

For more than 20 years, NSCC has worked to develop highly innovative, flexible and functional technology solutions that help increase efficiency, reduce risk, lower costs and spur growth for our participants. Our track record is strong and our commitment to serving the financial services industry is timeless.

1976

- NSCC is incorporated to consolidate the clearance and settlement of listed and OTC securities transactions.
- Jack Nelson named first NSCC president.

1980

- Newly installed **IBM 3033N8** computer upgrades processing capacity and shows NSCC's commitment to latest technology.
- NSCC's rule filing for processing Municipal Bonds is approved by the U.S. Securities and Exchange Commission (**SEC**).
- Enhancements are made to the OTC comparison system to handle executed by and demand as-of trades.

1978

- Link to **DTC** expanded to include all dually-eligible securities.
- Branch offices of NSCC established in 10 cities.
- Consolidation of clearing operations of **SCC, NCC** and **ASECC** completed.

1984

- NSCC record is set on August 6 with processing of **one million** sides submitted by participants on one day.
- First automated comparison system for municipal bonds is introduced.
- NSCC establishes link with Canadian Depository for Securities Limited, facilitating clearance of trades executed in U.S. Securities on behalf of Canadian firms. 30% of trades received by NSCC executed on a locked-in basis by December.
- Processing costs reduced **40%** since 1977

1982

- Envelope Control System** uses bar-code technology to record and monitor envelope deliveries.
- Participants receive comparison data for listed and OTC equity trades on TCARS reports, which disclose firms' performance and encourage improvements.
- Combined market-place volume surpasses **26 billion** shares traded.

1986

- An affiliate, Government Securities Clearing Corporation (**GSCC**), is formed to bring automated trade comparison and netting to settlement of US government securities.
- Fund/SERV** system is introduced to support industry processing of mutual fund transactions. Average daily order volume is about 4,000.
- ACATS processes 500,000 account transfers worth **\$13 billion**. Link is established to Options Clearing Corporation to allow the transfer of options.

1988

- ISCC establishes link with London Stock Exchange, clearing link with Cedel in Luxembourg, and clearing and custody arrangements in Japan and Singapore.
- NSCC's Networking system electronically links mutual funds and brokers for two-way exchange and updating of client information. At year-end, **340,000** sub-accounts represent 13 funds and 14 brokers on the system.
- 66%** of NYSE stock transactions now come to NSCC as locked-in.



1977

- NSCC registered by the SEC as a clearing agency.
- NSCC begins work to take over clearance and settlement operations of **NYSE, AMEX** and **NASD**. Combined trade volume approaches 8 billion shares.
- SIAC hired as facilities manager for NSCC.

- Stock Borrow** program allows NSCC to borrow securities to meet broker priority requests and buy-ins submitted by participants.
- Consolidation of clearance and settlement of listed and OTC transactions in NSCC pays off by saving participants **\$11.8 million**.
- 1,000 new equity issues made eligible for CNS.

- NSCC implements centralized comparison system for all OTC transactions including those from members of regional clearing corporations.
- NSCC offers full range of automated output through its direct **CPU-to-CPU** transmission.
- NSCC begins to clear transactions from the Boston Stock Exchange, **ITS** from Cincinnati Stock Exchange.

1983

- NSCC achieves record low cost of **35 cents** per trade. Processing volume reaches 272,000 transactions daily, a 40% increase over 1982. Dollar volume increases to \$6.7 billion daily.
- NSCC is granted permanent registration by the SEC.
- David M. Kelly is named NSCC president & CEO.
- MSRB mandates automated comparison of municipal bond trades through a registered clearing agency.
- Funds Only Settlement Service implemented.

1985

- NSCC's Automated Customer Account Transfer Service (**ACATS**) enables timely and efficient transfer of customer accounts between brokers.
- A subsidiary, International Securities Clearing Corporation (**ISCC**), is incorporated to support cross-border and other international trading activity.
- NSCC designs **Fund/SERV**, an automated processing system for mutual fund orders, to meet industry needs.
- NSCC handles an average of more than 290,000 transactions daily, worth \$7.6 billion.

1987

- October 19 market break results in nearly triple daily average of transactions (1.6 million sides). Trades are processed by NSCC without service disruption.
- NSCC's Reconfirmation and Pricing Service (**RECAPS**) automates handling of securities not delivered 15 days after settlement date.
- Pacific Stock Exchange discontinues clearing operations. 32 brokers, representing 90% of volume, join NSCC. 29 specialist firms join later this year.

1989

- The Group of Thirty releases nine recommendations for standardizing clearance and settlement worldwide.
- NSCC moves guarantee of matched trades from T+4 to the end of **T+1**.
- NSCC begins netting municipal bond transactions.

1979

1981

us different?



Our people

Dedicated. Talented. Committed to excellence. Our people continue to distinguish and differentiate this organization. They have broad experience in not only the industry segments we serve, but also in the technology needed to deliver those services most efficiently. Our people work closely with customers to create solutions that help minimize risk, foster continued business growth — and benefit the entire financial services industry.

NSCC and ISCC Board of Directors

Kenneth K. Marshall,
 CAO, Instinet Corporation.
 Previously with Salomon
 Brothers as Managing
 Director, CAO, Chairman,
 NSCC's Finance &
 Audit Committee and
 Member, Executive and
 International Committees.
 Member of the New York
 Society of CPAs and
 American Institute of CPAs.

David M. Kelly,
 President & CEO,
 NSCC, since 1983.
 Vice Chairman and CEO,
 GSCC; CEO, ISCC,
 Board Member, MBS
 Clearing Corporation
 and DTC. Member,
 International Operations
 Association, NYSE
 Operations Advisory
 Committee, SIA's
 Securities Operations
 Division and Securities
 Traders Association of NY.

Gary F. Goldring,
 Chairman, NSCC. Senior
 Managing Director &
 Executive Committee
 Co-Chairman, Spear, Leeds
 and Kellogg. Chairman,
 NSCC's Executive
 Committee. Trustee of the
 Saint Barnabas Health
 Care System in New Jersey.

Robert H. Silver,
 EVP & Director, Operations,
 Service & Systems,
 PaineWebber. Board
 Member, PaineWebber Inc.,
 Correspondent Services
 Corp., and PaineWebber
 Services Inc. Member,
 NSCC's Operations and
 Mutual Fund Committees.
 Governor, Philadelphia Stock
 Exchange. Corporate Recruit
 Chairman, North Jersey
 Chapter. Juvenile Diabetes
 Foundation - "Walk to
 Cure Diabetes."



Peter B. Madoff,
 Senior Managing
 Director, Bernard L.
 Madoff Investment
 Securities, NY, and
 Madoff Securities
 International Ltd.,
 London. Member,
 NSCC's Membership and
 Finance & Audit
 Committees. Executive
 Committee Member,
 Cincinnati Stock
 Exchange. Formerly Vice
 Chairman, Nasdaq.

Jeffrey C. Bernstein,
 Senior Managing Director,
 Bear, Stearns & Co.
 Co-manages domestic
 and international
 clearance operations,
 and is a Member of its
 Operations, Credit and
 Internal Audit Committees.
 Chairman, NSCC's
 Operations Committee and
 Member, Membership and
 International Committee.
 Member, SIA's Operations
 Committee.

Diane L. Schueneman,
 First VP & Senior Director,
 Merrill Lynch Asset
 Management Group
 Operations. Member,
 NSCC's Operations,
 Membership and
 International Committees.
 Committee Member, SIA
 Operations Division and
 Member, International
 Operations Association.

Edward F. Watts, Jr.,
 Managing Director, Goldman,
 Sachs & Co., Chief of Staff of
 Global Operations, Head of
 Global Futures Operations
 and Co-head of the Credit
 Entity Information Group,
 Control Improvement and
 Professional Development
 Committees. Member, NSCC's
 Membership and
 International Committees.
 Board Member, MBS
 Clearing Corporation.

Peter Quick,
 President, Quick & Reilly.
 Chairman, NSCC's
 Membership Committee and
 Member, Executive and
 Mutual Fund Committees.
 Member of NYSE
 and its Shareholders
 Communications Committee,
 official of Amex and
 Vice Chairman of
 SIA, New York District.

NSCC's Board of Directors plays an integral role in policy development and the establishment of corporate objectives, financial management and operational planning at NSCC and ISCC. Through its professional expertise in executive, financial and corporate management, the Board in 1998 continued to provide NSCC with appropriate guidance and direction.

1990

- Use of **RECAPS** mandated by SEC.
- Institutional Delivery and CNS systems link for Prime Broker activity. 50,000 trades handled in the first year, with value of \$18 billion.
- Fund/SERV** has 150 participants, and is handling more than 10,000 transactions daily worth \$421.4 million.
- GSCC begins handling when-issued and forward-settling trades in its netting system.
- NSCC and DTC begin development of interactive **CNS link**.
- New risk management systems are put into effect; use of excess collateral agreement reached with DTC and OCC.

1992

- NSCC revamps systems to support move from T+5 to **T+3** for stock transaction payments.
- Revisions to Fixed Income Transaction System (**FITS**) undertaken to streamline processing of bonds and Unit Investment Trusts.
- In 15 years, average daily volume of transactions processed by NSCC nearly quadruples, to **513,000 transactions** worth \$39 billion.
- Fund/SERV redesigned to provide a growing mutual fund industry with expanded processing flexibility.

1994

- NSCC develops Same-Day Funds Settlement (**SDFS**) system to allow participants to settle in Fed Funds daily.
- MBS Clearing Corporation** acquired by its participants from the Chicago Stock Exchange and operations are moved to NSCC offices in New York.
- NSCC introduces Collateral Management System (**CMS**) to give firms a clearer picture of their collateral deposits across all clearing agencies and depositories.
- NSCC builds a communications link with DTC's Participant Terminal System (**PTS**). This allows NSCC to offer its products and services through PTS and facilitate real-time access to money settlement information for participants and settling banks.
- ACATS shortens the standard settlement cycle for transfers from 10 days to **seven**.

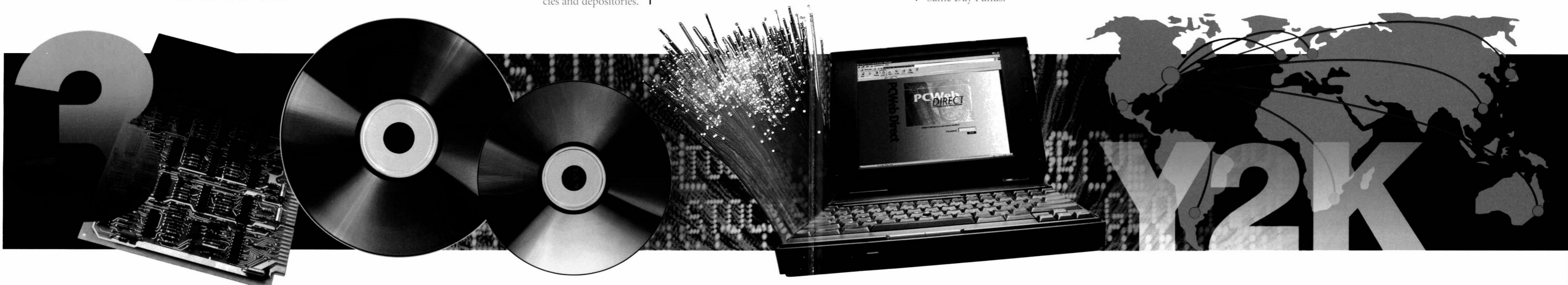
1996

- NSCC and DTC form a jointly-owned affiliate, International Depository & Clearing LLC (**IDC**) to bring together respective international activities under one umbrella and provide greater coordination on clearance, settlement and custody issues.
- The industry moves to Same Day Funds Settlement (**SDFS**), bringing added efficiency and certainty to the payment process. NSCC's money settlement system is completely redesigned to accommodate Same Day Funds.
- NSCC and ISCC, with the Emerging Markets Traders Association, launch the Emerging Markets Clearing Corporation (**EMCC**) in April, following registration approval by the SEC.
- NSCC introduces the use of digital certificates through **PCWeb Direct**, its new Web-based application. PCWeb Direct allows low-volume transaction submission to NSCC via the Internet. Will replace PC Platform, which is being phased out in advance of Year 2000.
- NSCC reaches milestone with July **Y2K beta test** which simulates four-day cycle of trading and clearance.

1998

- NSCC helps lead participants through seamless transition to **Year 2000**.
- NSCC and DTC **forge partnership** to strengthen clearance and settlement services for expanding domestic and global markets.

2000 and beyond



1991

- PC Platform provides access to NSCC services through personal computers.
- ISCC, in alliance with Citibank, launches **Global Clearing Network** to provide U.S. brokers trading overseas with single communications access for clearance and settlement.
- GSCC processes record 68,000 transactions on a peak day, worth **\$26 billion**.

- NSCC launches **New York Window**, a platform of services that reduces high fixed costs of physical processing and furthers industry efforts to immobilize ineligible securities.
- Average daily order volume of Fund/SERV system jumps 50% to **34,000 transactions**, with a daily gross settlement of \$500 million.

1993

- NSCC rolls out **FITS Phase I** — successfully incorporating muni bonds.
- Average daily volume of transactions processed by NSCC reaches **699,000**, with an average daily value of \$60 billion, up 32% from 1992.

1995

- NSCC moves from a T+5 to a **T+3** settlement cycle, reducing systemic risk by 56%.
- Chicago Stock Exchange exits the business of clearance, settlement and depository services. 32 specialist, 64 full-service and six municipal bond firms of Midwest Clearing Corp. converted to membership with NSCC.
- GSCC extends its services to comparison and netting of repurchase agreements (**Repos**).
- More than 223 fund families and 172 broker/dealers use Fund/SERV to process a daily average of **38,100** mutual fund transactions.
- With the sudden insolvency of Adler Coleman Clearing Corporation, NSCC takes quick action to guarantee \$1.6 billion in gross buy and sell contracts received before Adler's demise. Works closely with the Securities Investors Protection Corporation (**SIPC**) and minimizes the impact of this insolvency.

1997

- NSCC launches its web site: <http://www.nsc.com>.
- NSCC initiates 18-month-long Y2K format changes in its applications.
- NSCC begins operation of Defined Contribution Clearance & Settlement Service (**DCC&S**) in late April. DCC&S provides the connectivity essential to continued growth in 401(k), 403(b) and other defined contribution transactions.
- Philadelphia Stock Exchange (PHLX) closes the Philadelphia Depository Trust and shifts the Stock Clearing Corp.-Philadelphia's clearing and depository activities to NSCC and DTC, respectively.
- NSCC releases the file formats for its **redesigned ACATS**, beginning the biggest change in the service since it was first introduced 12 years ago.
- In November, NSCC launches its Annuity Processing Service (**APS**), an automated, centralized system that electronically links insurance carriers with the broker/dealers, banks and/or their affiliated insurance agencies that sell variable- and fixed-rate annuities.
- NSCC achieves processing costs of **8 cents** per trade.

1999

- NSCC launches **new ACATS** system, expanding use to include broker/dealers, mutual funds and banks, handle more products electronically and reduce transfer times.
- NSCC introduces processing of annuity applications, premiums and financial reporting, and certain other insurance processing services.
- In March, NSCC and 270 participant firms take part in first industry-wide **Y2K test**, sponsored by the SIA.
- DCC&S service gains substantial new participation.
- Virtual training area** launched on NSCC Web site, providing Internet access to a wide array of specific product information at a single location.

Mark L. Harris,
EVP & COO,
Van Kampen Investor
Services Inc. Member,
NSCC's Mutual Fund
and Operations
Committees and
Advisory Council.
Chairman, ICI's Broker
Dealer Advisory
Committee. Chairman
of Excellence of the
Missouri Foundation.

Ronald J. Kessler,
Corporate VP &
Director of Operations,
A.G. Edwards & Sons,
Inc. President, AGE
Commodity Clearing
Corp. Member, NSCC's
Operations and Finance
& Audit Committees.
Chairman, SIA's
Operations Committee.
Member, NYSE
Operations Advisory
Committee.

Norman R. Malo,
President & COO,
National Financial
Services Corporation,
Fidelity Investments.
Member, NSCC's
Operations, Mutual
Fund, Finance & Audit
and International
Committees.
Previously Managing
Director of Global
Operations at Lehman
Brothers and
President, MONY
Securities.

Not pictured

NSCC

Lisa Colby-Jones,
Managing Director and head of
Institutional Securities Business
Worldwide Operations, Morgan Stanley
Dean Witter. Member, NSCC's
Membership and International
Committees. Board Member of DTC.
Member, S.W.I.F.T.'s Securities Steering
Council and GSTPA's Executive
Committee, and several SIA
Committees.

Richard A. Edgar,
EVP, New York Stock Exchange, in
charge of Market Operations, Real Estate
and Facilities. Since 1967, he has held
various managing and marketing
positions, including SVP, Market
Operations. Also was SVP, Regulation,
Operations & Administration at the
New York Futures Exchange.

William F. Jaenike,
recently retired Chairman & CEO, The
Depository Trust Company. Joined DTC
in 1974, rising from VP, Participant
Services, and presiding over three depository
mergers and the initial integration
dialogue between NSCC and DTC.

Thomas J. Perna,
Senior EVP, The Bank of New York,
Financial Companies Sector.
Responsible for Relationship
Management, Corporate Banking,
Product Management Operations
and Technology. Chairman, NSCC's
International Committee and
Member, Executive and Finance &
Audit Committees

Thomas F. Ryan, Jr.,
President & COO, American Stock
Exchange, since 1995, after 27 years
with Kidder, Peabody where he rose
to Chairman & CEO. Board Member,
SIAC. Trustee, Boston College and
Brigham & Women's Hospital. Former
Member of several NYSE committees.

John T. Wall,
President, Nasdaq International, Ltd.
Responsible for strategic development,
international marketing and foreign
exchange linkages with Nasdaq.
Has spearheaded advancing Nasdaq's
activities and worldwide role. Member,
EASDAQ Board.

GSCC

Thomas G. Wipf,
Managing Director, Fixed Income
Division, Morgan Stanley Dean Witter.
Heads firm's financing desk for North
America and Europe. Member, GSCC's
Membership & Standards and Business
Development Committees. Executive
Committee Member, The Bond Market
Association's Funding Division and
Trading Practices Committee.



Robert F. Lucey,
Senior Managing
Director & Chief of
Operations, Putnam
Investments.
Responsible for Transfer
Agency, Systems,
Corporate Accounting,
General Services and
Legal. Chairman,
NSCC's Mutual Fund
Committee and
Member, Executive
and Operations
Committees.

Sandra S. Jaffee,
Business Executive for
Citibank Worldwide
Securities Services, a
unit of Citigroup, Inc.'s
Global Corporate and
Investment Banking
Division. Under her
leadership, WWSS has
become a premier
provider of clearing,
custody and related
securities services to
institutional investors
and issuers.

J. Michael Connelly,
Managing Director &
Division head of North
American Operations
and Correspondent
Services, BT Alex. Brown.
Member, NSCC's
Operations and
Membership
Committees, and Board
Member, ISCC. Member,
Amex Advisory
Committee and NYSE
Operations Committee.

The Board of Directors is made up of 21 members: 16 Participant Directors elected from participating brokers, dealers banks and mutual funds; NSCC's President and Chief Executive Officer; and three Shareholder Directors. In addition, during 1998, the Board was expanded to include an Industry Director, which has been filled by Jill M. Considine, Chairman and CEO of The Depository Trust Company (DTC).

GSCC Board of Directors

Edwin F. Payne,
Chairman & CEO,
Liberty Brokerage
Investment
Corporation. Member,
GSCC's Membership &
Standards and Business
Development
Committees. Board
Member, MBS Clearing
Corporation, GovPX
and Bridge Information
Systems. Past Chairman,
The Bond Market
Association's Mortgage
and Government &
Agency Divisions.

David M. Kelly,
President & CEO,
NSCC, since 1983.
Vice Chairman and CEO,
GSCC; CEO, ISCC,
Board Member, MBS
Clearing Corporation
and DTC. Member,
International Operations
Association, NYSE
Operations Advisory
Committee, SIA's
Securities Operations
Division and Securities
Traders Association of NY.

Joseph R. LaBato,
Retired Managing
Director, The Chase
Manhattan Bank, where
he handled broker/dealer
services and global
securities lending.
Former unit manager and
a senior officer in corpo-
rate banking at
Manufacturers Hanover
Trust Company.

**Stephen R.
Tilton,**
Non-Executive
Director and
Consultant, Garban
LLC. Appointed
president and CEO
of Garban, Garvin
GuyButler and Titus
& Donnelly from
1983 through 1998.
Senior Executive,
Board Member,
GovPX, and Board
Member, Statewide
Savings Bank, NJ.

Peter J. Murray,
Managing Director,
Credit Suisse First
Boston Corporation,
responsible for the
Americas Operations.
Member, GSCC's
Membership &
Standards and Business
Development
Committees. VP,
Operations for SIA's
Securities Operations
Division. Also a General
Securities Representative
and a Financial and
Operations Principal.

David Lohuis,
Managing Director,
Lehman Brothers.
Head of trading on
the Central Funding
Desk in Lehman's
Fixed Income
Division. Member,
GSCC's Membership
& Standards
Committee and The
Bond Market
Association's Trading
Practices Committee
and Special Working
Group.

**Ralph M.
Mastrangelo,**
EVP, The Bank of New
York. Responsible for
Broker-Dealer services,
including government
and correspondent
clearing, and collateral
management services.
Member, GSCC's
Executive and Business
Development
Committees. Served 25
years in senior positions
at Morgan Guaranty
Trust Company.



Clive Cooke,
CEO, Intercapital
Government Securities
Inc. in North America.
Member, GSCC's Audit
& Finance Committee.
A founder of Exco
WCLK, London's lead-
ing gilt inter-dealer
brokerage firm, and
former CEO of Exco
USA, which merged
with Intercapital.

Edward Almeida,
Senior Managing
Director, Bear, Stearns
& Co. Responsible for
global fixed income
operations and
clearing. Member,
GSCC's Executive and
Business Development
Committees. Past
Chairman of The Bond
Market Association's
Government
Operations and MBS
Operations
Committees.

Sal Ricca,
President & COO, GSCC
since 1996. Previously
was managing director,
Deutsche Bank North
America, overseeing
clearance and settlement
operations of the
investment and
commercial banking
groups. Before that was
president & COO
of Sequor Group,
a subsidiary of
Security Pacific.

Mary E. Richards,
Managing Director,
Salomon Smith Barney.
Responsible for ten
operations depart-
ments, including
Domestic Clearance
and Stock Loan
Operations, Taxable
Fixed Income
Operations, and
International
Clearance. Member,
GSCC's Audit &
Finance and Business
Development
Committee.

Daniel O. Minerva,
Managing Director &
Treasurer, Lehman
Brothers. Chairman,
GSCC's Board and
Executive Committee.
Previous Member of
The Bond Market
Association's Board
of Directors and
Chairman of its
Funding Division.

Kenneth A. Miller,
Managing Director &
Treasurer, Goldman,
Sachs & Co. Member,
GSCC's Executive and
Audit & Finance
Committees.
Chairman,
International Repo
Committee and
Member, Funding
Division Executive
Committee, both of
The Bond Market
Association.

Mario J. Pierro,
Managing Director,
Deutsche Bank
Securities. Co-heads
firm's global money
market/repo business.
Chairman, GSCC's
Business Development
Committee and
Member, Audit &
Finance Committee.
Former Chairman of
The Bond Market
Association's Funding
Division.

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

Consolidated Balance Sheets

December 31,	1998	1997
	(in thousands)	
Assets		
Cash and cash equivalents	\$ 692,402	\$ 507,375
U.S. Treasury securities	88,352	69,509
Accounts receivable	10,041	7,821
Settlement accounts receivable	579	423
Clearing fund	555,062	507,965
Fixed assets, less accumulated depreciation and amortization of \$11,900,000 and \$11,429,000 at December 31, 1998 and 1997, respectively	5,790	6,917
Intangible assets, less accumulated amortization of \$8,658,000 and \$5,199,000 at December 31, 1998 and 1997, respectively	8,639	12,098
Other assets	19,262	18,282
Total assets	\$1,380,127	\$1,130,390
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable	\$ 3,984	\$ 3,732
Settlement accounts payable	157,009	121,529
Clearing fund:		
Participants' cash deposits	590,748	424,850
Other participant deposits	555,062	507,965
Other liabilities	46,324	47,314
Total liabilities	1,353,127	1,105,390
Commitments and contingent liabilities (Note 7)		
Shareholders' equity:		
Common stock authorized, issued and outstanding; 30,000 shares of \$.50 par value	15	15
Capital in excess of par	885	885
Retained earnings	26,100	24,100
Total shareholders' equity	27,000	25,000
Total liabilities and shareholders' equity	\$1,380,127	\$1,130,390

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income and Retained Earnings

For the Year Ended December 31,

1998

1997

(in thousands)

Revenues:

Revenue from services	\$208,253	\$209,049
Discounts to participants	(85,005)	(89,207)
Net revenue from services	123,248	119,842
Interest income	12,542	11,696
Total revenues	135,790	131,538

Expenses:

Securities Industry Automation Corporation processing expenses	61,268	57,648
Employee compensation and related benefits	33,584	29,553
The Depository Trust Company fees	17,030	17,573
Occupancy and other general and administrative	20,783	21,244
Provision for estimated liquidation losses (Note 7)	—	5,520
Total expenses	132,665	131,538
Income before income taxes	3,125	—
Provision for income taxes	(1,125)	—
Net income	2,000	—
Retained earnings, beginning of year	24,100	24,100
Retained earnings, end of year	\$ 26,100	\$ 24,100

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the Year Ended December 31,

1998

1997

(in thousands)

Cash flows from operating activities:

Net income	\$ 2,000	\$ —
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	2,457	2,415
Amortization of intangible assets	3,459	2,886
Accretion of discount on securities owned, net of premium amortized	(3,730)	(3,761)
Provision for estimated liquidation losses	—	5,520
Changes in operating assets and liabilities:		
Increase in accounts receivable	(2,220)	(427)
Increase in settlement accounts receivable	(156)	(119)
Increase in other assets	(980)	(6,786)
Increase in accounts payable	252	492
Increase (decrease) in settlement accounts payable	35,480	(38,451)
Increase in clearing fund participants' cash deposits	165,898	110,039
(Decrease) increase in other liabilities	(990)	10,314
Net cash provided by operating activities	201,470	82,122
Cash flows from investing activities:		
Maturity of investments in U.S. Treasury securities	70,500	60,500
Purchases of investments in U.S. Treasury securities	(85,613)	(66,266)
Purchases of fixed assets	(2,701)	(2,425)
Transfer of fixed assets to The Depository Trust Company	1,371	—
Acquisition of intangible asset	—	(5,730)
Net cash used in investing activities	(16,443)	(13,921)
Net increase in cash and cash equivalents	185,027	68,201
Cash and cash equivalents, beginning of year	507,375	439,174
Cash and cash equivalents, end of year	\$692,402	\$507,375
Supplementary disclosure:		
Income taxes paid	\$ 1,582	\$ 1,769
Interest paid	\$ 270	\$ 21

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1 Organization and Operations:

National Securities Clearing Corporation (NSCC), a clearing agency registered with the Securities and Exchange Commission (SEC), provides various services to the financial community, consisting principally of securities trade comparison, recording, clearance and settlement. NSCC's common stock is owned equally by the New York Stock Exchange, Inc. (NYSE), the American Stock Exchange, Inc. (Amex) and the National Association of Securities Dealers, Inc. (NASD). During 1998, the NASD acquired Amex.

NSCC provides discounts on its billing to participants based upon the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as determined by its independent user Board of Directors.

2 Summary of Significant Accounting Policies:

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

NSCC'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 \$2,400,000 at December 31, 1998. The equity method is used to account for this investment, limited to management's estimate of its realizable value. At December 31, 1998, NSCC also owns approximately a 10% interest in MBS Clearing Corporation (MBSCC) and a 19% 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.

Cash equivalents: NSCC invests funds in overnight reverse repurchase agreements, which are considered cash equivalents. Such agreements provide for NSCC's delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreement. An independent custodian designated by NSCC takes possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$669,373,000 and \$467,519,000 at December 31, 1998 and 1997, respectively. At December 31, 1998, the counterparties to these agreements were eight major financial institutions.

Overnight investments in the commercial paper of two major U.S. bank holding companies totaling \$21,969,000 and \$39,340,000 are also included in cash equivalents at December 31, 1998 and 1997, respectively.

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, at December 31, 1998 and 1997 are \$88,435,000 and \$69,534,000, respectively. At December 31, 1998 and 1997, \$88,352,000 and \$69,509,000, respectively, of such securities were held in an account for the exclusive benefit of participants to facilitate participants' compliance with customer protection rules of the SEC.

Settlement accounts: Settlement accounts receivable arises from time lags, primarily one-day, in the settlement process with participants. Settlement accounts payable primarily represents deposits received from participants to facilitate participants' compliance with customer protection rules of the SEC.

Fixed assets: These assets consist primarily of computer equipment and software which are being depreciated over a three or five-year period on a straight-line basis. On July 1, 1998, NSCC transferred its New York Window operations to the Depository Trust Company. Fixed assets with a net book value totaling \$1,371,000 were included in the transfer.

Intangible assets: In 1996, NSCC entered into an agreement with the Chicago Stock Exchange, Incorporated (CHX) and Midwest Clearing Corporation (MCC) in which CHX and MCC signed covenants not to compete with NSCC and NSCC paid \$11,567,000 consisting of \$5,003,000 in cash and the assumption of certain net lease obligations valued at \$6,564,000. In 1997, NSCC entered into an agreement with the Philadelphia Stock Exchange, Inc. (PHLX) and the Stock Clearing Corporation of Philadelphia (SCCP) in which PHLX and SCCP signed covenants not to compete with NSCC and NSCC paid \$5,754,000 consisting of \$1,900,000 in cash and a note valued at \$3,854,000 which is due in installments between June 1998 and June 2004 at 7% interest. The amounts paid for these covenants are being amortized over five years, their estimated benefit periods.

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.

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.

Notes to Consolidated Financial Statements

Reclassifications: Certain reclassifications of 1997 amounts have been made in the accompanying financial statements to conform to the 1998 presentation.

3 Participants' Clearing Fund Deposits:

NSCC's rules require certain participants to maintain minimum clearing fund deposits based on calculated requirements. These requirements are recorded in NSCC's balance sheet. The consolidated clearing fund balance includes NSCC and ISCC clearing funds, which are available to secure participants' obligations and certain liabilities of NSCC and ISCC, respectively, should they occur. A summary of the deposits held including deposits in excess of calculated requirements at December 31, 1998 and 1997, follows:

	1998	1997
Cash	\$590,748,000	\$424,850,000
Securities issued or guaranteed by the U.S. Government, at market	490,979,000	373,752,000
Letters of credit issued by authorized banks	326,327,000	302,052,000

During 1998, NSCC maintained a \$400,000,000 committed line of credit agreement with 3 major U.S. banks to provide for potential additional liquidity needs. This line was not used in 1998.

4 Transactions with Related Parties:

SIAC: Under the terms of an agreement, the Securities Industry Automation Corporation (SIAC), an entity owned by NYSE and Amex, provides computer facilities, personnel and services in support of NSCC's operations. SIAC charges NSCC for these services based on its direct and overhead costs arising from providing such services. The agreement has no expiration date and continues in effect unless prior written notice of cancellation is given by either party. Amounts payable to SIAC at December 31, 1998 and 1997, were \$1,400,000 and \$2,160,000, respectively. If this agreement is cancelled, NSCC is contingently liable for the cost of certain SIAC office and equipment leases through December 31, 2003, aggregating approximately \$13,183,000.

DTC: NYSE, Amex and NASD own minority interests in The Depository Trust Company (DTC), whose services are used by NSCC. DTC fees in 1998 and 1997 included \$10,573,000 and \$10,558,000, respectively, relating to charges for NSCC participants which NSCC sponsors at DTC. Such amounts are rebilled to the related participants and are included in revenues from clearing services. Amounts payable to DTC at December 31, 1998 and 1997 were \$1,452,000 and \$828,000, respectively.

NYSE, Amex and NASD: NSCC collects certain regulatory fees on behalf of NYSE, Amex and NASD. At December 31, 1998 and 1997, no amounts were due the NYSE, Amex or NASD.

EMCC: ISCC has entered into an agreement with EMCC to provide certain system development and operating services to EMCC. Charges under this agreement, which are based on a determination of ISCC's cost of providing these services, totaled \$1,470,000 in 1998 and \$2,450,000 in 1997. The agreement expires in 2002. At December 31, 1998 and 1997, receivables from EMCC amounted to \$165,000 and \$1,951,000, respectively.

GSCC: NSCC has entered into an agreement with GSCC to provide various computer and other support services and office facilities. Charges under this agreement are based on a determination of NSCC's cost of providing these services. The agreement continues in effect unless cancelled by either party upon prior written notice. Charges under this agreement totaled \$4,768,000 in 1998 and \$4,470,000 in 1997. NSCC's expenses are presented net of these charges. At December 31, 1998 and 1997, receivables from GSCC amounted to \$206,000 and \$103,000, respectively.

IDC: NSCC paid International Depository and Clearing LLC (IDC), a joint venture of NSCC and DTC, for certain advisory services primarily focusing on researching, developing and recommending the most effective strategies for developing cross-border services. Such amounts aggregated \$2,641,000 in 1998 and \$4,008,000 in 1997. Further, NSCC entered into an agreement with IDC to provide various support services. Charges under this agreement, which were based on a determination of NSCC's cost of providing these services, totaled \$144,000 in 1998 and \$267,000 in 1997. NSCC's expenses are presented net of these charges. At December 31, 1997, the receivable from IDC amounted to \$64,000. IDC ceased operations on June 30, 1998.

MBSCC: NSCC has entered into an agreement with MBSCC to provide various support services and office facilities. Charges under this agreement, which are based on a determination of NSCC's cost of providing these services, totaled \$862,000 in 1998 and \$653,000 in 1997. NSCC's expenses are presented net of these charges. The agreement expires in 1999; however, it is intended that it will continue in effect unless notice of cancellation is given by either party. At December 31, 1998 and 1997, receivables from MBSCC amounted to \$738,000 and \$583,000, respectively.

5 Income Taxes:

NSCC and ISCC file consolidated Federal, combined New York State and combined New York City income tax returns. The difference between NSCC's 36% effective tax rate for the year ended December 31, 1998 and the 34% Federal statutory

Notes to Consolidated Financial Statements

tax rate is primarily attributable to state and local taxes. The provisions for income taxes for the years ended December 31, 1998 and 1997 consist of the following:

	1998	1997
Current income taxes	\$ 2,754,000	\$ 3,324,000
Deferred income taxes	(1,629,000)	(3,324,000)
Total income taxes	\$ 1,125,000	\$ —

6 Pension and Other Postretirement Benefits:

NSCC has a trustee noncontributory defined benefit pension plan (the qualified plan) covering all eligible employees of NSCC and certain affiliated companies. Benefits under this plan are based on employees' years of service and compensation during the years immediately preceding retirement. NSCC's funding policy is to make contributions under the plan that meet or exceed the minimum funding standards

under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended. NSCC also has a noncontributory supplemental executive retirement plan (SERP) which provides for certain benefits to identified executives of NSCC upon retirement. Although the SERP is currently unfunded, \$5,710,000 in marketable securities have been segregated by NSCC in order to pay future benefit obligations of the SERP. The securities are recorded at market value at December 31, 1998 and are included in other assets in the balance sheet. Further, NSCC has a noncontributory benefit restoration plan (BRP) which restores to identified executives certain retirement income benefits which have been limited by changes in income tax regulations. The BRP is not funded. In addition, NSCC's life insurance program includes payment of death benefits to beneficiaries of eligible retired employees of NSCC and certain affiliated companies. Finally, NSCC's health insurance program provides benefits to eligible retired employees of NSCC and certain affiliated companies.

The funded status and related components of the plans follow:

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Benefit obligation at end of year:				
Qualified plan	\$15,187,822	\$12,534,390	\$—	\$—
Other plans	9,224,900	5,205,304	1,103,232	1,069,837
	24,412,722	17,739,694	1,103,232	1,069,837
Fair value of plan assets at end of year	14,642,424	12,755,950	—	—
Funded status	(\$9,770,298)	(\$4,983,744)	(\$1,103,232)	(\$1,069,837)
Net accrued benefit cost recognized in the statement of financial position	(\$9,760,811)	(\$7,368,725)	(\$774,631)	(\$579,135)
Weighted-average assumptions as of December 31				
Discount rate	7.25%	7.50%	7.25%	7.50%
Expected long-term rate of return on plan assets	8.00	8.00	—	—
Rate of compensation increase	6.00	6.00	—	—

For measurement purposes, a 10% annual rate of increase in the per capita cost of the covered health care benefits was assumed for 1998. The rate was assumed to decrease gradually to 6% for 2002 and remain at the level thereafter. Employer costs for the medical are capped at twice their portion of the 1996 premium.

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Net benefit cost	\$2,600,635	\$2,267,691	\$188,240	\$200,467
Additional (gain) or loss recognized due to:				
Curtailment	(210,571)	—	7,256	—
Settlement	876,858	—	—	—
Total benefit cost	\$3,266,922	\$2,267,691	\$195,496	\$200,467
Employer contribution	\$ 699,141	\$ 233,747	\$ —	\$ —
Benefits paid	355,726	103,688	—	—

Notes to Consolidated Financial Statements

7 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, 1998, open positions due NSCC approximated \$1,339,276,000 (\$1,320,832,000 at December 31, 1997), and open positions due by NSCC to participants approximated \$992,245,000 (\$1,014,332,000 at December 31, 1997) for unsettled positions and \$347,031,000 (\$306,500,000 at December 31, 1997) for securities borrowed through NSCC's Stock Borrow Program.

During the first quarter of 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, 1998, the accrual for estimated liquidation losses included in other liabilities is \$14,074,000 of which approximately \$1,900,000 is estimated interest.

At present, under a netting contract and limited cross guaranty agreement with DTC, DTC transferred to NSCC approximately \$860,000 of excess collateral of Adler Coleman Clearing Corporation. Under the terms of that agreement, NSCC remains liable to DTC through February 1999 for return of such monies if DTC subsequently determines the collateral not to have been excess.

Net rental expense amounted to \$2,689,000 and \$2,312,000, in 1998 and 1997, respectively. At December 31, 1998, future minimum rental payments under all non-cancelable operating leases follows:

Year	Amount
1999	\$ 2,316,000
2000	2,604,000
2001	2,588,000
2002	2,565,000
2003	2,589,000
2004 through 2012	27,180,000
Total minimum annual rental payments	\$39,842,000

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

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

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

NSCC has entered into a netting contract and limited cross-guaranty agreement with DTC under which DTC has agreed to make payment to NSCC for any remaining unsatisfied obligations of the defaulting participant to the extent that DTC has excess resources belonging to the defaulting participant. NSCC has also entered into limited cross-guaranty agreements separately with ISCC, 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 the Board of Directors. NSCC may assess the balance needed on a pro-rata basis to the remaining participants based upon their required clearing fund deposits.

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

Report of Independent Accountants



February 12, 1999

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of National Securities Clearing Corporation and its subsidiary at December 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.


PricewaterhouseCoopers LLP
New York, NY

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

February 12, 1999

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

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

NSCC's management assessed its internal control over financial reporting as of December 31, 1998, in relation to criteria for effective internal control described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, NSCC believes that, as of December 31, 1998, its system of internal control over financial reporting met those criteria.


David M. Kelly
President and Chief Executive Officer


Richard R. Macek
Managing Director, Treasurer
and Chief Financial Officer

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**Emerging Markets Clearing Corporation
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(212) 855-2700
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Futurists

For those seeking information about the futurists featured in our Annual Report, please refer to the following Internet addresses:

Rosalind Picard –
<http://picard.www.media.mit.edu/people/picard/>

Nicholas Negroponte –
<http://www.media.mit.edu/~nicholas/>

Richard Smalley –
<http://cnst.rice.edu/reshome.html>

K. Eric Drexler –
<http://www.foresight.org/FI/Drexler.html>

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Dan Nelkin, NYC

**Report of Independent
Accountants on
Internal Control Over
Financial Reporting**



February 12, 1999

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

We have examined management's assertion that National Securities Clearing Corporation (NSCC) maintained effective internal control over financial reporting as of December 31, 1998 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 NSCC maintained effective internal control over financial reporting as of December 31, 1998 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.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP
New York, NY

NSCC, GSCC, MBSCC, ISCC, EMCC Officers

NSCC Officers

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National Securities Clearing Corporation