For example, Commission Settlement, an easy-to-use product that standardizes and automates the payment of sales commissions, gained steady acceptance in 1999, handling over 43 million commission payments—more than double the prior period. The value of these payments reached $2.3 billion.

As interest in mutual funds continues to grow, mutual fund companies have increasingly looked to expand their distribution channels. Licensed financial planners, independent broker/dealers and smaller banks have emerged as major sources of mutual fund sales. However, the manual procedures that these organizations typically employ to administer orders drive up industry processing costs. To serve this sector, the clearing corporation is exploring new ways to deliver its value-added services.

One alternative is through a new affiliate established in 1999: the Mutual Fund Processing Corporation (MFPC). While fund companies are eager for the business generated by a network of over 150,000 financial planners, they are not eager to deal with the mountains of paperwork, fax messages and clerical time currently involved in processing applications and maintaining accounts. MFPC will offer a Web-based platform to automate mutual fund processing for the thousands of financial planners selling mutual funds, consequently holding down expenses associated with servicing this distribution channel.

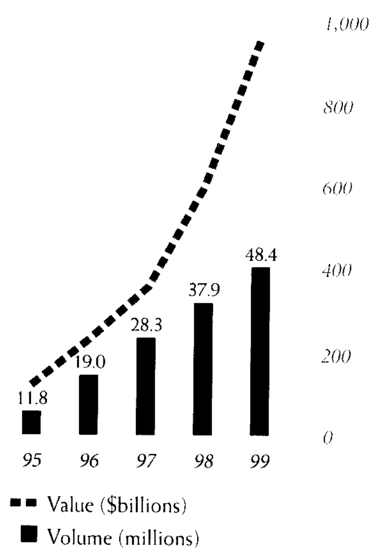
For financial planners, the MFPC's Web-based service will also provide the same broad access to mutual fund companies available to other distributors through Fund/SERV. Planners will have whole families of fund data at their fingertips to serve their clients. For the fund companies, the new processing corporation offers an inexpensive way to automate sales and maintain a competitive edge.

In addition to serving the investment community in the United States, DTCC recognizes the growing opportunities that extend beyond national borders. Globally, mutual funds assets now stand well above $8 trillion and continue to climb. In Italy alone, $35 billion poured into mutual funds in 1998, and in Spain the total was more than $10 billion. Cross-border sales of mutual funds across the European Union are booming, and new tax laws are expected to encourage even stronger growth. However, for many fund companies, setting up distribution networks and automating the processing of fund orders remain a challenge.

DTCC has begun to examine the feasibility, issues and opportunities associated with expanding its mutual fund product line into overseas markets. This activity reflects the expanding interest of investors in pursuing mutual fund investments as well as equity investments in the UK, Europe and other maturing markets.

We are confident that based on our experience—and the power of our ideas—we can bring greater efficiency and connectivity to help U.S. companies who wish to distribute funds overseas and among overseas companies seeking to expand their distribution channels cross-border.

Fund/SERV Activity



Sales of annuities and life insurance products in the United States continued to expand during 1999, reflecting the growing desire of baby boomers to save for retirement and protect their families. Insurance company variable annuity sales alone exceeded $134 billion during the year, and life insurance sales topped $250 billion.

This sales growth for insurance carriers filters through a diverse distribution channel of some 4,000 banks, hundreds of broker/dealers, thousands of independent insurance agents and an army of certified financial planners. The repeal in 1999 of depression-era prohibitions on the merger of banking, brokerage and insurance activities is likely to prompt the entry of additional distributors, even as online insurance sales open yet another distribution route via the Internet.

In this competitive and expanding market, processing and distribution costs remain high. It's estimated that in the overall $500 billion U.S. insurance market, 20¢ of every insurance dollar is spent on administration and distribution.

Working closely with insurance carriers, **IPS** has **automated the processing** of policy applications and premiums as well as the distribution of commissions.

To help the industry rationalize and hold down its processing costs, the clearing corporation, late in 1997, launched a new business: Insurance Processing Services (IPS). Initially, the business was focused on the processing of variable annuities—a task that historically lacked standardization and was manually intensive. In 1999, the business was broadened substantially to include life insurance products, particularly variable life products, which the industry identified as having similar processing requirements.

Working closely with insurance carriers, IPS has automated the processing of policy applications and premiums as well as the distribution of commissions, eliminating a virtual mountain of paperwork. IPS also provides timely account status reports and valuations of underlying investments.

During 1999, IPS processed 79 million position records, up 79%, and 6 million pricing records, up more than six-fold over last year's volume. Commissions settled in 1999 reached almost $223 million compared with $61 million in 1998, representing 1.8 million and 821,000 transactions respectively.

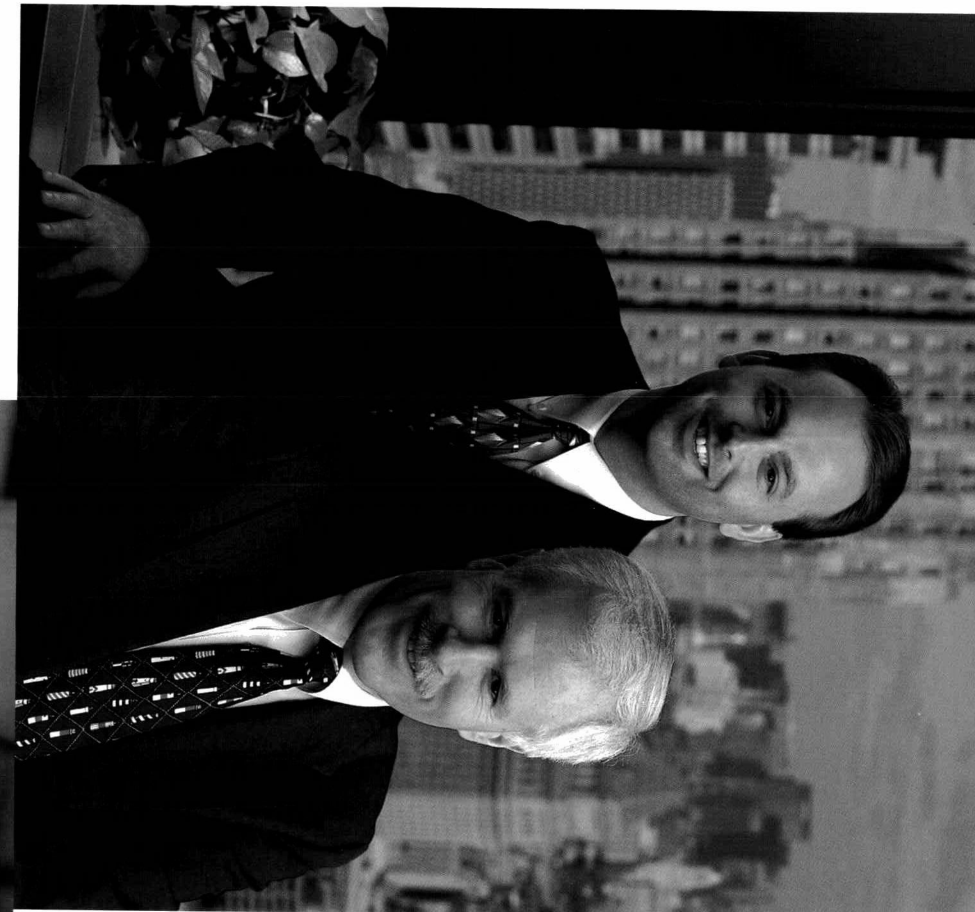
By year-end 1999, the business was maintaining 230 trading relationships—up from 37 the year before—for 11 service providers, 37 broker/dealer distributors, and 27 insurance carriers. Insurance carriers using IPS sell and service about 75% percent of the variable life insurance business in the United States.

During 1999, IPS continued its effort to "mainstream" insurance products. By making insurance product valuations and information available on the broker/planner's desktop workstation as well as timely updates on the statements sent to clients, IPS has added value to both the carrier and its distributor. The timely payment of commissions, coupled with the speed of processing through IPS, also make insurance a more attractive and competitive financial product to sell.

Another initiative begun in 1999, in conjunction with an industry advisory group, is an effort to establish an electronic exchange between distributors and insurance carriers covering critical data on licensing and insurance agent appointments in all 50 states.

While IPS has only begun to grow in the U.S. market, consolidation of financial service organizations globally may create a window for IPS to expand its processing business and eventually bring its cost-saving efficiencies to the global market.

Elizabeth M. Forget Vice President, Equitable Life Assurance Society of the U.S.



Michael Hicks Vice President & Chief Information Officer, Lincoln Life Annuities (L)
Brendan D. Boyle Senior Vice President, Private Client Group, PaineWebber Incorporated

"Discovery consists of seeing what everybody has seen and thinking what nobody has thought."

Christopher Columbus

The Admiral who changed the world

In his first voyage across the Atlantic, the Italian sailor with the Spanish charter kept two sets of journals. In one, Admiral Christopher Columbus recorded the distance traveled each day. In the other, he wrote down much smaller numbers so that his crew would not be frightened by how far they had sailed. He was a man of vision; they were not.

We don't know if Carthaginian sailors or St. Brendan or Japanese fishermen ever reached North America. We do know that Norse navigators arrived. But none of these landfalls meant anything until Columbus set foot on an island in the Caribbean. No, he was not the first. He was, however, the first to matter. Only Columbus linked the Old World and the New with commerce that quickly became permanent and rapidly grew in scale. He never did find Japan, and later discoverers laughed at him. But the New World he discovered changed the Old World - and all the world - forever.

Broadening the range of technology solutions

In a year when technology continued to influence the long U.S. economic expansion, DTCC's technology and expertise again sustained the growth and expansion of the securities industry.

Guided by our commitment to technology excellence, DTCC has worked hard to offer practical technology solutions scaled to industry problems—and to encourage innovation.

In 1999, the impact of the Internet was inescapable. The online economy generated an estimated $500 billion in U.S. revenue, and General Motors found itself selling one of every ten cars it manufactures via the Web. In this context, DTCC pushed forcefully ahead with the expansion of its own Web-based capacity to communicate with customers, deliver products and provide support.

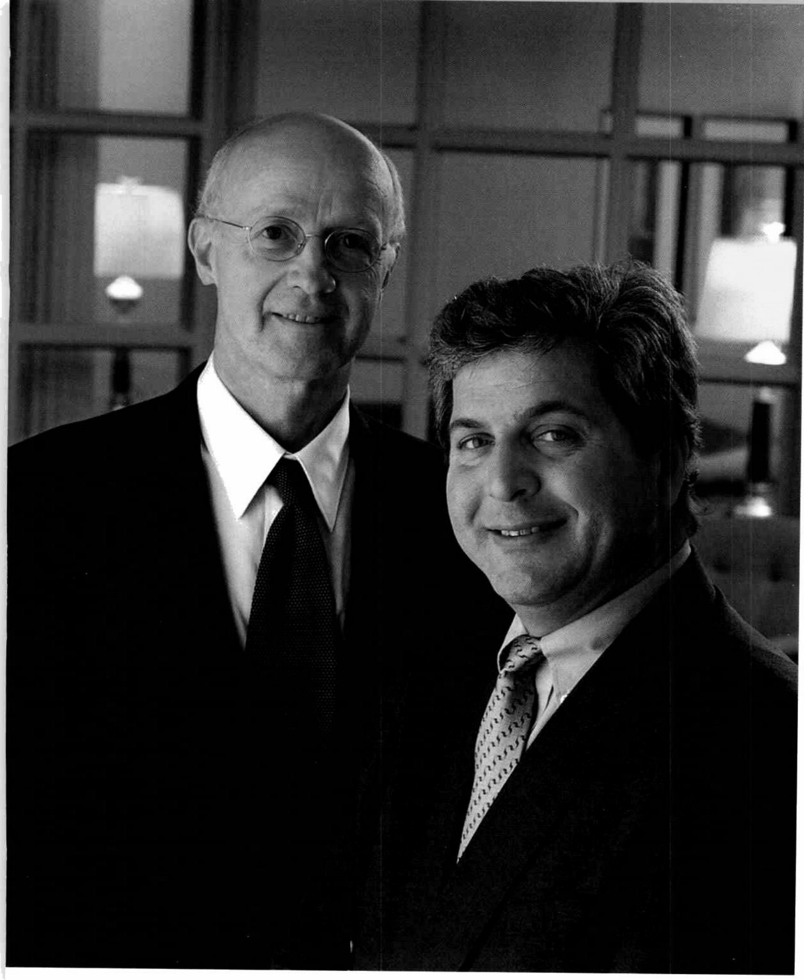
Driving our increasing use of the Internet are three objectives. One involves scale: increasing the scope of transactions we handle and the quality of our customer support while reducing costs. The second involves distribution: getting our products and services out, more widely and efficiently, while reducing both the dependency and load on our main proprietary networks. And the third involves entry: consolidating, simplifying and standardizing participant access to our products, services and customer support teams. We are doing this by creating a single, secure portal or "desktop" that harnesses the power of the Internet and uses the now widely familiar Internet browser format to guide customers in their use of DTCC products and services.

Overlaying this entire effort is our long-standing commitment to maintain totally secure systems and applications. Internally, we have redistributed our data, redesigned our computer-to-computer communications and constructed a new array of "firewalls." Externally, we are enhancing our security by building on the clearing corporation's encouraging experience with digital certification. In November 1999, we began to implement a collaborative digital certificate program across our entire customer base, giving our customers shared responsibility for selecting those at their organizations who can access our systems and what functions they can perform. By funneling entry to our systems entirely through our Internet Customer Desktop, we have an additional point of control for maintaining security.

A key step in adapting our systems to a Web interface is the modernization of our Participant Terminal System. Set for completion in 2001, the project will make all dividend, reorganization, settlement, underwriting and physical processing applications available in our new desktop format. Our newly enhanced data services business will also be accessed through this interface. Mutual fund services for banks and independent broker/dealers, including Fund/SERV, Networking and the Mutual Fund Profile Service, will similarly become available in browser format on our PCWeb Direct system in 2000. All these products and services will eventually be available on our Customer Desktop. Meanwhile, we have already made available via the Web our tax products and tax forms, our proxy products and our library of legal opinions on various aspects of securities issuance and processing.

The power and flexibility of the Internet is also invaluable in customer relationship management and product support, and in presenting technical publications, training materials and industry notices for our customers. We already make many of these available on our DTCC and subsidiary

Paula Sausville-Arthus **Senior Vice President & Global Technology Executive, The Chase Manhattan Bank Global Investor Services**



James McGill **Managing Director, Morgan Stanley Dean Witter (L)**
Richard Paleogos **First Vice President, Information Technology, Salomon Smith Barney**

Web sites, and we plan to accelerate the listing of others during 2000.

We may soon face a more direct impact from electronic trading. A significantly larger and growing percentage of all retail trades in the U.S. market are now entered over the Web. As a result, we are actively working on new ways to develop high capacity, reliable communications with, and data feeds from, the growing number of alternative trading systems and ECNs.

Meanwhile, in conjunction with Andersen Consulting, we launched a top-to-bottom review during 1999 of our entire systems architecture. We are also developing plans to replace our 20-year-old Continuous Net Settlement (CNS) system. In view of rapidly rising volume, extended hours, decimalization, electronic trading and the expected move to T+1 settlement, we need to begin detailed planning now for a system that not only provides real-time access, so our customers can view and manage their own positions, but also settles on a next-day basis. Because any changes in our processing and risk management necessarily reverberate throughout the industry, we look forward to sharing our proposals with the industry during 2000.

One overarching technology goal for 2000 is to begin paring down the number of **communications protocols** we support.

Preparation for straight-through processing is also stimulating the substantial re-engineering we have now begun on TradeSuite, our flagship product for institutional trades. Our current plan is to use TradeSuite as the entryway into whatever transaction flow model is adopted—domestically and internationally.

We recorded progress in 1999 in the redesign of other systems as well. We have initiated a consolidation and reworking of the master files for both the depository and the clearing corporation. The goal in this case is to eliminate the expense and potential for error in maintaining redundant data.

One overarching technology goal for 2000 is to begin paring down the number of communications protocols we support. At today's transaction volume levels, and in preparation for growing cross-border volume, we can no longer afford the luxury of supporting unusual or rarely used protocols. In the future, we expect to limit our support to four communications approaches: Transmission Control Protocol/Internet Protocol (TCP/IP), File Transfer Protocol (FTP), Network Data Mover (NDM) and Messaging and Queuing Protocol (MQ series). To promote ease of communication throughout the industry, we are also planning to focus our support on only three industry-standard messaging formats: ISO 15022, ISITC and FIX.

For the year 2000, we look forward to leveraging our technology expertise across a wide spectrum of industry issues and initiatives. By instituting Internet business models, we are further strengthening our customers' ability to compete in today's fast-moving business environment. And by re-thinking and re-engineering our base systems, we are preparing cost-efficient solutions to guide the securities industry in the transition to a world of straight-through processing and next-day settlement.

DTCC Board of Directors

Thompson M. Swayne,
Executive Vice President,
The Chase Manhattan Bank

Gary Goldring,
Senior Managing Director,
Spear, Leeds & Kellogg

Albert E. Peterson,
Executive Vice President,
State Street Bank and Trust Company

James H. Messenger,
Chief Executive Officer,
National Financial Services Corporation

Mark Harris,
Executive Vice President &
Chief Operating Officer,
Van Kampen Investor Services Inc.

Ronald J. Kessler,
Corporate Vice President &
Director of Operations,
A.G. Edwards & Sons, Inc.

Lisa Colby-Jones,
Managing Director,
Morgan Stanley Dean Witter

John R. Mohr,
Executive Vice President,
The New York Clearing
House Association L.L.C.

Peter Quick,
President, Quick & Reilly, Inc.

Jill M. Considine,
Chairman, President & Chief Executive Officer,
The Depository Trust & Clearing Corporation

Not pictured:

James D. Dixon,
Group Executive
Operations & Technology,
Bank of America Corporation

Richard G. Ketchum,
President & Chief Operating Officer,
National Association of
Securities Dealers, Inc.

Robert Lucey,
Senior Managing Director,
Putnam Investments

Peter B. Madoff,
Senior Managing Director,
Bernard L. Madoff
Investment Securities

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

Steven L. Scheid,
Executive Vice President &
Chief Financial Officer,
The Charles Schwab Corporation

Melvin B. Taub,
Senior Executive Vice President
and Director of Information
Technology & Operations,
Salomon Smith Barney

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

Robert H. Silver,
Executive Vice President,
PaineWebber Incorporated

Jeffrey C. Bernstein,
Senior Managing Director,
Bear, Stearns Securities Corp.

Edward A. Kwalwasser,
Group Executive Vice President,
New York Stock Exchange

J. Michael Connelly,
Managing Director,
Deutsche Banc Alex, Brown

David M. Kelly,
President & CEO,
National Securities
Clearing Corporation

Steven G. Elliott,
Senior Vice Chairman &
Chief Financial Officer,
Mellon Bank Corporation

Kenneth K. Marshall,
Executive Vice President &
Chief Administrative Officer,
Instinet Corporation

Dennis J. Dirks,
Chief Operating Officer,
The Depository Trust & Clearing Corporation

Edward L. Goldberg,
Executive Vice President,
Merrill Lynch & Co., Inc.

Consolidated Balance Sheet

	December 31, 1999
	(Dollars in thousands)
Assets	
Cash and cash equivalents	$3,442,765
U.S. Treasury securities	78,633
Accounts receivable	112,569
Participants' funds	984,260
Fixed assets, less accumulated depreciation and amortization of $186,393,000	135,972
Intangible assets, less accumulated amortization of $39,537,000	17,774
Other assets	229,583
Total assets	$5,001,556
Liabilities and Shareholders' Equity	
Liabilities:	
Accounts payable and other liabilities	$ 398,990
Payable to participants	1,785,815
Notes payable	68,401
Participants' funds:	
Cash deposits	1,704,090
Other deposits	984,260
Total liabilities	4,941,556
Commitments and contingent liabilities (Note 10)	
Shareholders' equity:	
Preferred stock:	
Series A, $.50 par value – 10,000 shares authorized, issued and outstanding	300
Series B, $.50 par value – 10,000 shares authorized, issued and outstanding	300
Common stock, $100 par value – 18,500 shares authorized, issued and outstanding	1,850
Paid-in capital	950
Retained earnings:	
Appropriated	29,400
Unappropriated	27,200
Total shareholders' equity	60,000
Total liabilities and shareholders' equity	$5,001,556

The accompanying notes are an integral part of this statement.

Notes to Consolidated Balance Sheet

1 Business and Ownership:

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

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

2 Summary of Significant Accounting Policies:

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

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

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

Cash equivalents: The Companies invest funds in overnight reverse repurchase agreements and money market accounts which are considered cash equivalents. Reverse repurchase agreements provide for the Companies' delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreement. Independent custodians designated by the Companies take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled $3,128,464,000. The counterparties to these agreements were six major financial institutions.

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

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

Accounts Receivable: Accounts receivable consist of the following:

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

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

Fixed assets: Fixed assets consist of the following:

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

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

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

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

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

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

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

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

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

3 Participants' Funds:

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

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

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

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

4 Transactions with Related Parties:

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

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

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

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

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

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

5 Payable to Participants:

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

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

6 Pension and Other Postretirement Benefits:

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

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

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

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

The funded status and related components of the plans follow:

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

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

7 Income Taxes:

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

8 Notes Payable and Lines of Credit:

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

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

9 Shareholders' Equity:

Appropriated retained earnings represent an amount equal to the retained earnings of NSCC at December 31, 1999. Such retained earnings are available for the satisfaction of losses arising out of the clearance and settlement of transactions at NSCC (see Note 10). Such amount of retained earnings is excluded from the calculation of book value per share for purposes of capital stock transactions of DTCC.

10 Commitments and Contingent Liabilities:

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

During 1995, a SIPC trustee was appointed to liquidate the business of Adler Coleman Clearing Corporation (ACCC), a former NSCC participant. NSCC and the SIPC trustee entered into an agreement in connection with the settlement of certain positions held by ACCC at NSCC.

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

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

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

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

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

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

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

NSCC mitigates its exposure to risk by requiring participants to meet NSCC established financial standards for membership, monitoring compliance with other financial standards established by NSCC and by requiring participants to provide participants' fund deposits in the form of cash, marketable securities or acceptable letters of credit (see Note 3).

If a participant fails to fulfill its settlement obligations with NSCC and NSCC ceases to act on behalf of the participant, NSCC would liquidate that participant's guaranteed security receive and deliver obligations and apply the defaulting participant's fund deposit received to satisfy any net outstanding obligation and/or loss.

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

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

As discussed in Note 1, NSCC provides various services to members of the financial community who participate in securities trade comparison, clearance and settlement. As such, NSCC has a significant group concentration of credit risk since its participants may be impacted by economic conditions affecting the securities industry. As described above, such risk is mitigated in a number of ways.

Notes to Consolidated Balance Sheet

12 Combined Proforma Results of Operations (Unaudited):

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

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

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

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, NY
February 9, 2000

Information Available from DTCC

We're pleased to offer a wide range of information to help you learn more about our activities:

www.dtcc.com For press releases, facts and statistics, products and services information, newsletter articles, speeches, and links to the clearing corporation and depository. The site also contains some contact information for DTCC.

@dtcc The DTCC monthly newsletter, providing news and information on new services, enhancements, operations and other issues of interest to our customers. A subscription to the newsletter is available on request.

Capabilities and Services

DTCC Capabilities Brochure: How We Serve The Financial Services Industry– An introduction to the clearing corporation and depository and a look at all the services we offer our customers.

Clearing Corporation Capabilities Brochure: An Introduction to the Clearing Corporation – A high-level description of the clearing corporation, how it works and what it does.

Clearing Corporation Services Fact Sheet Brochure – A collection of fact sheets detailing the key products and services offered by the clearing corporation.

DTC TradeSuite℠ Brochure – A detailed look at the depository's institutional trade processing family of services.

DTC TaxVantage℠ Brochure – A description of the depository's family of international tax management services and tools.

Mutual Fund Services Brochure – Details of the services offered by the clearing corporation for mutual funds and those organizations that distribute mutual funds.

Insurance Processing Services Marketing Folder – A package describing the clearing corporation's insurance processing services and features.

To inquire or order

Mail: DTCC
55 Water Street, 51st Floor
New York, NY 10041-0099
Attn: Corporate Communications

Phone: 212.855.5471

e-mail: info@dtcc.com

Senior Management DTCC

Executive Leadership Team

Jill M. Considine
Chairman, CEO & President DTCC

Dennis J. Dirks
Chief Operating Officer DTCC
President DTC & NSCC

Michael A. Agnes
Managing Director & Treasurer

Joseph J. Bellantoni
Managing Director, Applications Development

Kevin P. Carey
Managing Director, Human Resources

Raymond R. DeCesare
Managing Director, Systems Processing & Support

Donald F. Donahue
Managing Director, Customer Marketing & Development Group

Stuart A. Fishbein
Managing Director, Internal Audit

Stuart Z. Goldstein
Managing Director, Corporate Communications

Steve M. Labriola
Managing Director, Product Marketing & Development

Ellen F. Levine
Managing Director, Surveillance & Risk Management

Richard R. Macek
Managing Director & Chief Financial Officer

Glenn E. Mangold
Managing Director, Operations

Robert J. McGrail
Managing Director, New Business Ventures Group

Richard W. Myers, Jr.
Managing Director & Chief Administrative Officer

Richard B. Nesson
Managing Director & General Counsel

Karen L. Saperstein
Managing Director, Deputy General Counsel & Secretary

Charles R. Taylor
Managing Director, Strategy Development

Larry E. Thompson
Managing Director & Deputy General Counsel

Avraham Zloof
Managing Director, Internet Applications

Managing Directors

Dwight Arthur
Managing Director, Systems

Ann Bergin
Managing Director, Mutual Funds Servicing

Neil F. Brander
Managing Director, Applications Development

Mary Ann Callahan
Managing Director, London Office, International

John J. Colangelo
Managing Director, Operations

Robert E. Dunn
Managing Director, Product Marketing & Development

Dennis Earle
Managing Director, International

Jacob Feuchtwanger
Managing Director, Applications Development

John D. Fitzgerald
Managing Director Product Development

Lawrence J. Gallaway
Managing Director, MBS Operations

Vincent P. Hilly
Managing Director, Data Administration

William M. Hodash
Managing Director, Product Development

Charles Horstmann
Managing Director, Securities Processing

Keith C. Kanaga
Managing Director, EMCC

Stuart Kleinman
Managing Director, International

James Koster
Managing Director, IS Quality Assurance, Training & Security

Richard J. Maier
Managing Director, Applications Development

Kevin F. Maloney
Managing Director, Product Marketing & Development

Thomas McCarthy
Managing Director, Product Marketing & Development

Ralph Monda
Managing Director, Relationship Management

Robert C. Nicholson
Managing Director, Sales

Richard J. O'Brien
Managing Director, Human Resources

Julie Pendergast
Managing Director, International Relationship Management

Leopold S. Rassnick
Managing Director & Sr. Special Counsel

James J. Ronayne
Managing Director, Operations

Walter Siebecker
Managing Director, Insurance Services

Carl H. Urist
Managing Director & Sr. Special Counsel

The Depository Trust & Clearing Corporation
55 Water Street
New York, NY 10041-0099
212.855.1000
www.dtcc.com

Subsidiary Regional Offices

The Depository Trust Company

Chicago
111 West Jackson Boulevard, Suite 1122
Chicago, IL 60604-3502
312.935.1350

London
St. Helen's, 1 Undershaft
London, UK EC3A 8EE
171.444.0000

San Francisco
100 Pine Street, Suite 610
San Francisco, CA 94111-5108
415.693.4800

National Securities Clearing Corporation

Chicago
111 West Jackson Boulevard, Suite 1122
Chicago, IL 60604-3502
312.935.1350

San Francisco
425 California Street
Suite 950
San Francisco, CA 94104-2111
415.397.4123

Employees pictured on pages 10-13 from L to R.

John Plunkett, *Director of Mutual Fund Marketing*; Julie Pendergast, *Managing Director, International*; Tom Joyce, *Director, New York Window*; Lou Panico, *Director, Securities Processing*; Gulshan Chawla, *Director, Applications Development*; Carl Urist, *Managing Director & Senior Special Counsel*; John Santo, *Operations Coordinator*; Tanya Stackhouse, *First Associate*; Terry Smith-McPherson, *Custody Associate*; Bob Green, *Vice President*; Robert Dunn, *Managing Director, Participant Services*; Jim Murphy, *Vice President, Finance*; Gary LaCara, *Vice President & Treasurer*; Carol McDonough, *Participant Services Representative*; Glenn Mangold, *Managing Director, Operations*; Bill Kapogiannis, *Director, Marketing*; Donna Pryce, *Account Relationship Manager*; Michael Vellecca, *Director, Participant Services*; Carl Francia, *Senior Programmer/ Analyst*; Gerardine Marotta, *Account Relationship Manager*; Chris Breen, *Account Relationship Manager*

Design:
Taylor & Ives, Inc., NYC

Editorial:
Stuart Z. Goldstein, James M. Conmy

Photography:
William Taufic

Production Support:
Karen Gregory

The Depository Trust &
Clearing Corporation
55 Water Street
New York, NY 10041-0099