



**The Federal Reserve Bank
Of Philadelphia**

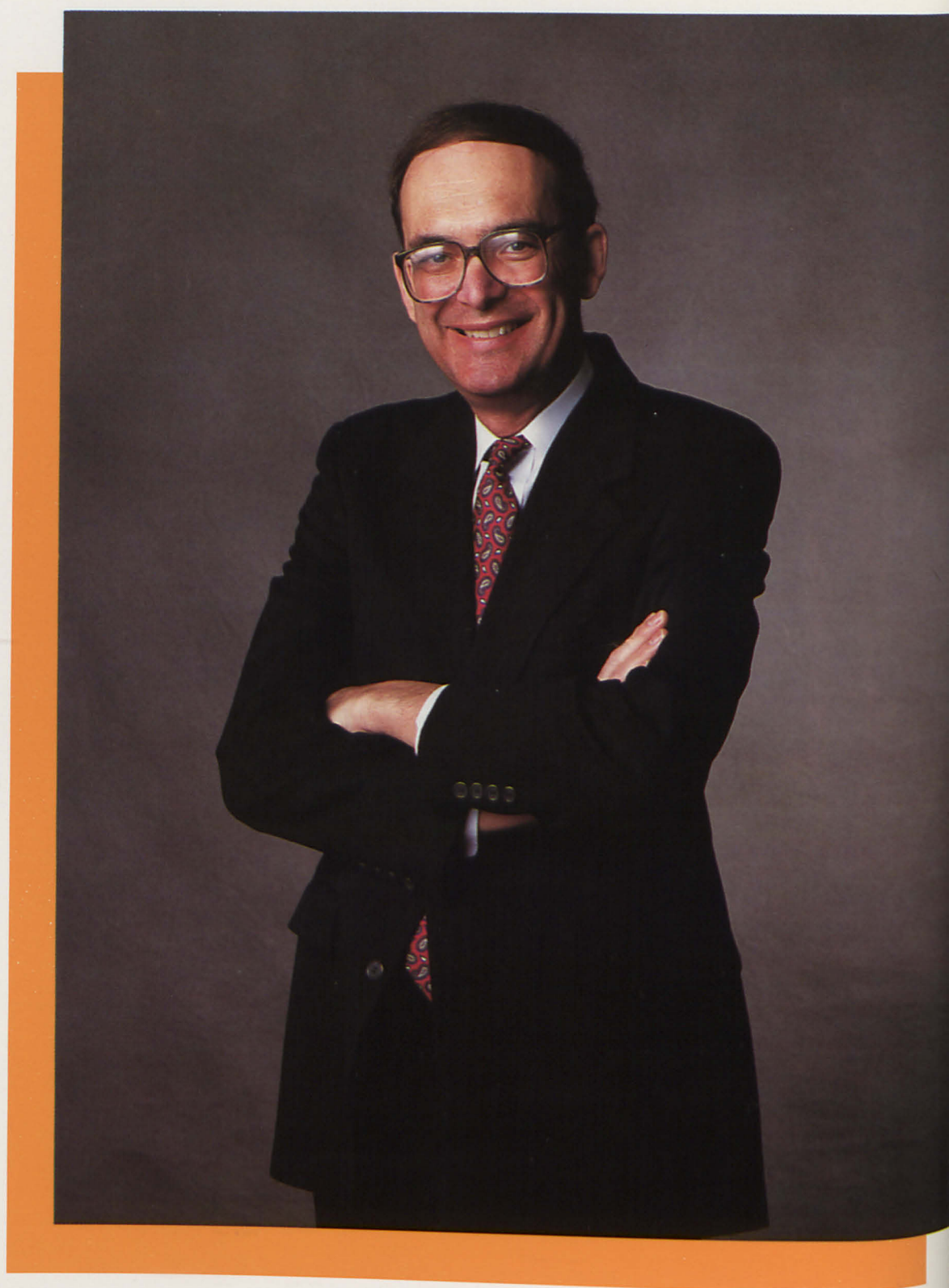
1993 Annual Report



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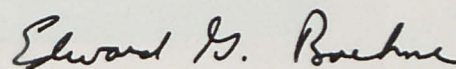
President's Letter

The national and District economies showed marked improvement in 1993. The year began with lingering concerns about the strength of the recovery and ended with a well-entrenched expansion. Nearly 2 million jobs were created and the rate of inflation remained low. Although the District economy lagged behind improvements nationally, the region clearly ended the year on a positive trend.

Monetary policy played a key role in helping to stimulate a durable expansion. Interest rates reached 20- and 30-year lows. As 1994 begins, the emphasis of monetary policy is on fostering sustainable economic and job growth against a background of low inflation. Although a very accommodative monetary stance was appropriate to get the economy moving, a more neutral stance is essential to sustain growth. Lightening up on the monetary accelerator in a timely fashion is better than slamming on the brakes later.

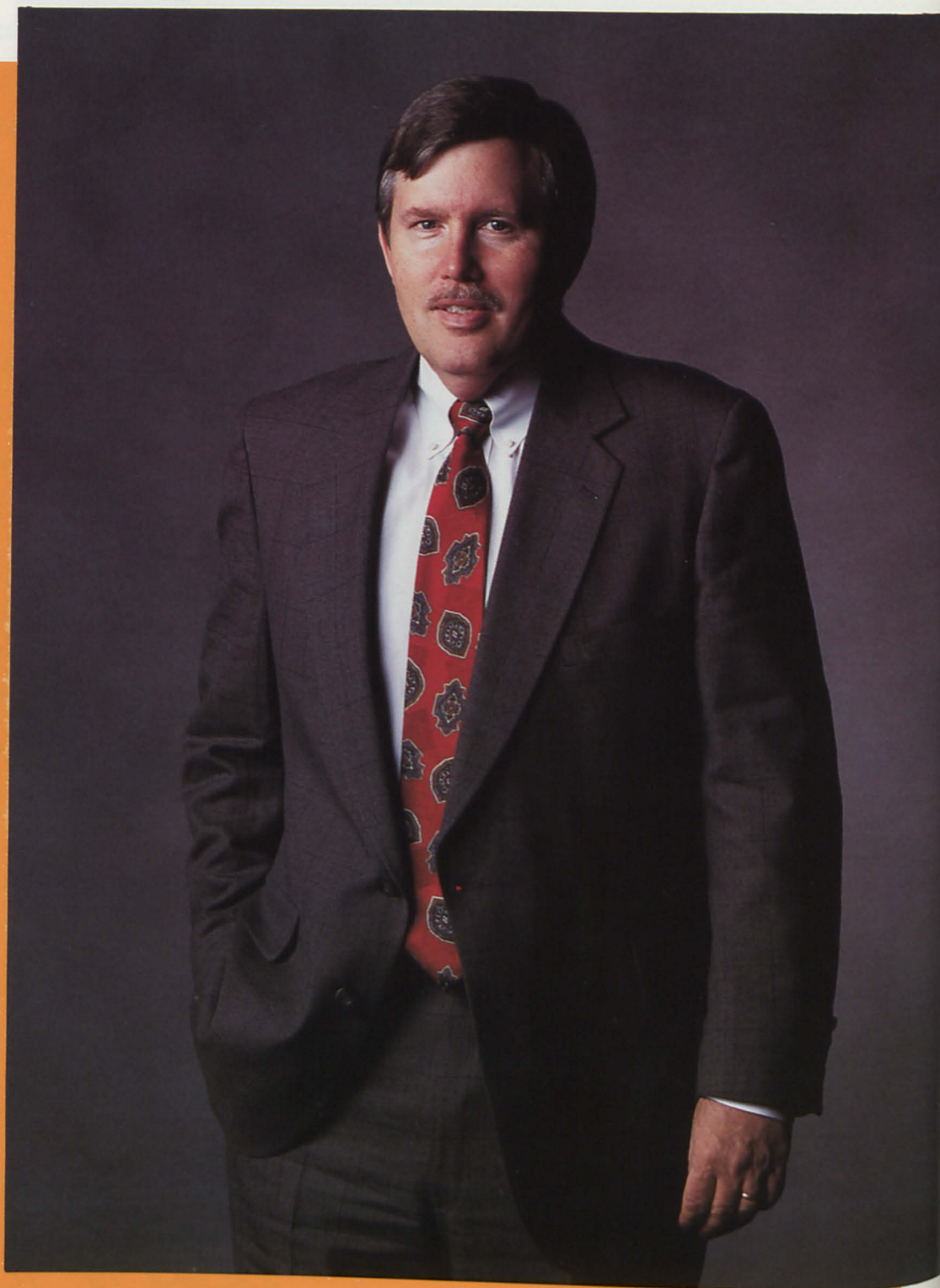
Banking in the District and the nation also improved notably in 1993. Bankers focused on cutting costs, broadening revenue sources, and reducing problem assets. With favorable interest rate spreads and an expanding economy, balance sheets and earnings strengthened considerably. The ongoing challenge for banking is to establish a profitable place in the fast-paced financial services industry of the future. An accompanying article in this report focuses more closely on banking.

Here at the Federal Reserve Bank of Philadelphia, new technologies, changing regulations, and a dynamic competitive environment are affecting every aspect of our operations. Our emphasis is on ever-higher levels of quality and productivity with a strong service and people orientation. Our investments in people and new technologies are yielding positive results and positioning us well for the future.



Edward G. Boehne

President



A Message From Our First Vice President

As a provider of payment services, we face the same challenges every bank faces today. Technology and the regulatory environment are changing. Our customers are demanding better service. And competition is driving us to respond more efficiently.

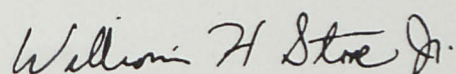
In 1993 we began major efforts to prepare ourselves and our customers for significant changes in the check-handling and funds-transfer businesses.

In the check area, we began installing a new processing system that will allow us to use electronics more and handle paper less. We also began preparing for the introduction in 1994 of new check presentment rules known as "same-day settlement."

To better position itself for same-day settlement, the Federal Reserve has introduced an attractive package of new check products. Meanwhile, we have helped many smaller institutions around the District prepare to receive more presentments directly from private-sector institutions.

In the area of electronic funds, the Fed moved closer to fully implementing new rules regarding daylight overdrafts. These rules will limit the risks to the payment system associated with large unfunded money transfers. We have made every effort to help Third District financial institutions adjust to the new rules. In October, we gave them the capability to better track their reserve account activity. They can now check their account balances with us at any time via computer.

The payment system is changing. The regulations are tougher. The competition is keener. The need for service is stronger. We recognize that no organization's success is assured, but we are prepared to meet the challenge.



William H. Stone, Jr.
First Vice President

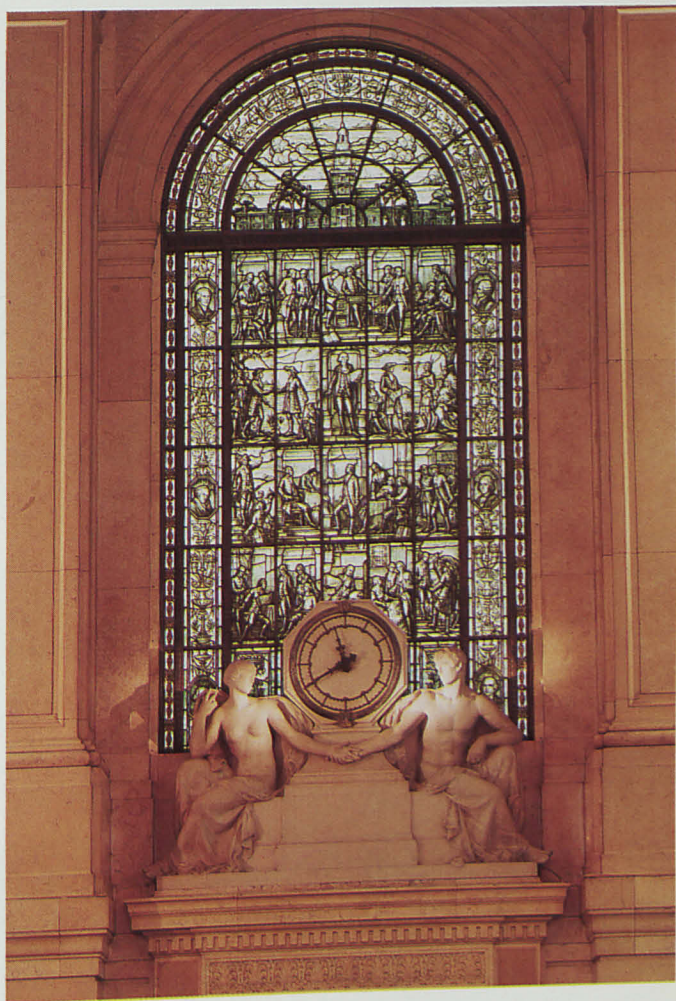


Nineteen Ninety-Three: A Watershed Year for Banking

The decade of the 1990s began with the nation's banks weathering a torrent of economic and financial pressures. Now they are seeing some light on the horizon. The immediate problems have passed. Banks have taken advantage of an improving economy, favorable interest rates, and aggressive cost-cutting to strengthen themselves. But they still must face the challenge of surviving in a rapidly changing financial services industry.

For a number of years, one problem after another cascaded over banking. The competitive pressures of the 1980s had pushed too many banks into unwise excesses and, ultimately, failure. By 1990, a crisis atmosphere had developed, putting banks and their regulators on the defensive. The turmoil in banking rippled out into the economy, deepening the recession and slowing the process of recovery.

Meanwhile, Congress, concerned about the loss of public confidence and taxpayer dollars due to the thrift crisis, enacted the sweeping FDIC Improvement Act (FDICIA) of 1991. The Act, which contains some 123 provisions, raised bankers' concerns about soaring compliance costs and burdensome new red tape.



*First Fidelity Bank
Philadelphia, Pennsylvania*

With loan portfolios shrinking, revenues declining, and the regulatory burden mounting, some questioned whether the banking industry could survive. But bankers went to work, making the necessary adjustments, and their efforts paid off.

The year 1993 brought clear signs that banks have begun to turn things around. Both the number and size of failing banks continued to decrease. The

bank insurance fund is no longer losing money closing institutions and is beginning to rebuild its resources.

Banks' financial statements are much improved.

Fueled by favorable interest rate spreads and aggressive cost-cutting, bank earnings rose to record highs. Bank capital is at its highest levels since the 1960s. Loan quality at most banks has improved dramatically. With the national economy picking up speed, loan demand is beginning to recover.

Meanwhile, a sensible implementation process for FDICIA has kept it from stifling the industry as much as some bankers had feared. In addition, the more prudent banking climate fostered by FDICIA will benefit banking over the long haul. In the end,

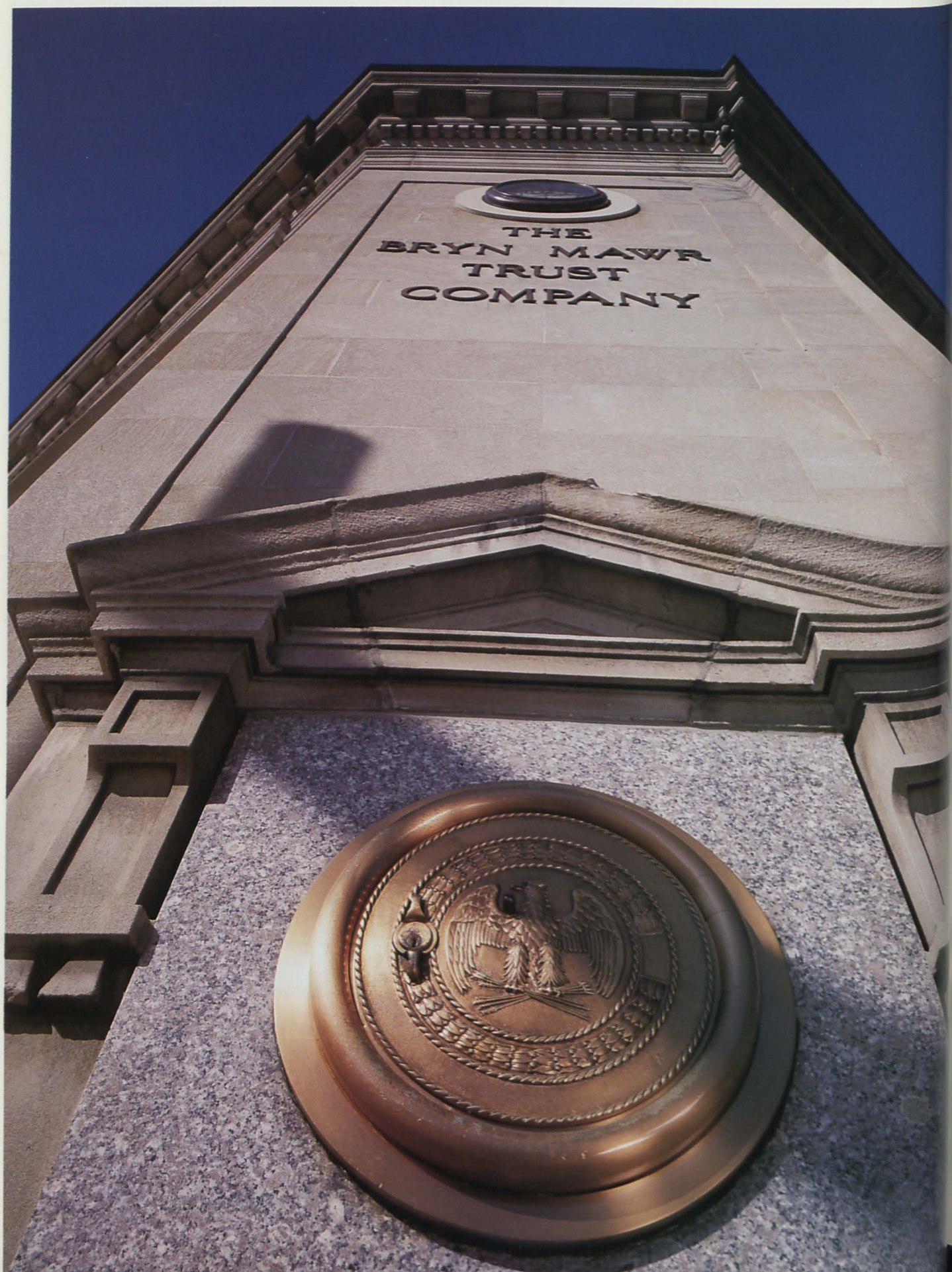


*Bethlehem Office of Ambassador
Bank of the Commonwealth
Allentown, Pennsylvania*



*Railroad Branch
Farmers Trust Bank
Lebanon, Pennsylvania*

*The Bryn Mawr Trust Company
Bryn Mawr, Pennsylvania*



prompt corrective action, more frequent examinations, and risk-based deposit insurance premiums will discourage excessive risk-taking and reduce the number of bank failures.

In short, banking has reached a watershed, a turning point. It has overcome its immediate difficulties that threatened. But as they look to the future, bankers recognize that their work of restoring the industry to long-run prosperity has just begun.

Although banks experienced record profits in 1993, they also experienced some of the sharpest losses of market share in the industry's history. Mutual funds, mortgage companies, and finance companies are growing substantially faster than the banks. Recognizing this, banks are finding new ways to reclaim their share of the financial services business. They are aggressively cutting costs and exploring new revenue opportunities.

Lending has long been the core business of banks, but its growth potential is limited. As the economy picks up momentum, loan demand will grow. But banks are getting a smaller share of the business. Longtime bank customers have been turning to capital markets and finance companies for credit. Even consumer loans are being replaced by home equity lines of credit—many through nonbank lenders.



*The Federal Reserve Bank of Philadelphia
Philadelphia, Pennsylvania*



*Commerce Bank, N.A.
Cherry Hill, New Jersey*

Recognizing the need for reliable flows of fee income, banks have become creative in developing a wider array of financial services. They have strengthened their existing service lines: credit cards, data processing, correspondent services, services to low and moderate income customers, and letters of credit. And they have also introduced new ones: annuities and mutual funds for consumers, and derivatives for risk-management. As a result, noninterest income has already become a major component of revenues at banks, including those in this District.

In the end, there will be fewer banks, and larger ones. The revolution in information-transfer technology is changing the ways financial firms provide services. Delivering products to bank customers via telephone and computer, exchanging information across vast networks, accessing and processing massive amounts of information quickly—these are the grounds on which banks will compete. Competition and the high fixed costs of developing these information networks will drive the banking industry toward greater consolidation.

Nonetheless, there will always be a role for community-oriented banks to serve the needs of towns and diverse neighborhoods. These banks will need to keep their focus on the basics: providing customer service, and fostering strong and healthy community relations through fair and prudent lending.

*Commerce Bank, N.A.
Cherry Hill, New Jersey*





Wilmington Trust Company
Wilmington, Delaware

Banks are making a heroic effort to adapt to a new financial environment. But the industry cannot make all the necessary changes unless government changes too. To compete effectively—locally, nationally, and internationally—banks need more freedom to operate. They need the freedom that other financial service providers have to offer a wide array of products on a nationwide basis. And they need some relief from what has become a disproportionately burdensome regulatory structure.

Changing banks' legal and regulatory environment will not be easy. It will require careful judgment on the part of lawmakers and regulators. With technological change and market competition driving banks to be more like other financial firms, policymakers must refine their concept of what makes banks unique. And they must begin to focus on the issue of which activities, rather than which institutions, require regulation.

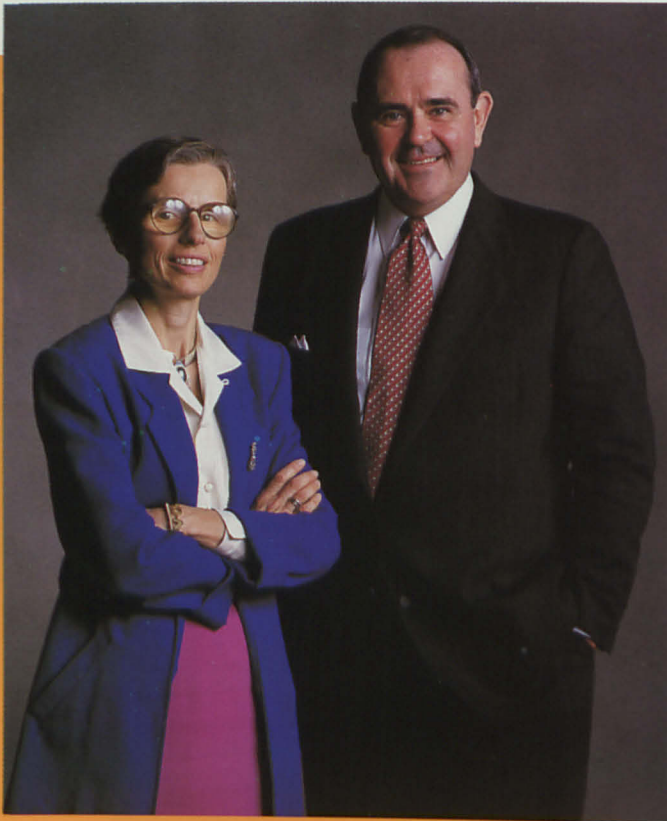
The banking downturn is over. Now the focus must be on the long-term challenges ahead. With continued hard work and prudent management—and under proper regulation—banks in the Third District and across the nation can build on their recent successes and assure themselves a leading role in a dynamic financial environment.



*CoreStates First Pennsylvania Bank
Independence Office
Philadelphia, Pennsylvania*

Board of Directors

In 1993, Jane G. Pepper was appointed chairperson of the Board of Directors and James M. Mead was appointed a Class C director and deputy chairman. Carl L. Campbell was elected a Class A director, replacing Samuel A. McCullough. J. Richard Jones was elected a Class B director, replacing James M. Mead, and David W. Huggins was reelected a Class B director.



Chairperson

Jane G. Pepper
President
The Pennsylvania Horticultural Society
Philadelphia, PA

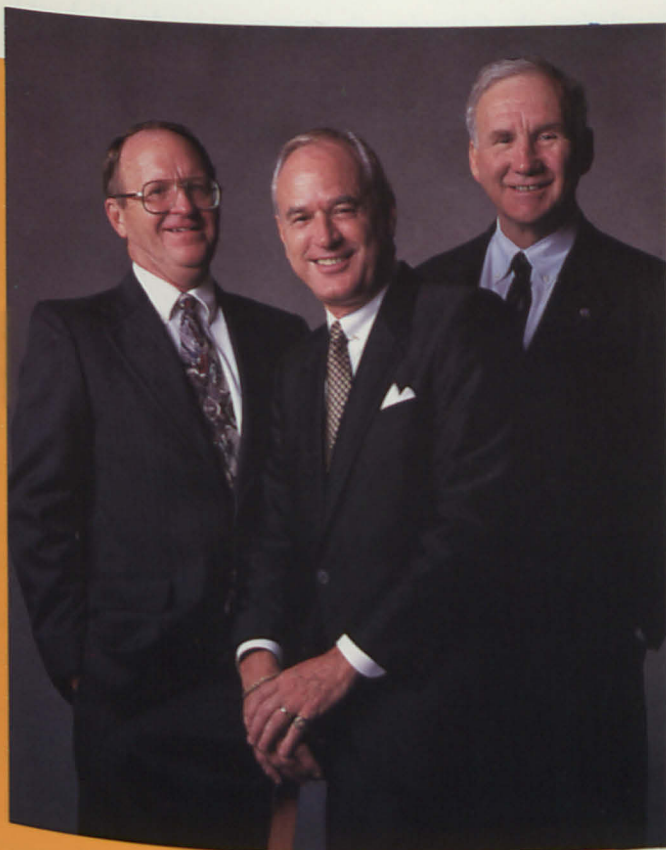
Deputy Chairman

James M. Mead
President and Chief Executive Officer
Capital Blue Cross
Harrisburg, PA



Carl L. Campbell
President and Chief Executive Officer
Keystone Financial, Inc.
Harrisburg, PA

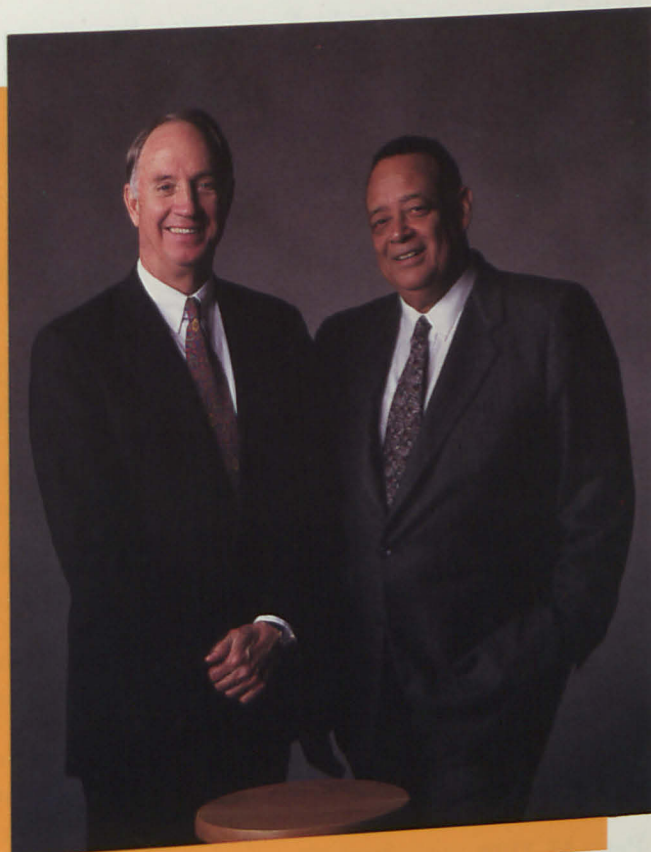
Donald J. Kennedy
Business Manager
International Brotherhood of
Electrical Workers Local Union #269
Trenton, NJ



H. Bernard Lynch
President and Chief Executive Officer
The First National Bank of Wyoming
Wyoming, DE

Gary F. Simmerman
President and Chief Executive Officer
United Jersey Bank/South, N.A.
Cherry Hill, NJ

James A. Hagen
Chairman, President and
Chief Executive Officer
Consolidated Rail Corp. (CONRAIL)
Philadelphia, PA



J. Richard Jones
President and Chief Executive Officer
Jackson-Cross Company
Philadelphia, PA

David W. Huggins
President and Chief Executive Officer
RMS Technologies, Inc.
Marlton, NJ

Officers

In 1993, John B. Shaffer became vice president and general auditor in the Audit Department, replacing Donald J. McAneny, who retired.

In the Check Operations Department, Arun Jain was promoted to assistant vice president. Henry T. Kern, assistant vice president, took charge of Check Processing Operations, and assistant vice president Kevin J. McCabe took charge of the Check Adjustments Division.

In the Department of Credit, Examination, Supervision and Regulation, the following changes were made: Michael E. Collins, vice president, assumed responsibility for Financial Institutions Surveillance and Support Services and for the Automation function. Louis N. Sanfelice, vice president, assumed responsibility for International Examinations, and Stephen M. Hoffman accepted the position of assistant director at the Board of Governors.

In the Legal Department, Jeanette Paladino was promoted to assistant counsel.

Edward G. Boehne
President

William H. Stone, Jr.
First Vice President

Donald F. Doros
Executive Vice President

Edward J. Coia
Senior Vice President

Thomas K. Desch
Senior Vice President and
Lending Officer

Peter M. DiPlacido
Senior Vice President

Richard W. Lang
Senior Vice President and
Director of Research

Ronald B. Lankford
Senior Vice President

D. Blake Prichard
Senior Vice President

Robert J. Bucco
Vice President

J. Warren Bowman, Jr.
Vice President

Michael E. Collins
Vice President

Robert A. Dobie
Vice President

Patrick L. Donahue
Vice President

William Evans, Jr.
Vice President

Joanna H. Frodin
Vice President and
Check Product Manager

Jerry Katz
Vice President

Edward M. Mahon
Vice President and
General Counsel

Frederick M. Manning
Vice President and Community
Affairs Officer

Stephen A. Meyer
Vice President and
Associate Director of Research

Louis N. Sanfelice
Vice President

John B. Shaffer
Vice President and
General Auditor

Milissa M. Tadeo
Vice President

Herbert E. Taylor
Vice President and Secretary

Vish P. Viswanathan
Deputy Check Product Manager

Eileen P. Adezio
Assistant Vice President

John G. Bell
Research Officer

Gerard A. Callanan
Assistant Vice President
and Planning Officer

Shirley L. Coker
Assistant Counsel

Theodore M. Crone
Assistant Vice President
and Economist

Dean Croushore
Research Officer and Economist

John J. Deibel
Assistant Vice President

Robert N. Downes, Jr.
Assistant Vice President

John V. Heelan
International Examinations Officer

Eugene E. Hendrzak
Assistant Vice President

Joan M. Immel
Examination Review Officer

Arun Jain
Assistant Vice President

Henry T. Kern
Assistant Vice President

Alan L. Kiel
Assistant Vice President

Mary M. Labaree
Assistant General Auditor

Thomas P. Lambinus
Assistant Vice President

Kevin J. McCabe
Assistant Vice President

Joseph L. McCann
Administrative Services Officer

Alice J. Menzano
Disaster-Recovery Planning and
Quality Assurance Officer

Loretta J. Mester
Research Officer and Economist

Edward Morrison
Systems Development Officer

Camille M. Ochman
Assistant Vice President

Jeanette Paladino
Assistant Counsel

Patrick M. Regan
Assistant Vice President

Edward G. Rutizer
Assistant Vice President

Sherrill Shaffer
Assistant Vice President
and Economist

Richard A. Sheaffer
Assistant Vice President

Ronald R. Sheldon
Assistant Vice President

Marie Tkaczyk
Assistant Vice President

Sharon N. Tomlinson
Assistant Vice President

Thomas L. Tweedale
Assistant Vice President

Annie R. Ward
Operations Officer

Elizabeth S. Webb
Assistant Counsel

Bernard M. Wennemer
Assistant Vice President

Anthony J. White
Financial Services Officer

Richard A. Valente
Audit Officer

Advisory Councils

The Bank's four advisory councils include representatives from many of the Third District's leading industries. The regular meetings between members of the councils and the Bank's senior officers provide a venue for the exchange of important information about local business and the economy.

The 1993 members of the advisory councils are listed below.

Small Business/Agriculture Advisory Council

Chairperson

Lozelle DeLuz

President

DeLuz Management
Wilmington, DE

Deputy Chairman

Raymond L. Blew, Jr.

President

Centerton Nurseries
Bridgeton, NJ

William R. Camerer, III

Owner

Camerer's Farm
Jersey Shore, PA

G. Wallace Caulk, Sr.

President

Exchange Tract Limited
Woodside, DE

John L. Coates

President

Tri-County Hardware
Berwick, PA

Arlene Coggins

Secretary

Coggins Waste Management, Inc.
Ocean City, NJ

Kemel G. Dawkins

President

Kemrodco Development and
Construction, Inc.
Philadelphia, PA

C. William Haines

President

Larchmont Farms
Mount Laurel, NJ

Allan Hawkins

Owner

Hawkins Cleaning Service
Philadelphia, PA

William J. Oyler

Owner

Oyler's Farm
Biglerville, PA

John C. Simms, VMD

Burnt Mill Veterinary Center
Shippensburg, PA

Gregory L. Sutliff

President

Sutliff Chevrolet Company
Harrisburg, PA

Credit Union

Advisory Council

Chairman

Anthony LaRosa

President and CEO

Police and Fire FCU
Philadelphia, PA

Deputy Chairman

David Baker

President

York Educational FCU
York, PA

Susan Bicking

CEO

Mobil 1167 FCU
Paulsboro, NJ

Tamara M. Ciccioli

Manager/Treasurer

Bridgeton Onized FCU
Bridgeton, NJ

Linda Dolinger

Treasurer/Manager

Capital Health System CU
Harrisburg, PA

Albert F. Farnschlader

President and CEO

Lehigh Valley Postal Employees
FCU
Allentown, PA

Linda Fischer

CEO

Barrington FCU
Barrington, NJ

Andrew L. Jaeger

CEO and Manager

NJDOT CU
Trenton, NJ

Christine M. Kaczmarezyk

Manager

DEXSTA FCU
Wilmington, DE

Roger Kase

President

Dover FCU
Dover, DE

Thomas Swierzy

President and CEO

SmithKline Employees FCU
Philadelphia, PA

John D. Unangst

President

Franklin Mint FCU
Media, PA

Thrift Institution Advisory Council

Chairman

Edward J. Molnar
President and CEO
Harleysville Savings Bank
Harleysville, PA

Deputy Chairman

William H. Küick
President and CEO
First Federal Savings Bank
Hanover, PA

Gregory DiPaolo
Executive Vice President
South Jersey Savings and
Loan Association
Turnersville, NJ

Steven G. Harris, Jr.
President and CEO
Artisans' Savings Bank
Wilmington, DE

John D. Hollenbach
President
First Savings Bank
Perkasie, PA

Herbert Hornsby
President
Cape Savings Bank, SLA
Cape May Court House, NJ

Bruce R. Hostler
President and CEO
Reliance Savings Association
Altoona, PA

Ellen Ann Roberts
President
First Financial Savings Bank PASA
Downingtown, PA

Patricia A. Saunders
Secretary
Morton Savings and
Loan Association
Morton, PA

Joseph J. Tryon
President
Hatboro Federal Savings
Hatboro, PA

Thomas H. Van Arsdale
President
Franklin First Savings
Wilkes-Barre, PA

Craig W. Yates
President
Farmers' & Mechanics'
Savings Bank, SLA
Burlington, NJ

Community Bank Advisory Council

Chairman

Paul H. Mylander
President and CEO
Delaware National Bank
Georgetown, DE

Deputy Chairman

Ray L. Wolfe
President and CEO
Farmers Trust Company
Carlisle, PA

J. Gerald Bazewicz
President and CEO
The First National Bank of Berwick
Berwick, PA

S. Eric Beattie
President and CEO
Nazareth National Bank
Nazareth, PA

Frederick W. Bisbee
President and CEO
First National Trust Bank
Sunbury, PA

Betsy Z. Cohen
Chairperson and CEO
The Jefferson Bank
Haverford, PA

Joseph H. Doble
President
Farmers National Bank of Mullica Hill
Mullica Hill, NJ

Owen O. Freeman, Jr.
Chairman
Commonwealth State Bank
Newtown, PA

John H. O'Neill
President and CEO
Mount Holly State Bank
Mount Holly, NJ

Marelin K. Sites
Executive Vice President
First National Bank of Mercersburg
Mercersburg, PA

Harold L. Slatcher
President
County Bank
Rehoboth Beach, DE

Harry W. Van Sciver
President
Burlington County Bank
Burlington, NJ

Statement of Condition

		1993	1992
ASSETS			
Gold certificate account:		\$399,000,000	\$347,000,000
Special drawing rights certificates:		303,000,000	303,000,000
Other cash-coin:		14,909,088	23,521,894
Loans and securities:			
	Discounts and advances	7,675,000	591,880,000
	Federal agency obligations	175,784,193	164,746,239
	U.S. government securities	12,582,512,457	8,979,356,206
	<i>Total loans and securities</i>	<i>\$12,765,971,650</i>	<i>\$9,735,982,445</i>
Other assets:			
	Cash items in process of collection	\$444,950,469	\$538,169,101
	Bank premises-net	47,217,110	45,093,745
	Operating equipment-net	20,629,762	19,248,779
	Foreign currencies	857,835,800	851,937,342
	Interest/premium on securities	270,021,524	166,504,254
	All other	14,991,019	12,908,600
Interdistrict settlement account:		920,991,595	2,183,258,569
	<i>Total assets</i>	<i>\$16,059,518,017</i>	<i>\$14,226,624,729</i>
LIABILITIES AND CAPITAL ACCOUNTS			
Note liabilities:	Federal reserve notes	\$13,025,971,909	\$11,341,210,181
Deposits:			
	Depository institutions' reserves	2,248,443,648	2,207,168,223
	Foreign	5,337,600	5,504,400
	All other	6,891,942*	8,052,813
	<i>Total deposits</i>	<i>\$2,260,673,190</i>	<i>\$2,220,725,436</i>
Other liabilities:			
	Deferred availability cash items	431,812,549	368,035,076
	All other	113,614,769	62,018,236
	<i>Total liabilities</i>	<i>\$15,832,072,417</i>	<i>\$13,991,988,929</i>
Capital accounts:			
	Capital paid in	113,722,800	117,317,900
	Surplus	113,722,800	117,317,900
	<i>Total liabilities and capital</i>	<i>\$16,059,518,017</i>	<i>\$14,226,624,729</i>

* Includes payable due to Treasury

Earnings and Expenses

	1993	1992
Current earnings:		
From U.S. government securities	\$598,122,497	\$504,283,274
From discounts, advances and miscellaneous sources	48,571,087	85,651,898
From services to depository institutions	39,574,727	41,061,467
Total current earnings	\$686,268,311	\$630,996,639
Net expenses:		
Operating expenses (after deducting reimbursable expenses)	\$77,310,333	\$70,808,127
Cost of earnings credits	23,892,111	19,217,932
Total net expenses	\$101,202,444	\$90,026,059
Current net earnings	\$585,065,867	\$540,970,580
Additions to current net earnings:		
Gain on sales of government securities	\$1,372,820	\$3,494,576
Gain on foreign currency transactions	10,195,174	0
Miscellaneous non/operating income	14,126	9,953
Total additions	\$11,582,120	\$3,504,529
Deductions from current net earnings:		
Loss on foreign currency transactions	0	42,716,899
Miscellaneous non/operating expenses	1,654,422*	1,468,155*
Post retirement benefit obligation	33,089,175	0
Assessment by the Board of Governors:		
Board expenditures	5,218,700	5,135,700
Federal Reserve currency	12,787,760	10,548,662
Total deductions	\$52,750,057	\$59,869,416
Net additions/(deductions)	(\$41,167,937)	(\$56,364,887)
Net earnings (before payment to U.S. Treasury)	\$543,897,930	\$484,605,693
Distribution of earnings:		
Dividends paid	\$6,873,347	\$6,856,095
Paid to U.S. Treasury	540,619,683	465,532,198
Retained to equate surplus to capital	(3,595,100)	12,217,400
Net earnings	\$543,897,930	\$484,605,693

* Includes cost of unreimbursed Treasury services

SERVICES TO DEPOSITORY INSTITUTIONS

		1993	1993	1992	1992
		Volume	Dollar Value	Volume	Dollar Value
Wire transfers of funds:		5.8 million transfers	\$15.3 trillion	5.3 million transfers	\$16.9 trillion
ACH:	Government	43.9 million items	\$64.6 billion	37.3 million items	\$52.2 billion
	Commercial	120.8 million items	\$457 billion	111.2 million items	\$313.2 billion
Check processing:	U.S. Government	21.4 million checks	\$23.8 billion	22.6 million checks	\$27.9 billion
	All others	1.2 billion checks	\$1.7 trillion	1.2 billion checks	\$1.4 trillion
Cash operations:	Currency received and counted	943 million notes	\$11.9 billion	1 billion notes	\$13.1 billion
	Coin received and counted	101 thousand bags	\$67.3 million	126 thousand bags	\$174 million
Loans to depository institutions:		715	\$830 million	1,247	\$2.7 billion

SERVICES TO U.S. TREASURY

Electronic book entry transfers:	997.1 thousand transfers	\$13.5 trillion	987.9 thousand transfers	\$14.3 trillion
Savings bonds issued:	2.5 million bonds	\$514.3 million	5.2 million bonds	\$914 million
Food stamps redeemed:	145.4 million coupons	\$751.1 million	162.4 million coupons	\$813 million

FEDERAL RESERVE BANK LIBRARY
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