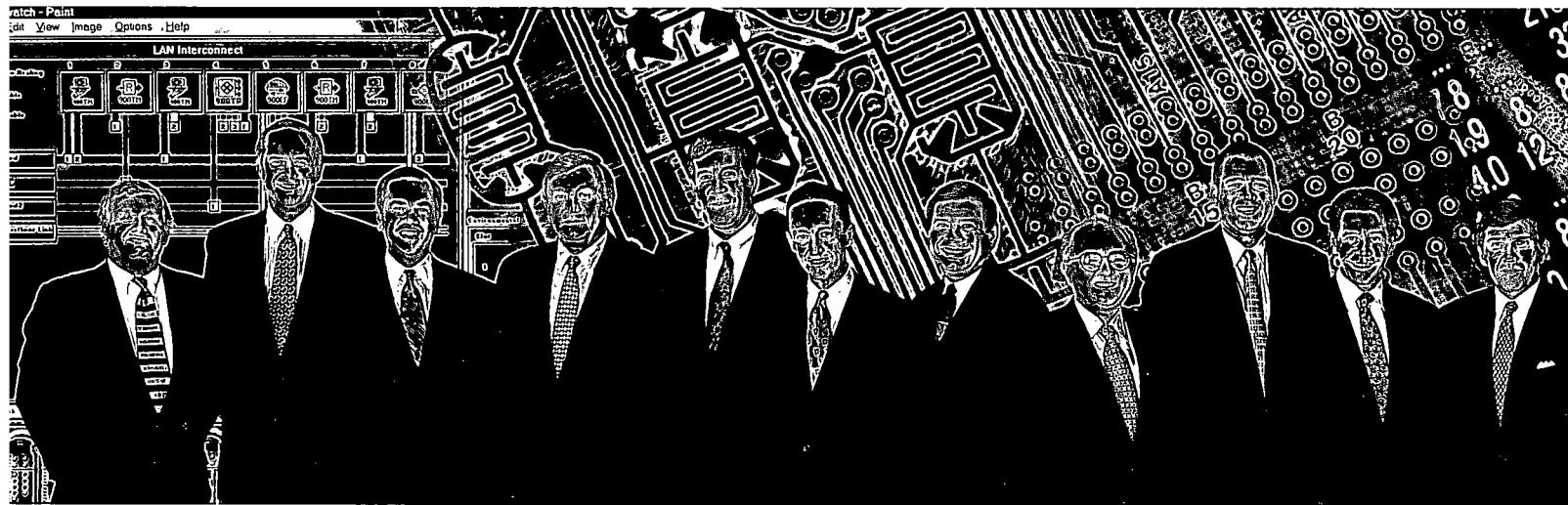
comparing all trades by end of day and establishing a platform for straight-through processing offers more rapid resolution of differences, reconciliation that doesn't delay settlement, and both interactive, message-based communications and continued batch support.

With full automation of clearing bank links, intra-day trading that generates settlement instructions and dynamic netting and settlement, our participants can take advantage of same-day netting and settlement, automatic offset of net positions with intra-day settlement activity and delivery directed to participants' own clearing banks.

Real-time, interactive processing will bring risk management benefits — dynamic calculation of exposures, more frequent collection of margin to cover exposures, realization of netting benefits interactively and immediate guarantees of all net-eligible trades.

GSCC's objectives have always been to bring efficiency, cost-saving and risk management benefits to our members. By rethinking our communications link with our participants, reengineering our platform and fostering constant contact with market participants, GSCC is realizing an even broader goal — to facilitate the U.S. Government securities industry's expansion in a worldwide, around-the-clock marketplace.

GSCC Board of Directors



S.R. Tilton E. Payne E. Almeida D.M. Kelly W. Molloy T. Ford R.M. Kijewski J.R. LaBato P.J. Murray E.F. Watts, Jr. S. Ricca

GSCC ensures the timely, accurate and cost-efficient completion of transactions for more than 100 member firms.

from left to right:

Stephen R. Tilton
President
Garban LLC.

Edwin Payne
Chairman and CEO
Liberty Brokerage
Investment Corporation

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

David M. Kelly
Vice Chairman, GSCC
President and CEO
National Securities
Clearing Corporation

William Molloy
Managing Director
Morgan Stanley & Co.
Incorporated

Thomas Ford
Senior Vice President
Bank of New York

Richard M. Kijewski
Vice President
Nesbitt Burns Securities
Inc.

Joseph R. LaBato
Managing Director
The Chase Manhattan Bank

Peter J. Murray
Director
CS First Boston
Corporation

Edward F. Watts, Jr.
Chairman of the Board
Government Securities
Clearing Corporation
Executive Director
Goldman, Sachs & Co.

Sal Ricca
President & COO
Government Securities
Clearing Corporation

Daniel O. Minerva
Co-President, Co-CEO
Eastbridge Capital Inc.

James Malgieri
Managing Director
Cantor Fitzgerald
Securities

Mark Alexander
First Vice President
Merrill Lynch Government
Securities Inc.

Balance Sheets

Government Securities Clearing Corporation

December 31, (in thousands)	1996	1995
Assets		
Cash and cash equivalents	\$ 80,457	\$ 63,109
Investments in marketable securities	15,950	13,981
Accounts receivable	1,387	1,118
Clearing fund	1,217,591	553,023
Fixed assets, net of accumulated amortization and depreciation of \$7,258,000 and \$6,408,000 at December 31, 1996 and 1995, respectively	2,132	1,378
Other assets	1,620	959
Total assets	\$ 1,319,137	\$ 633,568
Liabilities and Shareholders' Equity		
Liabilities		
Cash margin deposits	\$ —	\$ 10,724
Clearing fund		
Participants' cash deposits	80,488	53,140
Other participant deposits	1,217,591	553,023
Other liabilities	3,968	2,094
Total liabilities	1,302,047	618,981
Commitments and contingent liabilities (Note 7)		
Shareholders' equity		
Common stock		
Class A, \$.50 par value: 75,000 shares authorized, 20,100 shares issued and outstanding at December 31, 1996 and 1995	10	10
Class B, \$.50 par value: 30,000 shares authorized, 7,400 shares issued and outstanding at December 31, 1996 and 1995	4	4
Capital in excess of par	12,336	12,336
Retained earnings	4,740	2,237
Total shareholders' equity	17,090	14,587
Total liabilities and shareholders' equity	\$ 1,319,137	\$ 633,568

The accompanying notes are an integral part of these statements.

Statements of Income and Retained Earnings

Government Securities Clearing Corporation

For the Year Ended December 31, (in thousands)	1996	1995
Revenues:		
Revenue from comparison, netting, settlement and related services	\$ 16,419	\$ 14,611
Discounts to participants	1,110	710
Net revenues from services	15,309	13,901
Interest income	3,920	3,638
Total revenues	19,229	17,539
Expenses:		
Computer equipment depreciation, licenses, software amortization, processing and maintenance costs	7,521	6,333
Employee compensation and related benefits	5,355	4,060
General and administrative expenses	1,963	1,245
Occupancy costs	337	230
Professional fees	143	185
Total expenses	15,319	12,053
Income before income taxes	3,910	5,486
Provision for income taxes	1,407	2,068
Net income	2,503	3,418
Retained earnings (accumulated deficit), beginning of year	2,237	(1,181)
Retained earnings, end of year	\$ 4,740	\$ 2,237

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

Government Securities Clearing Corporation

<i>For the Year Ended December 31, (in thousands)</i>	1996	1995
Cash flows from operating activities:		
Net income	\$ 2,503	\$ 3,418
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization and depreciation of fixed assets	850	800
Accretion of discount on securities owned, net of premium amortized	(33)	(160)
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	(269)	36
(Increase) decrease in other assets	(661)	129
Decrease in cash margin deposits	(10,724)	(35,198)
Increase in participants' cash deposits	27,348	5,642
Increase in other liabilities	1,874	153
Net cash provided by (used in) operating activities	20,888	(25,180)
Cash flows from investing activities:		
Maturity of investments in marketable securities	7,000	5,500
Purchases of investments in marketable securities	(8,936)	(6,932)
Purchases of fixed assets	(1,604)	(811)
Net cash used in investing activities	(3,540)	(2,243)
Cash flows from financing activity:		
Proceeds from issuance of Class A common stock	—	150
Net increase (decrease) in cash and cash equivalents	17,348	(27,273)
Cash and cash equivalents, beginning of year	63,109	90,382
Cash and cash equivalents, end of year	\$ 80,457	\$ 63,109
Supplementary disclosures:		
Interest paid	\$ 3	\$ 2
Income taxes paid	\$ 1,405	\$ 1,906

The accompanying notes are an integral part of these statements.

Note 1
Organization and Operations

Government Securities Clearing Corporation (GSCC), a clearing agency registered with the Securities and Exchange Commission, provides automated trade comparison, netting and settlement services for U.S. Government securities and related repurchase transactions for brokers, dealers, banks and other market participants.

Note 2
Summary of Significant Accounting Policies

Cash equivalents: GSCC invests in overnight reverse repurchase agreements which are considered cash equivalents. Such agreements provide for GSCC's delivery of cash in exchange for securities having a market value of at least 102% of the amount of the agreement. An independent custodian designated by GSCC takes possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$80,028,000 and \$62,988,000 at December 31, 1996 and 1995, respectively. At December 31, 1996, two financial institutions were counterparties to these agreements.

Investments in marketable securities: These investments, which include U.S. Treasury securities and investment grade corporate notes, are recorded at amortized cost and are considered to be held-to-maturity securities as GSCC has both the positive intent and ability to hold these securities to maturity. The contractual maturities, carrying value and market value of these securities at December 31, 1996 and 1995, are as follows:

Carrying Value (in thousands)			
	U.S. Treasury Securities	Corporate Notes	Total
1996			
Due in one year or less	\$ 5,996	\$1,000	\$ 6,996
Due in one to two years	7,954	1,000	8,954
Total	\$13,950	\$2,000	\$15,950
1995			
Due in one year or less	\$ 6,987	\$ —	\$ 6,987
Due in one to two years	5,994	1,000	6,994
Total	\$ 12,981	\$ 1,000	\$ 13,981

Market Value (in thousands)			
	U.S. Treasury Securities	Corporate Notes	Total
1996			
Due in one year or less	\$ 6,011	\$1,006	\$ 7,017
Due in one to two years	7,947	998	8,945
Total	\$13,958	\$2,004	\$15,962
1995			
Due in one year or less	\$ 7,001	\$ —	\$ 7,001
Due in one to two years	6,068	1,018	7,086
Total	\$ 13,069	\$ 1,018	\$ 14,087

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

Income taxes: Deferred tax assets and liabilities are provided for the expected future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities. Deferred tax assets relate principally to depreciation and employee benefit costs.

Fixed Assets: These assets consist primarily of computer equipment which is being depreciated over a three-year period and purchased computer software which is being amortized over a five-year period.

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

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

Note 3
Participant Clearing Fund Deposits

GSCC's rules require certain participants to maintain minimum clearing fund deposits based upon calculated requirements which, at December 31, 1996 and 1995, were \$1,038,212,000 and \$402,790,000, respectively. All participant deposits made to the clearing fund are available to secure participant obligations and, in certain circumstances, to satisfy other losses and liabilities of GSCC, should they occur.

A summary of clearing fund deposits held at December 31, 1996 and 1995, follows:

	1996	1995
Cash	\$ 80,488,000	\$ 53,140,000
U.S. Treasury and book entry non-mortgage-backed agency securities, at market	1,072,884,000	450,430,000
Letters of credit issued by authorized banks	144,707,000	102,593,000
Total deposits	\$1,298,079,000	\$606,163,000

Note 4
Transactions with Related Parties

National Securities Clearing Corporation (NSCC), a minority shareholder of GSCC, provides various computer and other support services and office facilities to GSCC. The costs of providing these services are charged to GSCC in accordance with the provisions of a service agreement. The agreement continues in effect unless cancelled by either party upon prior written notice. Charges to GSCC pursuant to this agreement during 1996 and 1995 totaled approximately \$3,982,000 and \$3,217,000, respectively. Amounts payable to NSCC at December 31, 1996 and 1995 were \$36,000 and \$148,000, respectively.

GSCC is contingently liable, under a service agreement, for a portion of NSCC's office lease which expires on December 31, 2012. At December 31, 1996, the contingent commitment of GSCC totals approximately \$3,250,000.

Note 5
Income Taxes

GSCC files Federal, New York State and New York City income tax returns. The differences between the 34% Federal statutory rate and GSCC's 36% and 38% effective tax rates for the years ended December 31, 1996 and 1995, respectively, are primarily attributed to state and local taxes.

The provision for income taxes for the years ended December 31, 1996 and 1995 consists of the following:

	1996	1995
Current income taxes	\$1,423,000	\$1,603,000
Deferred income taxes	(16,000)	465,000
Total income taxes	\$1,407,000	\$2,068,000

Note 6
Post-Retirement Benefit Plans

All eligible employees of GSCC participate in NSCC's trustee, non-contributory defined benefit pension plan. In addition, GSCC also participates in NSCC's noncontributory supplemental executive retirement and benefit restoration plans which provide for certain benefits to identified executives of GSCC upon retirement. Further, GSCC also participates in NSCC's life insurance program which provides payment of death benefits to beneficiaries of eligible retired employees and NSCC's health insurance program which provides benefits to eligible retired employees. In 1996, costs for these plans aggregated \$319,000 and were determined based upon an actuarial calculation using information related to all eligible GSCC employees. Disclosure of post-retirement benefit obligations, expense components and actuarial assumptions for the NSCC plans are included in NSCC's 1996 financial statements.

Note 7
Commitments and Contingent Liabilities

GSCC's netting system interposes GSCC between netting participants for eligible trades that have been guaranteed. The guarantee of net settlement positions by GSCC results in potential liability to GSCC. Guaranteed positions that have not yet settled are margined and marked-to-market daily. Margin deposits are held by GSCC; marks are debited from and credited to the responsible participants through the funds-only settlement process. At December 31, 1996, the gross amount of guaranteed positions due from certain participants to GSCC approximated \$30,356,326,000; there is an equal amount due from GSCC to certain other participants.

In 1996, the Board of Directors of GSCC approved a resolution related to the retirement of the class B shares. This resolution provides that, when the shareholders' equity of GSCC totals at least \$18,700,000, GSCC will, subject to the Board's review of GSCC's financial condition, repurchase the outstanding class B shares at their original cost of \$500 a share. The repurchase will reduce shareholders' equity by \$3,700,000.

Note 8

Off-Balance-Sheet Risk and Concentrations of Credit Risk

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

If a participant fails to fulfill its settlement obligations to GSCC, and GSCC determines that such participant is insolvent, GSCC would liquidate that participant's netted security positions and apply the failed participant's margin and mark deposits, including clearing fund deposits, to satisfy any outstanding obligation and/or loss. GSCC has entered into a limited cross-guaranty

agreement separately with NSCC, International Securities Clearing Corporation and MBS Clearing Corporation under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that these agencies have excess resources belonging to the defaulting participant.

In the event that a deficiency still exists, GSCC would satisfy the deficiency by assessing the participants with whom the defaulting participant most recently conducted trading activity. If one or more of such participants does not pay its assessment, GSCC would satisfy such deficiency by utilizing 25% of its retained earnings, or such greater amount of retained earnings to be determined by the Board of Directors. Thereafter, if necessary, each remaining participant would be assessed on an equal basis up to \$50,000. Finally, if a deficiency still remains, GSCC would assess all remaining participants on a pro-rata basis based upon their average daily level of required clearing fund deposits over the prior year; however, any such remaining participant may limit its liability to the amount of its required clearing fund deposit by terminating its membership in GSCC.

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

Report of Independent Accountants

Price Waterhouse LLP



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

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of Government Securities Clearing Corporation at December 31, 1996 and 1995, and the results of its operations and its 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, NY
February 14, 1997

Management's Report on Responsibility for Internal Control Over Financial Reporting

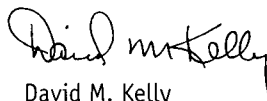
Government Securities Clearing Corporation

February 14, 1997

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

Government Securities Clearing Corporation (GSCC) 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.

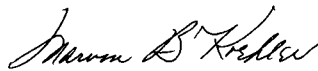
GSCC's management assessed its internal control over financial reporting as of December 31, 1996, in relation to criteria for effective internal control described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, GSCC believes that, as of December 31, 1996, its system of internal control over financial reporting met those criteria.



David M. Kelly
Vice Chairman & Chief Executive Officer



Sal Ricca
President & Chief Operating Officer



Marvin B. Koehler
Treasurer

Report of Independent Accountants on Internal Control Over Financial Reporting

Price Waterhouse LLP



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

We have examined management's assertion that Government Securities Clearing Corporation (GSCC) maintained effective internal control over financial reporting as of December 31, 1996 which is included in the accompanying Management's Report on Responsibility for Internal Control Over 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 over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, 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, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control 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 GSCC maintained effective internal control over financial reporting as of December 31, 1996 is fairly stated, in all material respects, based upon criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.



New York, NY
February 14, 1997

Comparison & Netting Participants

Government Securities Clearing Corporation

Brokers

EXCO RMJ Securities Corp.
Hilliard Farber & Co., Inc.
Liberty Brokerage Inc.
Garban LLC.
Tullett & Tokyo Securities, Inc.
Cantor Fitzgerald Securities[°]
Euro Brokers MAXCOR Inc.
EXCO RMJ Securities Corp./Repos[°]
Liberty Brokerage Inc./Repos[°]
Garban LLC./Repos[°]
Tradition (Government Securities) Inc.[°]
Tullett & Tokyo Securities, Inc./Repos[°]
C.F. Kross[°]
GFI Group Inc.[°]
Prebon Securities (USA) Inc.[°]
Euro Brokers MAXCOR Inc./Repos[°]

Dealers

BancAmerica Securities, Inc.[°]
Bankers Trust Company*†
Bear, Stearns & Co., Inc.†
HSBC Securities, Inc.[°]
Chase Securities, Inc.†
Citibank, N.A.[°]
NationsBank, N.A./Dealer
Refco Securities, Inc.[°]
NationsBanc Capital Markets, Inc.[°]
Daiwa Securities America Inc.[°]
Dean Witter Reynolds Inc.[°]
Dillon Read & Co. Inc.[°]
Zions First National Bank - Capital Markets[°]
Donaldson, Lufkin & Jenrette Securities Corporation
Spear, Leeds & Kellogg[°]
Eastbridge Capital Inc.[°]
Credit Suisse First Boston Corporation[°]
Charles Schwab & Co., Inc.*
The First National Bank of Chicago*†
Goldman, Sachs & Co.[°]
Greenwich Capital Markets, Inc.[°]
Nesbitt Burns Securities Inc.†
Morgan Keegan & Co., Inc.*
Fuji Securities Inc.[°]
NationsBank, N.A./Corporate Investments
Lehman Brothers Inc.[°]
Merrill Lynch Government Securities Inc.[°]
J.P. Morgan Securities Inc.[°]
Morgan Stanley & Co. Incorporated[°]
Wheat, First Securities, Inc.*
The Nikko Securities Co. Int'l, Inc.†
Nomura Securities International, Inc.†
Alex. Brown & Sons Incorporated†
PaineWebber Incorporated[°]
Prudential Securities Incorporated[°]
Sanwa Securities (USA) Co., L.P.[°]

Salomon Brothers Inc[°]
Raymond James Associates, Inc.*
Smith Barney Inc./Dealer[°]
SBC Warburg Inc.[°]
National Financial Services Corp.*
UBS Securities LLC.[°]
Cowen & Co.*
Yamaichi Int'l (America), Inc.[°]
BZW Securities Inc.[°]
BT Securities Corporation†
Citicorp Securities, Inc.[°]
Scotia Capital Markets (USA) Inc./Dealer[°]
Oppenheimer & Co., Inc.[°]
Deutsche Morgan Grenfell Inc.[°]
First Chicago Capital Markets, Inc.†
Dresdner Kleinwort Benson North America LLC.[°]
Merrill Lynch Pierce, Fenner & Smith, Inc.*
Federal Home Loan Mortgage Corporation
Internationale Nederlanden (U.S.) Securities Corporation*
Long-Term Capital Portfolio, L.P.*
Daiwa Securities America Inc./Oddlot[°]
CIBC Wood Gundy Securities Corp.
E D & F Man International Inc.*
ABN AMRO Chicago Corporation†
Pershing Division of Donaldson Lufkin & Jenrette*
Tokai Securities, Inc.[°]
Tokyo-Mitsubishi Securities (USA), Inc.*†
Langdon P. Cook Government Securities Inc.*†
David Lerner Associates, Inc.*
BHC Securities, Inc.*
Everen Clearing Corp.*
Stifel, Nicolaus & Company Incorporated*
Interra Clearing Services Inc.*
Smith Barney Inc./Retail
Scotia Capital Markets (USA) Inc./CCS
Piper Jaffray Inc.*
The Chicago Corporation†
Paribas Corporation†
Lazard Freres & Co., LLC.
The Bank of New York
Legg Mason Wood Walker, Inc.*
Sumitomo Bank Securities, Inc.*†
State Street Bank & Trust Company
Bear, Stearns Securities Corp.*
International Bank for Reconstruction & Development*
Nomura International plc*
International Development Association*
U.S. Clearing Corp.
Rosenthal-Collins Group[°]
Fuji Capital Markets Corporation
International Finance Corporation*
Edward D. Jones & Co.*

* Comparison-Only Participant

[°] Repo Netting

† Repo Comparison



<i>Government</i>	<i>Securities</i>	<i>Clearing</i>	<i>Corporation</i>
<i>55 Water Street</i>	<i>New York, New York</i>	<i>10041</i>	<i>212 412-8400</i>