
Federal
Reserve Bank of
Philadelphia
Annual Report
1985



1985 ANNUAL REPORT President's Letter



In recent years, this Bank's annual reports featured our own people and operations. We showed photographs taken within our building and told of our accomplishments, department by department, throughout the year.

This report for 1985 steps outward to include the Third District economy and banking structure as well as the Bank's performance. You will see pictures representing area mainstays such as health care, insurance, and legal services. Information on the condition of District banks is included along with traditional material on the Bank itself.

This emphasis on the District is appropriate because the Bank's mission has a stronger regional focus than ever. Without diminishing our national role, I believe the Bank can make vital contributions in the District as a provider of quality banking services, as an alert bank supervisor, as an analyst, convener, catalyst, and supporter of local communities.

I would like the Bank to have an image as a partner seeking joint solutions to local and regional problems. This report will highlight

the Bank's partnership with the Third District economy and its banking system.

Indeed, the three are interrelated and interactive. The condition of the banking system depends to an important extent on the strength of the District economy, and vice versa. Both, in turn, have an impact on the Bank, and I like to think that what we do can affect favorably both banking and economic activity in the region.

I'm pleased to report that the members of this partnership all enjoyed a strong year in 1985. The performance of the District economy compared favorably to both the national experience and to its own past. Third District banks in general have avoided the crises and dislocations that beset the industry in other parts of the country. And the Bank itself ended the year with both its priced services and traditional central bank activities at or above targeted performance levels.

A key element in the Bank's good showing was our expanded quality assurance program. We surveyed our customers and found that quality, more so than price, is becoming the critical element in the choice of a supplier of electronic services, and this program was an effective part of our response.

With eyes on the District, this Bank's Research Department played a major role in developing new techniques of regional economic research and analysis during 1985. In addition, our departments dedicated to community affairs, public information, and consumer education, enjoyed particularly productive years.

A major challenge this Bank faces is keeping its services attuned to the needs of a District banking system, which, like the nation, is moving inevitably toward interstate banking. Both our customers and competitors will be deeply affected, and in 1985 our operating people spent a lot of time planning to meet changing problems and opportunities.

Important as the Third District may be to us, this Bank's partnerships extend outward to

embrace the Federal Reserve System, other financial regulators, and the U.S. Treasury.

We in this Bank have a tradition of leadership within the Federal Reserve, but 1985 has to be a high watermark. The number of System conferences, committees, and task forces that our officers chaired and/or served on is large by any relative measure. The Bank also was a key participant in a variety of leading-edge projects, such as the System's check truncation project.

Cooperation with other bank regulators on both state and national levels is a well-established objective, and never was it achieved so fully as in 1985. In March, and again in May, this Bank lent examiners to other agencies to assist with savings and loan crises in Ohio and Maryland. In addition, we conducted a number of joint training sessions with state examiners from our District.

The Federal Reserve Bank of Philadelphia is pleased to have been the one selected to work in partnership with the U.S. Treasury to develop and operate a new computerized book-entry system for its securities. Although the hardware for "Treasury Direct" will be located here, the service will operate through all Federal Reserve offices for investors across the nation. Nineteen eighty-five was a time of intense preparation to get this system ready for use in mid-1986.

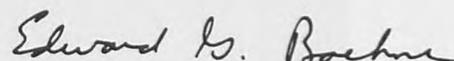
Although the number of this Bank's people who are directly involved in monetary policy is small, their impact is significant. Our Board of Directors must set the discount rate every 14 days. As president, I attend meetings of the Federal Open Market Committee and I receive input, not only from our staff of economists, but from people involved in business and community work all over the District.

In many ways 1985 was a positive year for the U.S. economy, and an appropriate monetary policy had an important role in the achievements. It was a year characterized by slow, sustainable growth, continued moderation in inflation, gradual improvement in unemployment, declining interest rates,

rising stock prices, and a significant drop in the value of the dollar.

As I have indicated, 1985 was a good year for the Bank and all its partnership involvements, ranging from a civic organization in the Point Breeze section of Philadelphia through the Third District economy and its banking system, through various System and Treasury involvements to monetary policy and the U.S. economy.

And a very nice thing about a solid year is that it can make a good foundation for the years that follow.


Edward G. Boehne
President

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1985 Annual Report

Diversity and balance are good words to describe the Third District economy.

From poultry farms in the southeast to oil rigs in the northwest, from coal and casinos to cement and computers, we are known for diversity. The rise of the service sector relative to manufacturing provides a better overall balance, and within these two major sectors one also finds diversity and balance.

Philadelphia law firms have a prominent position in the profession, but legal services share the spotlight with many other service industries in the District. One is health care, which includes our many hospitals and pharmaceutical firms. Another is education with a concentration of colleges and universities seldom equaled in quantity or quality.

We also are a major insurance center, and banking and finance are vital elements in the area economy. The department store was "invented" in Philadelphia, and the largest shopping mall complex in the nation now can be found near that city.

W.C. Fields used to say that Philadelphia was deficient in places to eat and drink after dark, but the restaurant renaissance of the past decade has put us in the same league with New Orleans and San Francisco.

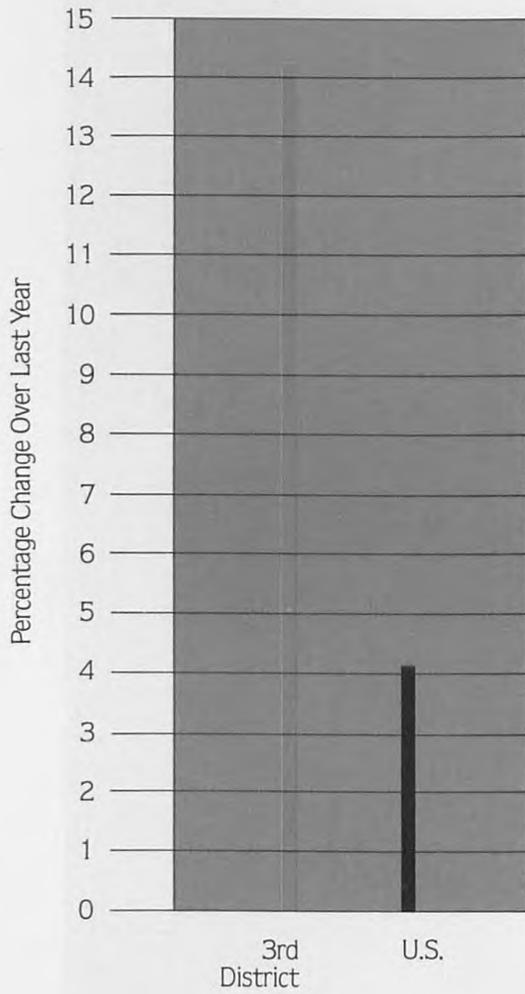
Third District manufacturing used to be on the heavy side, but lately we've lightened up with high tech firms that produce everything from lasers to robots. Although many of our manufacturers have closed or moved away in recent decades, we now have a more dynamic industrial base.

Pennsylvania boasts a fast growing economic corridor along Route 202 from north of King of Prussia to south of West Chester. It features high tech companies, many with a medical orientation, as well as office space, and retailing. Follow Route 202 north, and when you get near Princeton, New Jersey, you will find another area bursting with growth along Route 1. This corridor also supports a diversity of activity but with perhaps less emphasis on

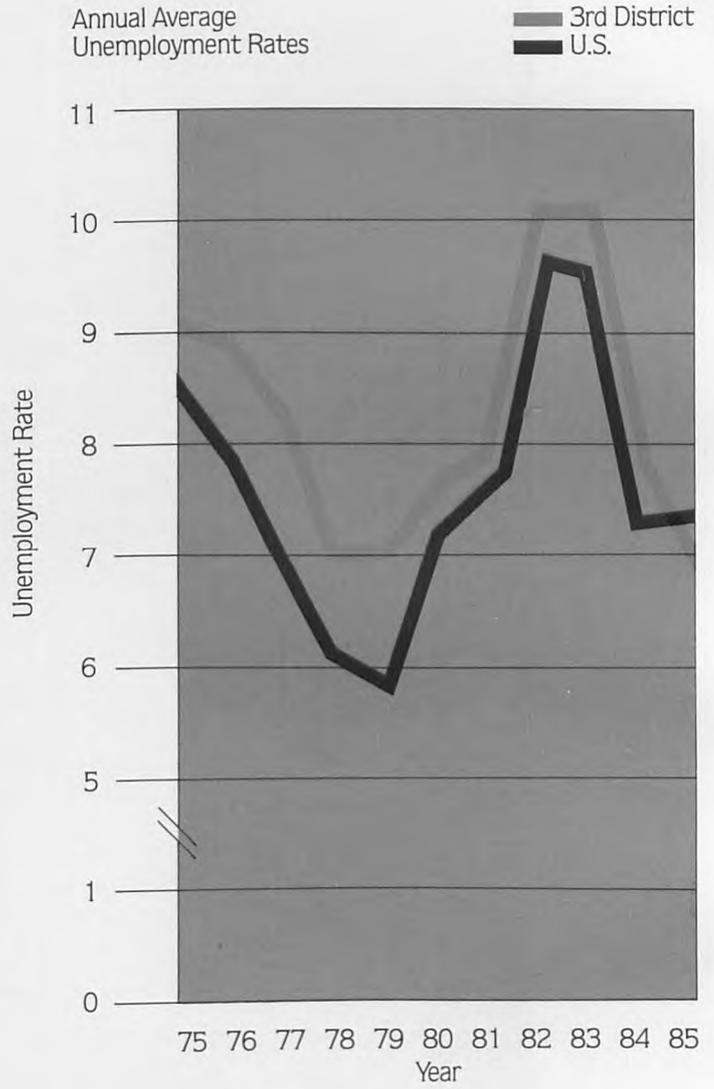


An aerial view of the Great Valley Corporate Center in Malvern, Pennsylvania. Part of the Route 202 boom, the Center now has about 200 firms with more than 4,500 employees.

Loan Growth
at Large Commercial Banks, 4th
Quarter 1985 vs 4th Quarter 1984



Annual Average
Unemployment Rates



Source: Bureau of Labor Statistics

retailing and more on financial institutions than the one along Route 202. In central Pennsylvania, another high tech cluster has sprung up around the Penn State University, making itself the District's newest metropolitan area.

Agriculture has experienced well-advertised problems in other parts of the nation, but the picture is much brighter here in the Third District. From milk to mushrooms, from small truck farms to large cattle spreads, we have a lot more than eggs in our agricultural basket. If one crop runs into trouble, there usually are many others to offset it.

How Our Economy Performed

Continuing trends begun early in the decade, the Third District economy accelerated in absolute terms and also strengthened relative to the nation during 1985.

Unemployment is a good indicator of regional economic health. Some areas of the District still show a bleak picture. For example, parts of western Pennsylvania, southern New Jersey, and the cores of large cities still carry heavy jobless burdens. But in the Third District states of Delaware, New Jersey, and Pennsylvania, the unemployment rate averaged 7.0 in 1985, compared to 7.2 for the U.S. as a whole. This was the first year in over a decade that our rate was below the nation's.

Some of the good news in lower unemployment was due to the shift from goods-producing industries to service-producing industries, which has been more pronounced here than in the nation. But more of the improvement resulted from our relatively faster employment growth across the board. In the Philadelphia metropolitan area, as an illustration, employment in manufacturing, transportation, communications and public utilities, trade, finance, insurance, real estate, and general services all showed improvement relative to the nation in the 1980s.

Manufacturing activity in the Third District ended 1985 on an upbeat note, and retailers also enjoyed a solid year with Christmas sales three to seven percent above 1984. Inflation

remained under control here as it did throughout the nation. Housing sales were strong with help from declining mortgage rates and the fact that our housing stock traditionally has been well-built and bargain-priced. The value of construction contracts was up compared to most other parts of the country, and although much new office space has been built in downtown Philadelphia, the vacancy rate is relatively low.

Throughout the year, economists in our Research Department have tracked the upward movement of the District economy, analyzed the underlying causes, and played a role in its future. In fact, our staff economists have continued to make important contributions to regional economics with studies of population and employment growth and the factors affecting housing. One of the Bank's top economists now chairs the Federal Reserve System's Committee on Regional Analysis, and members of our staff are involved in efforts to advise and assist local policymakers in promoting regional growth.

The District Banks

The performance of the District economy is reflected in the expansion of bank loans. In the fourth quarter of 1985, loans at large area banks were up 14.1 percent compared with the fourth quarter of 1984; during the same period, banks nationwide saw loan volume increase only 4.2 percent. Indeed, the entire District banking system shows up well relative to the country as a whole.

A study in this Bank's September/October 1985 *Business Review* showed that banks in the Third Federal Reserve District have been in good condition for a number of years, and their performance statistics have compared favorably with national averages. The health of our banks is reflected in measures such as loan quality, earnings, capital ratios, and liquidity positions. In each category, our banks have performed steadily through the 1980s and have been well above national norms.

Across the nation, 120 banks failed in 1985, and 180 others already had closed their doors

in the earlier years of the decade. In contrast, only one bank failed in the Third District over the past six years. Furthermore, the proportion of problem banks to the total banks here is lower than the national figure.

Many of the nation's recent bank failures occurred in areas that were heavily dependent on energy or agriculture. In contrast, the character of economic activity we enjoy here has given strength of diversity and balance to area lenders. Add in the prudent management that our banks long have been noted for, supplement it with effective supervision and one can see why District banks have done so well in the 1980s.

Supervising for Soundness

Our Supervision and Regulation Department had one of its most productive years ever in 1985. Facing issues related generally to deregulation and specifically to repurchase agreements, large-dollar transfers, leveraged buyouts, capital adequacy, and off-balance-sheet risks, the department devoted special attention to adequate staffing levels and improved training. As another step, automation was used to improve the efficiency of field examinations.

One weekend in March 1985, the Department received a call saying that state-insured savings and loan associations in Ohio were in trouble, and many were being closed temporarily. We had a cadre of examiners on the plane within hours to help the associations reopen as fast as possible. In May, a similar call came from Maryland, and our examiners hit the road again. At the peak of these crises, we had as many as 15 examiners working outside the District in cooperation with other agencies.

Within the District, we have ongoing partnerships with the state banking authorities, which involve seminars to improve specialized skills, sharing surveillance information and the joint training of examiners and interns.

In the spring of 1985, several U.S. government securities dealers failed, causing widespread losses to investors. The Federal Reserve

System undertook a nationwide program to provide information on minimizing risks when investing in repurchase agreements based on government securities. Senior officers from several departments in the Bank cooperated on the program, and two seminars were held in the District in conjunction with state treasurers' offices. Decisionmakers from over 7,000 governmental units and depository institutions were invited, and all received informational pamphlets on REPOS.

The Risk Reduction Program is another System effort that we highlighted in 1985. Its purpose is to reduce the risks associated with bank overdrafts made and settled within the same business day. We explained the program, which takes effect in March 1986, at a series of six seminars with a total attendance of about 300 executives from 175 depository institutions.

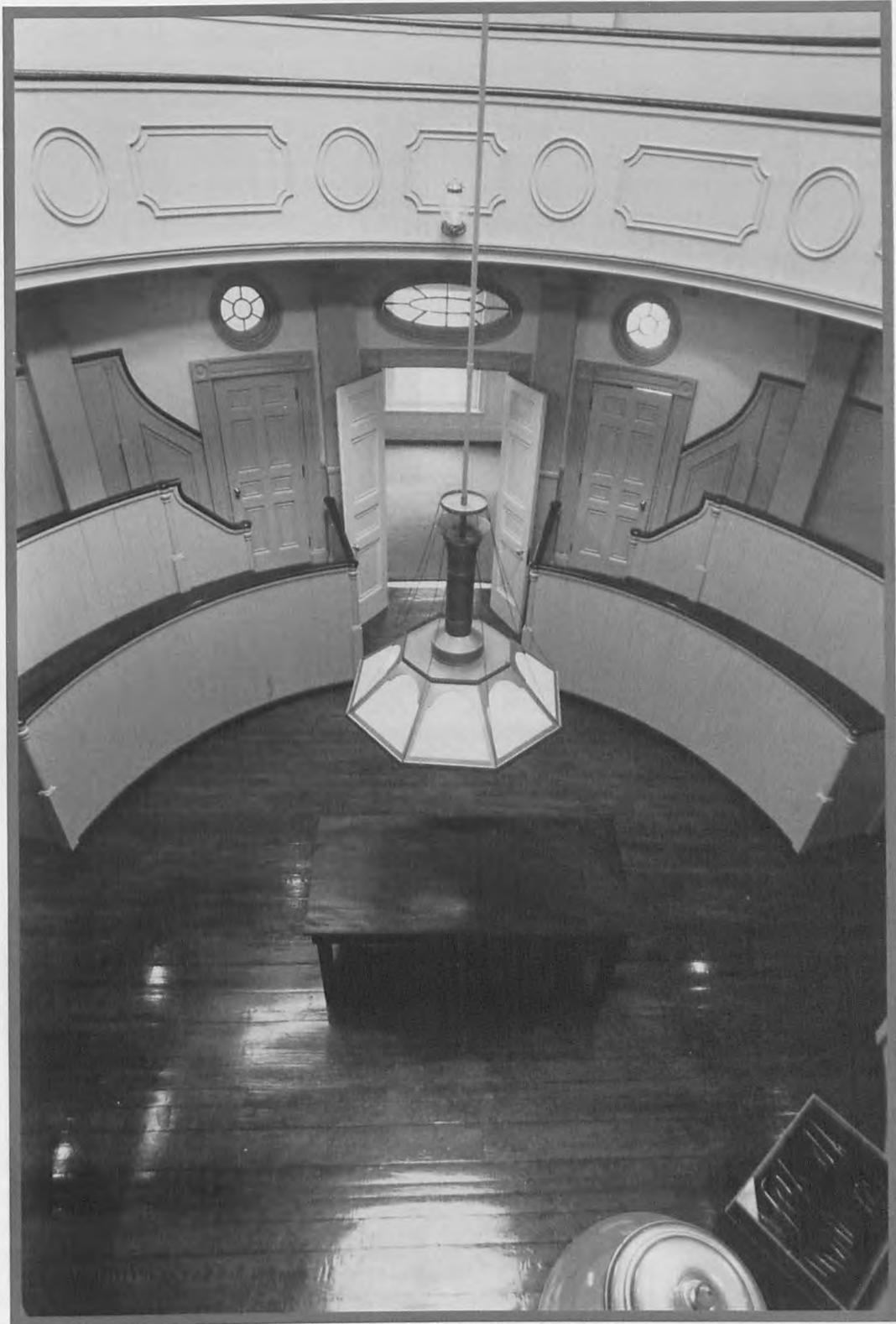
Across State Lines

As 1985 unfolded, most Third District banks awaited the next chapter in interstate banking. It first came to Delaware in 1981, and about 16 large de novo banks have been established in the state since then. Typically, they are subsidiaries of out-of-state companies, and they must meet certain capital and employment conditions, while not competing for local deposits.

Out-of-state banks and others also have tried to enter the Third District by setting up "nonbank" or limited service banks. As 1985 ended, however, the most viable route to interstate expansion seemed to be through reciprocal compacts. Although no legislation was passed in the District during the year, New Jersey and Pennsylvania were showing particular interest. Delaware, as we said, already has gone down another road.

No matter how it comes, interstate banking will bring a new spectrum of competition for Third District institutions, and many have begun to strengthen their position through mergers, cost control, new services, and automation.

This Bank also will face new competition and with it new opportunities in an interstate banking environment, so in 1985 we intensi-



Since colonial times Philadelphia has been a center of American medicine. Above is a restoration of the nation's first operating room at Pennsylvania Hospital.

The District specializes in medical care, education and technology. Here a nurse at Pennsylvania Hospital cares for an incubator baby.



A leader of the restaurant renaissance in Philadelphia, owner Steve Poses (standing) and his executive chief in the FROG restaurant.



This computer helps maintain the area's position as a major insurance center. It is located at the Penn Mutual Life Insurance Co., one of the leaders.

fied efforts to develop appropriate plans and strategies.

It is likely that Federal Reserve electronic services increasingly will be separated into their component parts: processing, delivery, and settlement. While this unbundling should provide benefits for our customers, it also opens the door to competition, and much of it may come from nonbank institutions.

In this increasingly competitive market for electronic services, a transaction's price is being replaced by service quality as the most important element in the choice of a supplier. Thus accuracy, timeliness, and reliability are becoming critical concerns. That's a major reason why this Bank expanded its Quality Assurance Program into eight new areas in 1985. As a result, the dependability of our automated systems was and will continue to be enhanced.

The Monetary Control Act of 1980 required this Bank, as well as the System, to price a variety of services and to earn enough from them to cover their cost of production, plus a margin to compensate for private sector profits and other costs. Strong revenue growth combined with effective cost control enabled us to exceed our total revenue goals by a comfortable margin in 1985, with all categories of priced services but one meeting their targets. For the Bank as a whole, net revenue was up 11 percent in 1985 from the previous year. This performance minimized pressures for service price increases so check prices, which account for almost three-quarters of the Bank's revenues, were reduced for 1986.

Operating Features

During 1985, the Bank's operating departments refined existing services, introduced new ones, and planned intensively for 1986 milestones.

In the first category, Payor Bank services were upgraded, and Automated Clearing House and Noncash Services were enhanced with new features. We focused on smaller banks with the creation of product advisory groups who told us of their specific needs. Interdistrict

business and services for thrifts are important and productive areas that received special attention during the year.

Fedline was one of our most significant new services of 1985. A network based on personal computers, it gives smaller depository institutions convenient, cost-effective access to this Bank's electronic services. About 80 customers were on line by year's end, and the number on-line is expected to grow rapidly as new phases become available.

The excitement about Treasury Direct continued to build throughout 1985. Begun in 1983 (nee T-DAB), it is a joint undertaking with this Bank, the Board of Governors, and the U.S. Treasury. When operational in mid-1986, it will provide full book-entry for U.S. Treasury securities for an estimated 2,000,000 investors across the nation.

Design of the electronic systems for Treasury Direct, which are located in this Bank, began in 1983. In the summer of 1985, the program was expanded to include investor information and education. This Bank again was selected as the central site and led the planning for a national information campaign. In addition to the Board and the Treasury, public information officers of the 12 Reserve Banks will play a major role in the introduction of Treasury Direct.

System Leadership

The Third District is relatively small when measured by area or economic activity, but this Bank has much larger involvement and influence in the Federal Reserve System than its size would indicate.

In 1985, we increased our already high-level of leadership on committees and other System organizations. President Ed Boehne and First Vice President Dick Smoot became vice chairmen of their respective conferences, a step towards taking over the chairs in early 1986. President Boehne also continued as chairman of the System's influential Pricing and Policy Committee. Officers from the Bank chair five other System committees and subcommittees, and are members of a variety of committees, conferences, task forces, and advisory groups.

Over the years, our Public Information function has developed special expertise in film making, and has produced three System movies on Federal Reserve credit regulations and allied topics. In 1985, we completed another System film, this one about consumer loans and deposits, and put it in national distribution.

The Bank also had a starring role in the System's check truncation project during the year and was featured in the Federal Reserve long-range automation program.

Community and In-Bank Responsibilities

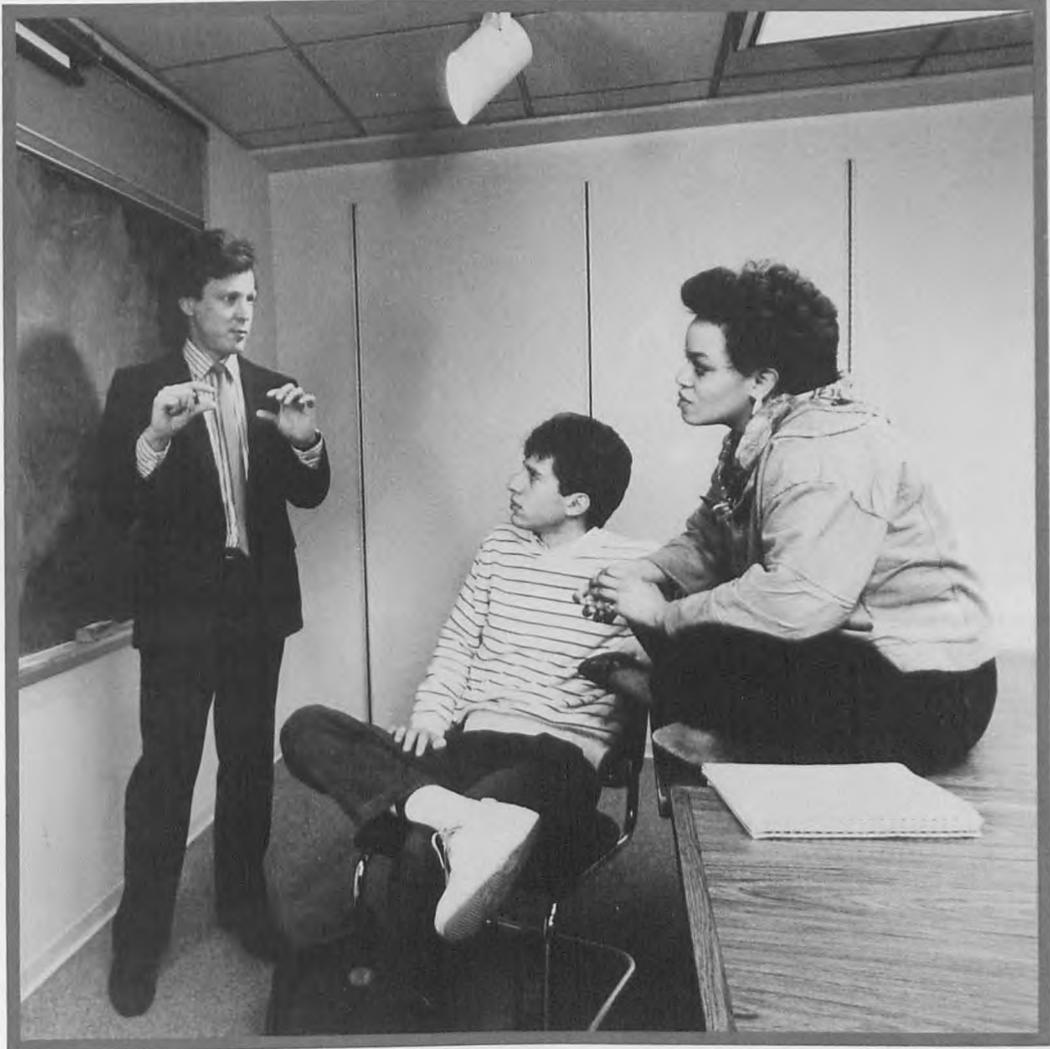
At home in the District, we find the Bank placing new emphasis on developing better relations with its various communities. To this end, the Community Affairs function was set up as a special department with augmented powers and visibility in January 1985. In a landmark effort, this department published a directory of community revitalization programs. Titled "Options for Investing in Our Communities," it was used and emulated far beyond the District boundaries. Our third annual conference brought together representatives from 130 different financial institutions and community groups. A new tour program, using retirees as guides, was an unqualified success and more than doubled the number of people who come to visit our building.

With all their involvements and activities on national, System, District, and community levels, the Bank's officers and employees remain aware of the phrase, "You are This Bank," which is the slogan for a continuing effort to stress excellence in performance.

The 1985 phase stressed the Bank's corporate values such as integrity, respect for the individual, and quality service, which were communicated and reinforced throughout the year in a series of publications and posters. In a "Gold Standard Contest," employees who best displayed the corporate values in their job performance were singled out for commendation. In such ways the Bank strives to maintain

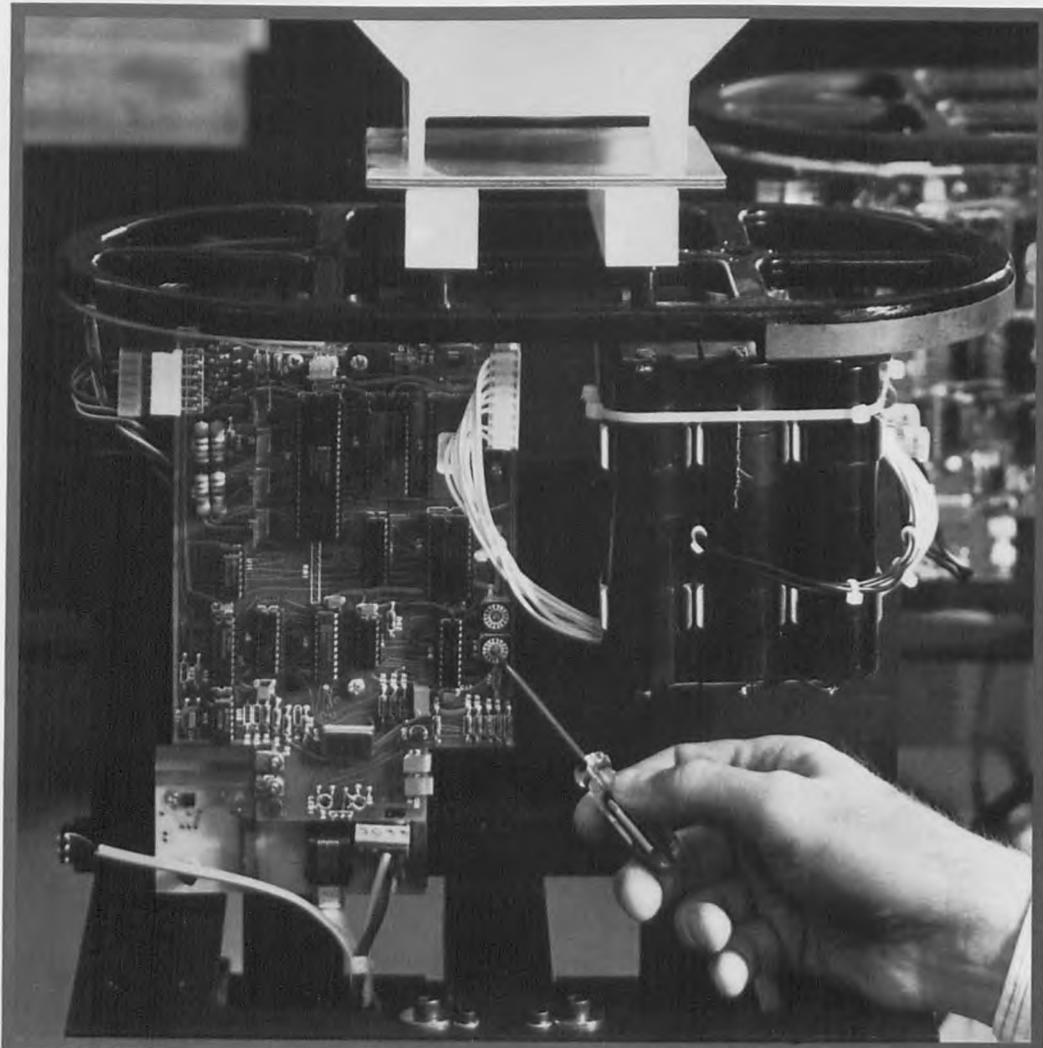
standards of dependability and quality among its staff.

The body of this annual report started by saying that diversity and balance characterize the Third District economy. What better way to conclude than to say that dependability and quality characterize our own work force.



Professor Gary Gorton discusses a problem with students Fred Siegel and Valerie A. Mosley at the University of Pennsylvania's Wharton School.

Princeton, New Jersey is one of the fastest growing areas in the District. This modern building is in the Forrestal Center on Route 1.



A human hand helps to build a robot at the ProgramMation Inc., one of the many high-tech firms that add new diversity to our industrial mix.

Executive Changes

Robert M. Landis, Partner in the Philadelphia law firm of Dechert, Price & Rhoads, was redesignated chairman of the board of the Philadelphia Federal Reserve Bank for 1986. Nevius M. Curtis, Chairman and Chief Executive Officer of Delmarva Power and Light Company, Wilmington, Delaware, was renamed deputy chairman. Mr. Landis and Mr. Curtis have held these posts since 1983. Mr. Curtis was also reappointed to a three-year term as a Class C director. The appointments were made by the Board of Governors of the Federal Reserve System in Washington, D.C.

Two new directors were voted to our board in December. Clarence D. McCormick, President of Farmers and Merchants National Bank, Bridgeton, New Jersey, and Nicholas Riso, President and Chief Executive Officer of Giant Food Stores, Inc., Carlisle, Pennsylvania, will serve three-year terms, beginning January 1, 1986. Mr. McCormick was elected a Class A director representing small member banks in the District. He replaced JoAnne Brinzey, Chairman and Chief Executive Officer, First National Bank at Gallitzin, Gallitzin, Pennsylvania. Mr. Riso was elected to represent the public as a Class B director by large member banks. He filled the seat formerly held by Eberhard Faber, IV, Chairman and Chief Executive Officer, Eberhard Faber, Inc., Wilkes-Barre, Pennsylvania.

This Bank's directors named George A. Butler, Chairman and Chief Executive Officer of First Pennsylvania Bank, N.A., in Philadelphia, to his third one-year term as Third District representative to the Federal Advisory Council in 1986.

In an official promotion occurring in 1985, Aris Protopapadakis was named Vice President and Economist in the Research Department.

In addition, the Board of Directors approved four new promotions and appointments in the examination, supervision, and regulation area: Joseph J. Ponczka and Edward G. Rutizer became Assistant Vice Presidents;

Robert N. Downes, Jr., became Applications Officer; and Bernard M. Wennemer became Examination Review Officer.

Stanley J. Forst resigned as Vice President, Computer Services, to take a position with a private firm.

The Bank created a new department in 1985 to focus more directly on community affairs. The Community Affairs and Regulations Assistance outreach functions, formerly part of Supervision and Regulation, became a separate department, directed by Frederick M. Manning, Assistant Vice President and Community Affairs Officer, and reporting to Lawrence C. Murdoch, Jr., Vice President and Secretary.



Robert M. Landis, chairman of this Bank's Board of Directors and a partner in the Philadelphia law firm of Dechert, Price & Rhoads, in his office.

Board of Directors December 31, 1985

Chairman
Robert M. Landis, Partner
Dechert, Price & Rhoads
Philadelphia, Pennsylvania

Deputy Chairman
Nevius M. Curtis, Chairman
and Chief Executive Officer
Delmarva Power and Light Company
Wilmington, Delaware

George E. Bartol, III, Chairman
Hunt Manufacturing Company
Philadelphia, Pennsylvania

JoAnne Brinzey, Chairman
and Chief Executive Officer
First National Bank at Gallitzin
Gallitzin, Pennsylvania

Eberhard Faber, IV, Chairman
and Chief Executive Officer
Eberhard Faber, Inc.
Wilkes-Barre, Pennsylvania

Charles F. Seymour, Chairman
and Chief Executive Officer
Jackson-Cross Company
Philadelphia, Pennsylvania

Carl E. Singley, Dean
and Professor of Law
Temple University School of Law
Philadelphia, Pennsylvania

Ronald H. Smith, President
and Chief Executive Officer
CCNB Bank, N.A.
New Cumberland, Pennsylvania

John H. Walther, Chairman
and Chief Executive Officer
New Jersey National Bank
Pennington, New Jersey

Member of the Federal
Advisory Council
George A. Butler, Chairman
and Chief Executive Officer
First Pennsylvania Bank, N.A.
Philadelphia, Pennsylvania

Officers December 31, 1985

Edward G. Boehne
President

Richard L. Smoot
First Vice President

Konstanty G. Adack
Executive Vice President

Thomas K. Desch
Senior Vice President
and Lending Officer

Donald F. Doros
Senior Vice President

James F. Gaylord
Senior Vice President

Hiliary H. Holloway
Senior Vice President
and General Counsel

Richard W. Lang
Senior Vice President
and Director of Research

William H. Stone, Jr.
Senior Vice President

Ronald D. Watson
Senior Vice President

Peter M. DiPlacido
Vice President

James B. Duffy
Vice President

Ronald G. Foley
Vice President

John M. L. Gruenstein
Vice President and Economist

Malcolm T. Humphrey
Vice President

Donald J. McAneny
Vice President and
General Auditor

Lawrence C. Murdoch, Jr.
Vice President and
Secretary

Terence B. O'Brien
Vice President

Aris Protopapadakis
Vice President and Economist

Lawrence C. Santana, Jr.
Vice President

Vish P. Viswanathan
Vice President

Jack P. Besse
Assistant Vice President

Robert J. Bucco
EFT Services Officer

James E. Burns
Planning Officer and
Assistant Secretary

Edward J. Coia
Assistant Vice President

Robert A. Dobie
Assistant Vice President

Patrick L. Donahue
Financial Services Officer

Robert N. Downes, Jr.
Applications Officer

William Evans, Jr.
Technical Services Officer

Edward J. Fox
National Accounts Officer

Judith H. Helmuth
Administrative Officer—DAS

Eugene E. Hendrzak
Statistical Officer

Jerry Katz
Assistant Vice President

Alan L. Kiel
Staffing and Development
Officer

Robert H. Klein
Assistant Vice President

Mary M. Labaree
Operations Officer—DAS

Thomas P. Lambinus
Financial Accounting Officer

Edward M. Mahon
Assistant Counsel

Frederick M. Manning
Assistant Vice President
and Community Affairs
Officer

Stephen A. Meyer
Research Officer
and Economist

Janice M. Moulton
Research Officer
and Economist

Joseph J. Ponczka
Assistant Vice President

Edward G. Rutizer
Assistant Vice President

Louis N. Sanfelice
Assistant Vice President
and Assistant Secretary

John B. Shaffer
Assistant General Auditor

Ronald R. Sheldon
Data Services Officer

Charles J. Sullivan, Jr.
Assistant Vice President

JoAnne Tarnoff
Automation Planning Officer

Elizabeth S. Webb
Assistant Counsel

Bernard M. Wennemer
Examination Review Officer

Advisory Councils

Since 1981, the Board of Directors of this Bank has created a variety of Advisory Councils to promote the exchange of information and the understanding of needs and problems.

Each Advisory Council consists of 12 members and meets at least twice each year. In 1985, a new Council to represent small business and agriculture was established to open two-way communication with these vital sections of the regional economy.

Today there are four Advisory Councils:

- (1) Nonmember Banks
- (2) Credit Unions
- (3) Thrift Institutions
- (4) Small Business/Agriculture

Nonmember Bank Advisory Council

Chairman
Philip J. DiBerardino
President and C.E.O.
Bay State Bank
Ship Bottom, New Jersey

Deputy Chairman
John D. Wickert
Chairman of the Board
and C.E.O.
Dauphin Deposit Bank
and Trust Company
Harrisburg, Pennsylvania

Richard J. Abdill
President and C.E.O.
Fidelity Bank and
Trust Company of New Jersey
Pennsauken, New Jersey

Theodore D. Bessler
President and C.E.O.
Garden State Bank
Jackson, New Jersey

John R. Beyer
President and C.E.O.
Mid-State Bank
and Trust Company
Altoona, Pennsylvania

Glenn Y. Forney
President and C.E.O.
United Penn Bank
Wilkes-Barre, Pennsylvania

Robert M. Hoyt
Chairman, President and C.E.O.
Sussex Trust
Laurel, Delaware

Richard M. Linder
Chairman and President
The Drovers and Mechanics Bank
York, Pennsylvania

Roy T. Peraino
Chairman and C.E.O.
Continental Bank
Philadelphia, Pennsylvania

Bernard J. Taylor, II
Chairman and C.E.O.
Wilmington Trust Company
Wilmington, Delaware

William F. Sharp, Jr.
President and C.E.O.
Lenape State Bank
West Deptford, New Jersey

Credit Union Advisory Council

Chairman
Carolyn O'Brien
Treasurer/Manager
Princeton University
Employees Federal Credit Union
Princeton, New Jersey

Deputy Chairman
Richard M. Stoops
Manager
Nylon Capital Federal Credit Union
Seaford, Delaware

Peggy J. Bosma
Manager
Letterkenny Federal Credit Union
Chambersburg, Pennsylvania

Joseph Duffy
Manager
Philadelphia Inquirer and
Daily News
Employees Federal Credit Union
Philadelphia, Pennsylvania

Benjamin T. Griffith
Manager
South Jersey Federal Credit Union
Camden, New Jersey

Milton E. Grosnick
President
Kimble Federal Credit Union
Vineland, New Jersey

Milt Hershberger
President
Abco Federal Credit Union
Rancocas, New Jersey

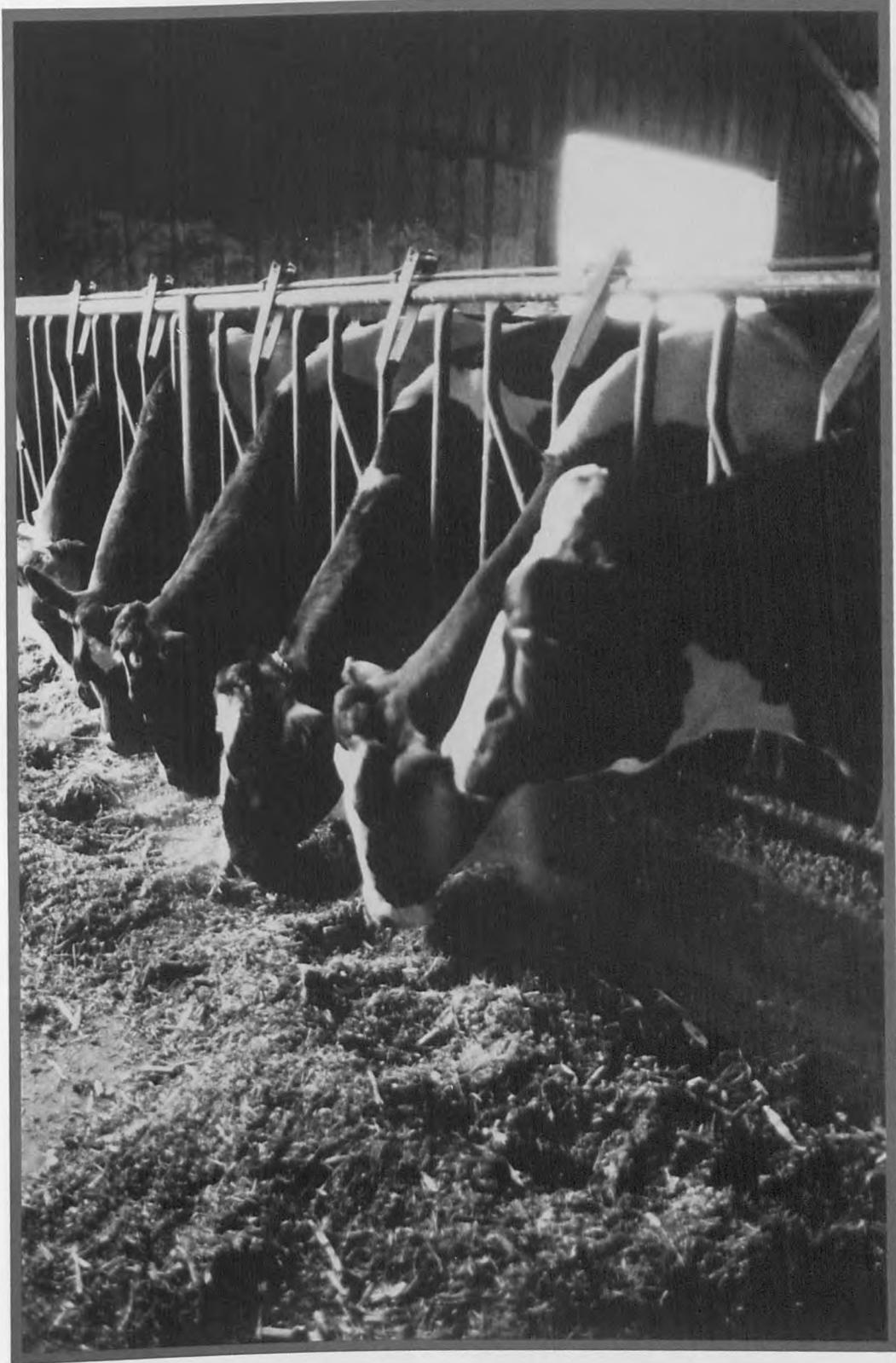
Carl W. Knowlden
Manager
WAT Federal Credit Union
Williamsport, Pennsylvania

Lonny J. Maurer
Manager
Harrisburg Belco Federal Credit Union
Harrisburg, Pennsylvania

Clement H. Schaller
Manager
New Castle County School Employees
Federal Credit Union
Wilmington, Delaware

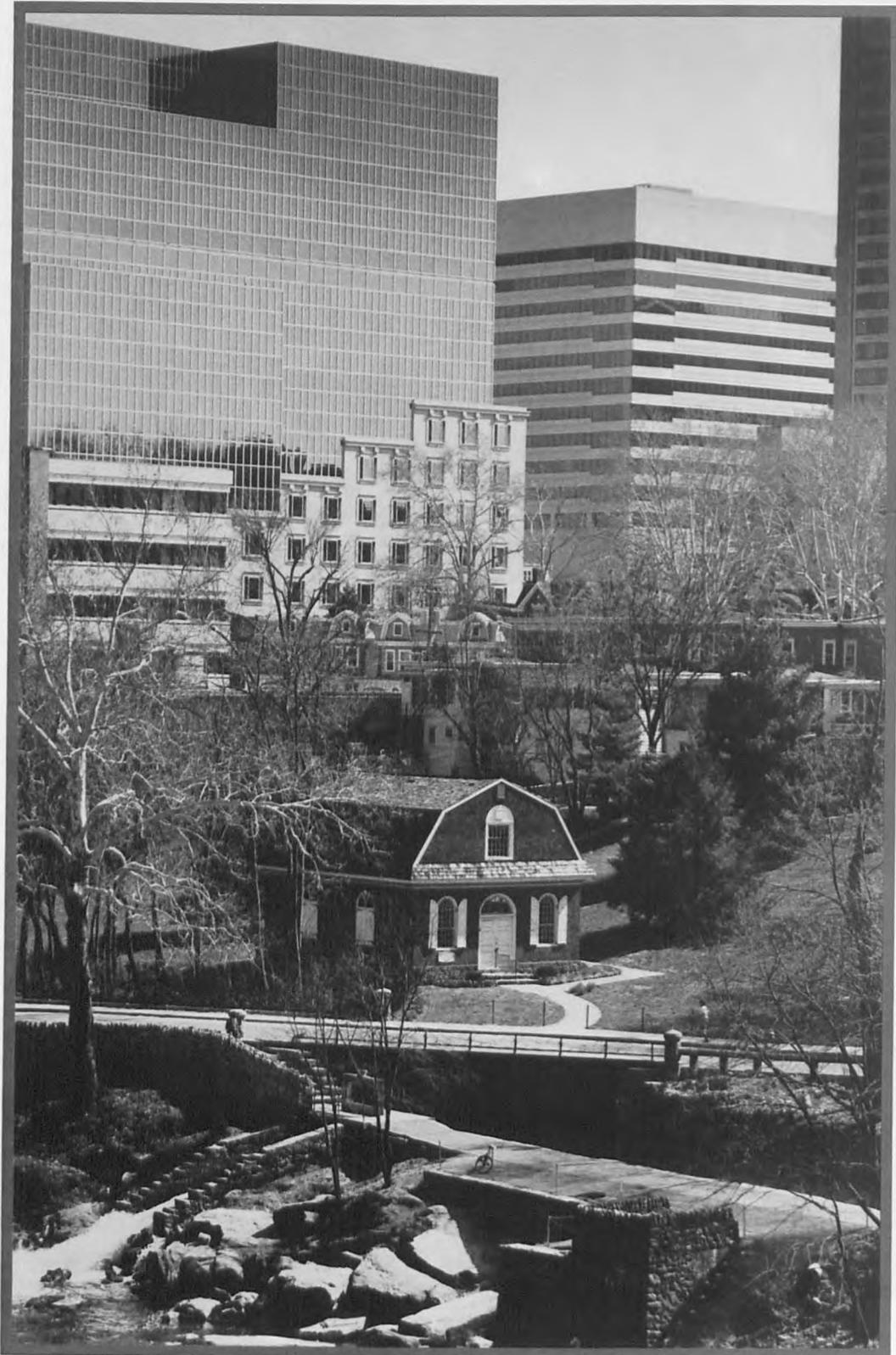
Glenn Stuart, Jr.
President/General Manager
Wybro Federal Credit Union
Paoli, Pennsylvania

Charles T. Williams
President
Lukens Community Federal Credit Union
Thorndale, Pennsylvania



Part of the dairy herd belonging to Robert Winner, a New Jersey farmer and member of this Bank's Small Business/Agricultural Advisory Council.

Banking's recent growth in Delaware has been more dramatic than in any other state. Pictured here is downtown Wilmington.



Thrift Institutions Advisory Council

Chairman
Ronald A. Seagraves
President and C.E.O.
Security Savings and Loan Assn.
Vineland, New Jersey

Deputy Chairman
Ralph O. Williams
Chairman, President and C.E.O.
First Federal Savings and Loan
Assn. of Delaware
Wilmington, Delaware

Lynn S. Baker
President
First Federal Savings Bank
of Hanover
Hanover, Pennsylvania

Thomas H. Hamilton
President
Collective Federal Savings and
Loan Assn.
Egg Harbor City, New Jersey

Stephen G. Harris, Jr.
President and C.E.O.
Artisans' Savings Bank
Wilmington, Delaware

Martin I. Kleppe
President and C.E.O.
Germantown Savings Bank
Philadelphia, Pennsylvania

John S. Madore
Chairman of the Board
United Federal Savings Bank
State College, Pennsylvania

Joseph J. McLaughlin
President and C.E.O.
Beneficial Mutual Savings Bank
Philadelphia, Pennsylvania

Oliver H. Reed, Jr.
Secretary-Treasurer
Peoples-Thrift Building and
Loan Assn.
Norristown, Pennsylvania

Barry E. Rohrbach
President
Penn Savings Bank, F.S.B.
Wyomissing, Pennsylvania

Paul W. Williams
President and C.E.O.
First Federal Savings and Loan Assn.
Hazleton, Pennsylvania

Small Business/ Agriculture Advisory Council

Chairman
John H. Wright, Jr.
Wright's Motor Sales Company
of Hazleton
Hazleton, Pennsylvania

Deputy Chairman
Donald Lynch
Animal Health Sales
Selbyville, Delaware

Roy L. Bomberger
Bomberger's Store, Inc.
Elm, Pennsylvania

Sandra Graffius
Milroy Enterprises, Inc.
Sinking Springs, Pennsylvania

Joseph R. Hartle, Jr.
Lonely Spot Farm
Bellefonte, Pennsylvania

Donald C. Hershey
Hershey Farms
Lancaster, Pennsylvania

Willie Johnson
Fidelity Systems
Philadelphia, Pennsylvania

Dean Pappas
Clement Pappas & Company, Inc.
Seabrook, New Jersey

Ian Sydel
Sydel's Egg Farm
Hartley, Delaware

Charles A. Wiggs
Town and Country Sheet Metal Corp.
Hightstown, New Jersey

Robert A. Winner
Pleasant Acres Dairy Farm
Moorestown, New Jersey

John Yahner
Yahner Brothers Farm
Loretto, Pennsylvania

Statement of Condition

ASSETS	DECEMBER 31, 1985	DECEMBER 31, 1984
Gold certificate account	\$ 483,000,000	\$ 515,000,000
Special drawing rights certificates	195,000,000	225,000,000
Other cash	22,854,965	12,420,569
Loans and securities:		
Discounts and advances	154,362,000	90,789,000
Federal Agency obligations	288,124,345	281,834,390
United States Government securities	6,226,478,136	5,349,007,109
Total loans and securities	<u>\$6,668,964,481</u>	<u>\$5,721,630,499</u>
Other assets:		
Cash items in process of collection	532,997,108	202,669,258
Bank premises—net	48,284,412	49,135,072
Operating equipment—net	14,136,161	10,217,701
All other	458,415,701	276,875,453
Interdistrict settlement account	(651,023,785)	(217,707,112)
Total assets	<u>\$7,772,629,043</u>	<u>\$6,795,241,440</u>
 LIABILITIES AND CAPITAL ACCOUNTS		
Note liabilities:		
Federal Reserve notes	\$5,869,593,020	\$5,686,485,962
Deposits:		
Reserve accounts of depository institutions	\$1,136,476,114	\$ 726,625,104
U.S. Treasury—general account	0	0
Foreign	7,350,000	7,350,000
All other	28,147,423	14,732,561
Total deposits	<u>\$1,171,973,537</u>	<u>\$ 748,707,665</u>
Other liabilities:		
Deferred availability cash items	485,284,275	110,997,930
All other	80,686,411	89,165,883
Total liabilities	<u>\$7,607,537,243</u>	<u>\$6,635,357,440</u>
Capital accounts:		
Capital paid in	82,545,900	79,942,000
Surplus	<u>82,545,900</u>	<u>79,942,000</u>
Total liabilities and capital accounts	<u>\$7,772,629,043</u>	<u>\$6,795,241,440</u>

Earnings and Expenses

	<u>1985</u>	<u>1984</u>
Current earnings:		
From U.S. Government securities	\$580,130,971	\$556,858,451
From discounts, advances and miscellaneous sources	13,582,924	14,939,513
From services to depository institutions	<u>25,021,004</u>	<u>22,250,414</u>
Total current earnings	\$618,734,899	\$594,048,378
Net expenses:		
Operating expenses (after deducting reimbursable or recoverable expenses)	\$ 50,756,030	\$ 48,721,105
Cost of earnings credits	<u>8,966,615</u>	<u>7,570,566</u>
Total net expenses	\$ 59,722,645	\$ 56,291,671
Current net earnings	\$559,012,254	\$537,756,707
Additions to current net earnings:		
Gain on sales of Government securities	\$ 3,391,633	\$ 1,629,400
Gain on foreign currency transactions	59,292,121	0
Miscellaneous nonoperating income	<u>4,868</u>	<u>3,021</u>
Total additions	\$ 62,688,622	\$ 1,632,421
Deductions from current net earnings:		
Assessment by the Board of Governors:		
Board expenditures	\$ 3,747,700	\$ 4,027,500
Federal Reserve currency	5,869,244	6,055,911
Loss on foreign currency transactions	0	22,285,956
Miscellaneous nonoperating expenses	<u>297,516</u>	<u>359,990</u>
Total deductions	\$ 9,914,460	\$ 32,729,357
Net additions or deductions	\$ 52,774,162	\$ (31,096,936)
Net earnings before payment to U.S. Treasury	<u>\$611,786,416</u>	<u>\$506,659,771</u>
Dividends paid	\$ 4,852,310	\$ 4,661,077
Paid to U.S. Treasury (interest on Federal Reserve notes)	604,330,206	493,029,544
Transferred to Surplus, additions	<u>2,603,900</u>	<u>8,969,150</u>
	<u>\$611,786,416</u>	<u>\$506,659,771</u>

Operating Statistics

	<u>1985</u>	<u>1984</u>
Millions of Dollars		
Loans to depository institutions	\$ 5,003	\$ 8,347
Currency received and counted	12,290	10,793
Coin received and counted	162	151
Checks handled:		
U.S. Government checks	25,413	25,226
All other	579,663	488,403
Issues, redemptions and exchanges of		
U.S. Government securities	2,457,929	2,143,790
Transfers of funds	4,753,287	3,889,303
Food stamps redeemed	434	433

Thousands of Items Processed

Loans to depository institutions	1,222*	2,156*
Currency received and counted	988,400	912,000
Coin received and counted	944,300	855,000
Checks handled:		
U.S. Government	29,100	30,300
All other	720,000	662,300
Issues, redemptions and exchanges of		
U.S. Government securities	13,800	13,500
Transfers of funds	2,600	2,400
Food Stamps redeemed	99,300	113,700

*Unrounded data



Modern retailing facilities are a mainstay of the District's fast-growing service sector. This is Gallery I in Philadelphia's Market East section.



Tom Desch (left) and Rick Lang, both senior vice presidents of this Bank, are cooperating in the supervision and analysis of the District banking system.



New office space is rising in various parts of the District. Here is the new IBM building at 1700 Market Street in Philadelphia.

The facade of the Lit Brothers' building, an architectural treasure that's being restored.



FEDERAL
RESERVE BANK OF
PHILADELPHIA

Ten Independence Mall, Philadelphia, PA 19106

Design and Photography: Al Paul