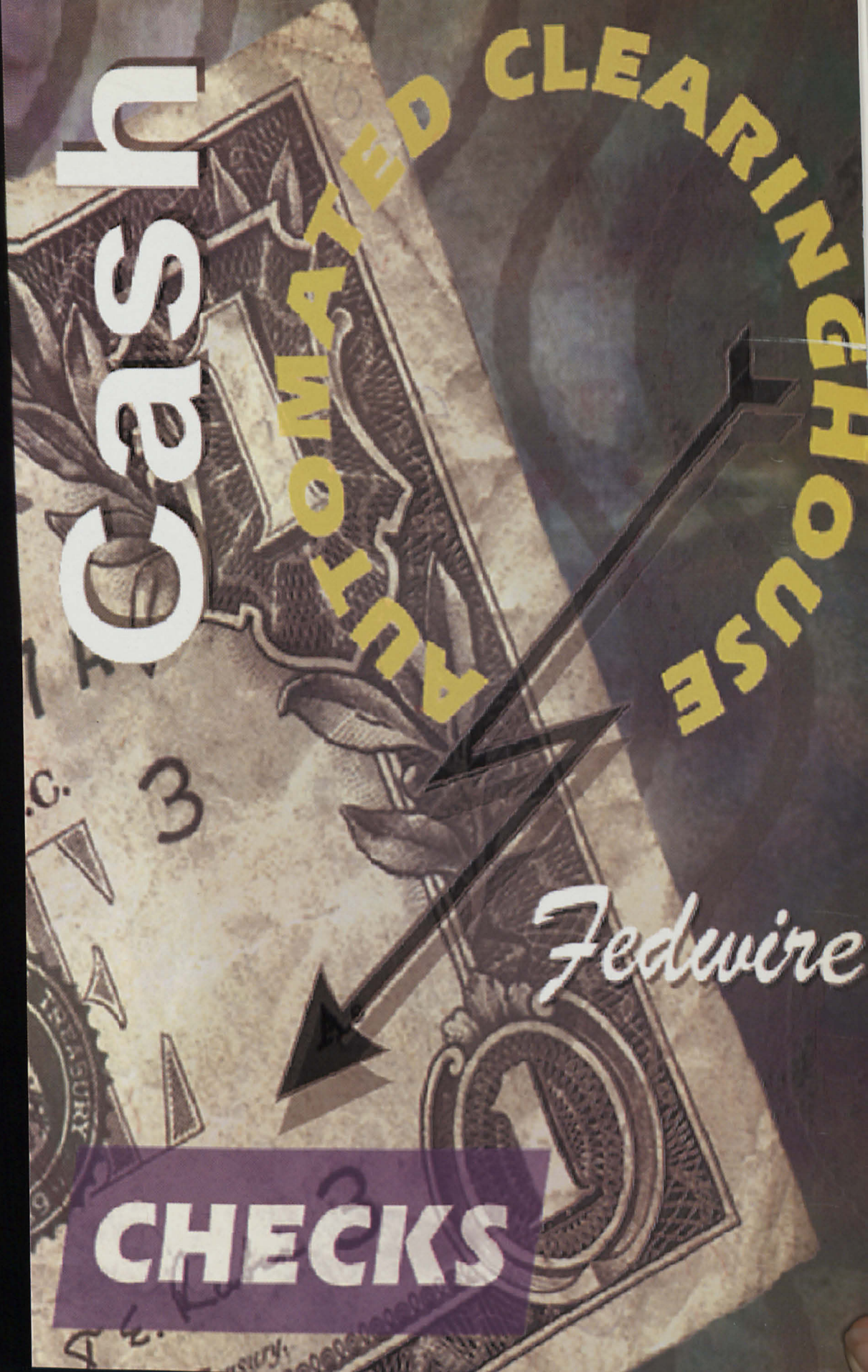
1995
Annual
Report

Federal
Reserve
Bank of
Philadelphia



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Don Tapscott
he Digital Economy
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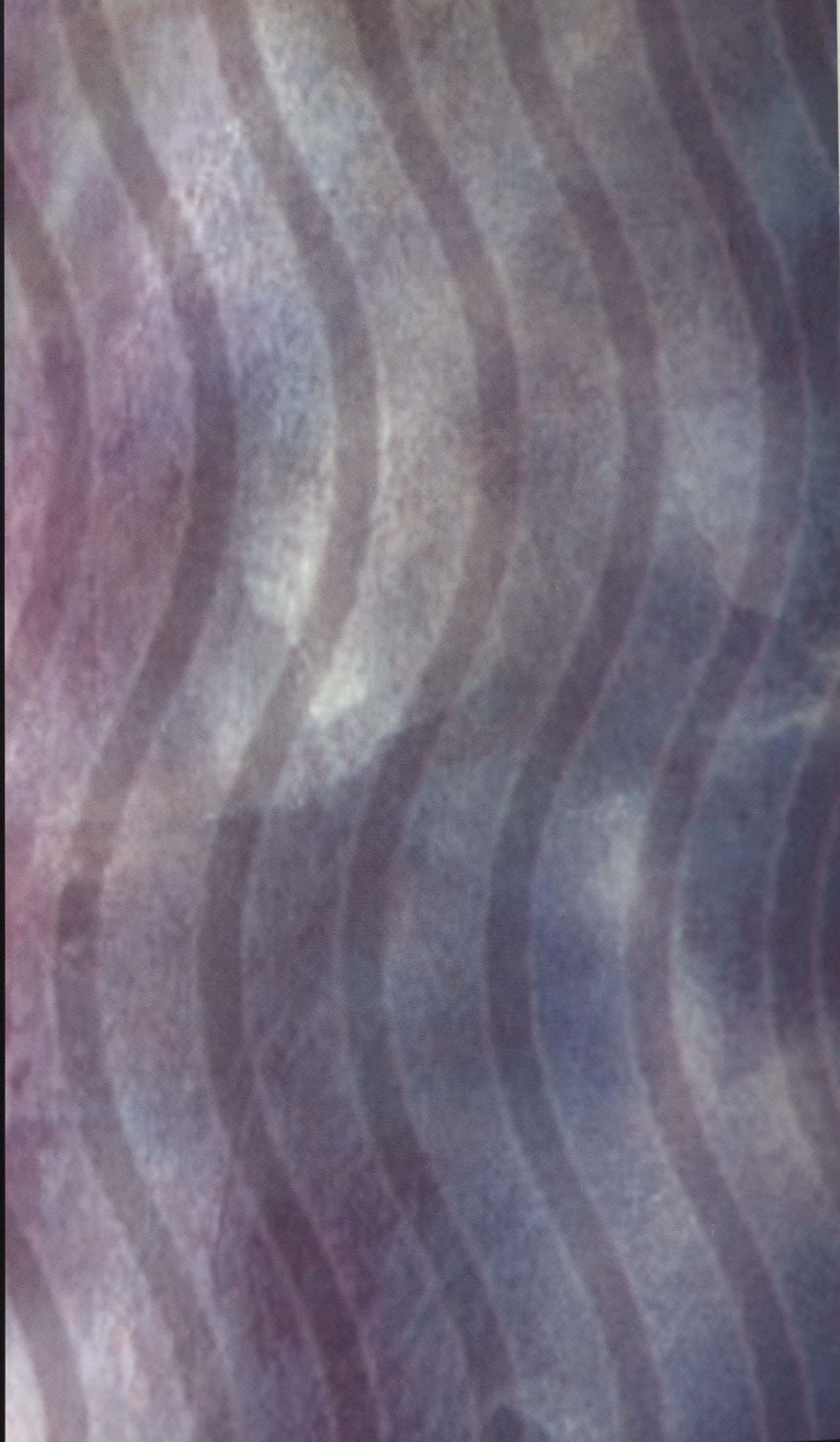


EXECUTIVE LETTER

As history has shown, a reliable mechanism for processing and settling payments is essential for a healthy economy. Each day, trillions of dollars are transmitted through the payments system, and a key job of the Federal Reserve is to make sure that the system functions smoothly.

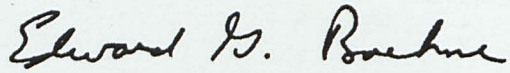
New technology is allowing those of us in the payments business to change our methods of processing. And, indeed, technology is changing the way payments are actually made. Day by day, customers are becoming more comfortable with these new methods and, as younger generations enter the marketplace, electronic payments will become a way of life. By making the investment in technology, payments system participants will have opportunities to create new payments services even more efficient than the ones we use today.

Advances in technology have also led to another development in the payments system: the emergence of nonbank participants. Credit card companies, phone companies, and software vendors, to name but a few, are the latest entrants. As these organizations enter the business, competition will increase and greater efficiencies and product innovations will result, changing the face of payments risk. To meet its responsibility to the payments system, the Fed must assure a level playing field and make sure all participants have the proper incentives to address the shifting risks.

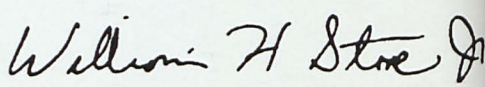
Even so, market forces must be left to work their benefits on the economy. As a System, the Federal Reserve will fulfill its key leadership role by focusing on the future, planning strategically, and being responsive to changes in the market.

At the Federal Reserve Bank of Philadelphia, those objectives have been incorporated into our long-term mission. We have set a high standard for efficiency and reliability in our operations. And we will continue to modernize and improve the levels of service we offer.

Leading the payments system of the future will be a joint effort, of course. The ideal system will have evolved from many ideas presented in many quarters. The Fed as an institution will continue to work with other participants in the payments system, banks and nonbanks alike, to create the payments system of tomorrow—one with more choices, one that is more high-tech, and one that will naturally be more complex. Still, when greater efficiencies result, the economy can only benefit.



Edward G. Boehne
President



William H. Stone, Jr.
First Vice President

Edward G. Boehne (left)

William H. Stone, Jr.

FEDERAL RESERVE & THE PAYMENTS SYSTEM

It's often said that the U.S. payments system functions in anonymity. Largely taken for granted, it operates quietly in the background of daily economic life, settling payments as routinely as the seasons change.

Such efficiency is critical to our nation's economic growth and financial stability. The markets for goods and services need a reliable mechanism for settling payments, whether for something as simple as a quart of milk from a convenience store or as complicated as a multi-million-dollar trade in the stock market.

The Federal Reserve—along with many private-sector firms—plays a major role in the smooth functioning of the payments system. This public/private partnership has worked well for more than 80 years to provide safe, dependable, and efficient payments services throughout the country.

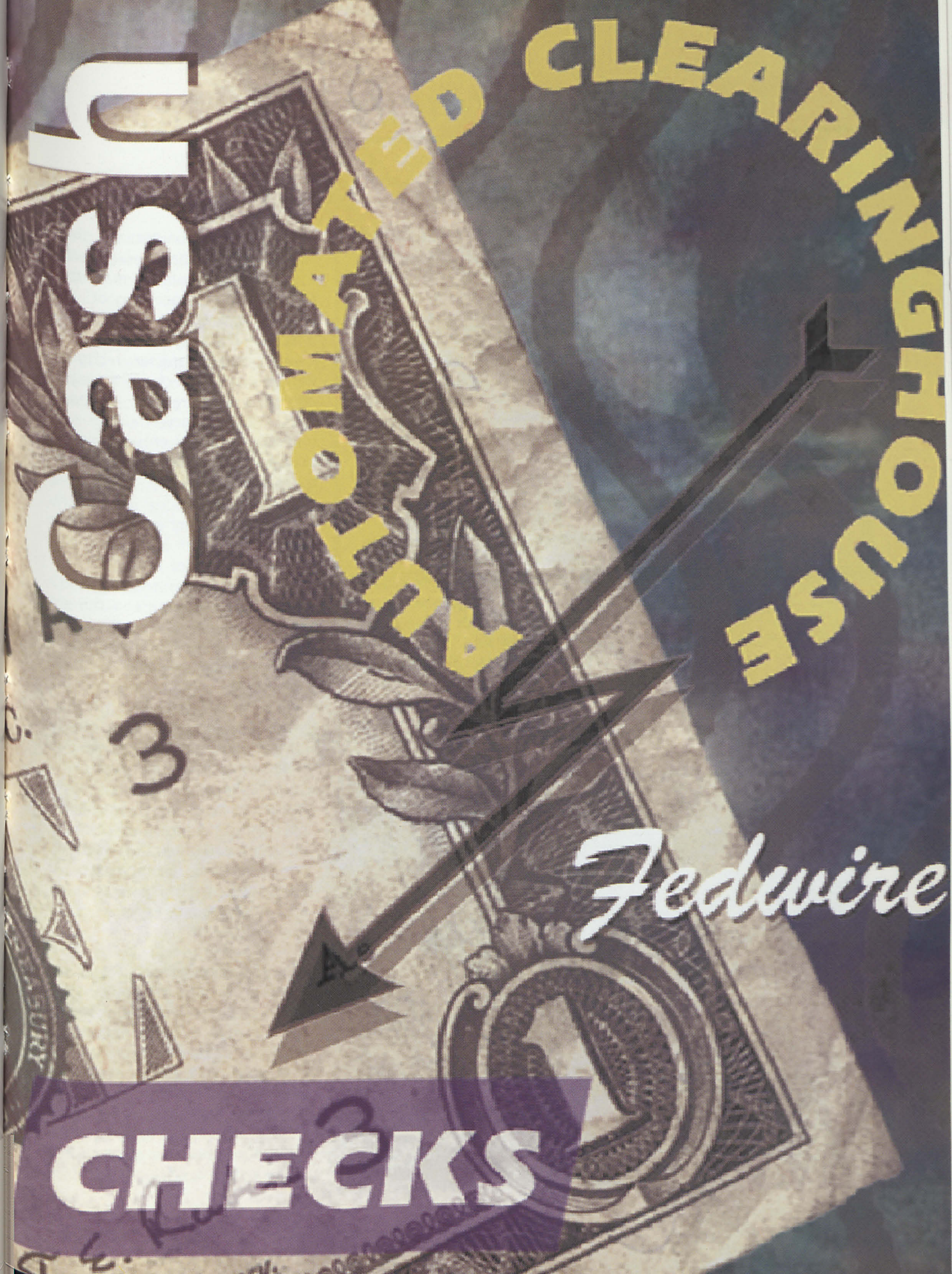
Today, however, traditional payment mechanisms are operating side by side with new ones. And the evolution will continue until each finds its rightful role in the overall payments system.

Operating amid these choices, the Federal Reserve carries out its role in payments by increasing the efficiency of traditional mechanisms while supporting the development of new, electronic ones.

Ultimately, electronics will replace paper forms of payment. But until the popularity of the paper check wanes, improving the efficiency of check processing remains a realistic, worthwhile enterprise.

Meanwhile, alternatives to the check continue to evolve. For recurring payments, automated clearinghouse is a good fit. For access to cash, ATMs have become the popular choice. As a possible substitute for both cash and checks, the use of debit cards in point-of-sale systems has taken hold in a growing number of retail settings. And home banking promises greater efficiency and the possibility of reduced payments risk.

As one of the nation's 12 Reserve Banks, the Federal Reserve Bank of Philadelphia stands ready to meet the shifting payment demands of households and businesses in its district. A look inside the Bank shows how...


Cash
AUTOMATED CLEARINGHOUSE
Fedwire
CHECKS

CHECKS

After cash, checks are the most widely used method of payment, representing two-thirds of all transactions that don't involve cash. Predictions that paper checks would disappear from the payments scene have proliferated since the 1970s, ever since the emergence of electronic forms of payment. Still, the volume of paper checks in the payments system continues to grow.

Evidence exists, however, that electronic banking products have managed to slow check growth. In the 1970s, the number of paper checks grew about 7 percent a year, then fell to 5 percent in the 1980s. Currently, the annual growth rate is a much slower 2 percent.

In Data Prep: Maury Watze and Cheryl Sabb prepare checks for processing.

Over the past four decades, the Federal Reserve has worked with the banking industry to make the collection and processing of checks more efficient and cost effective. Routing numbers, magnetic-ink character recognition, regional check-processing centers, and conversion of paper checks to electronic delivery systems—all were enhancements developed jointly by the Fed and the private sector.

The Fed's expertise in the check world comes from its involvement as both a provider of check-processing services and, as mandated by Congress, a promoter of payments system efficiency. No other participant in the payments system has this dual mission.

In fact, Congress has given the Fed increasing authority to do what it can to improve the check-collection system. The result has been speedier check processing, competitive prices among the different providers of check services, electronic methods of check collection, and decreased time for collection of checks.

What Happens to a Check Once It Reaches the Fed?

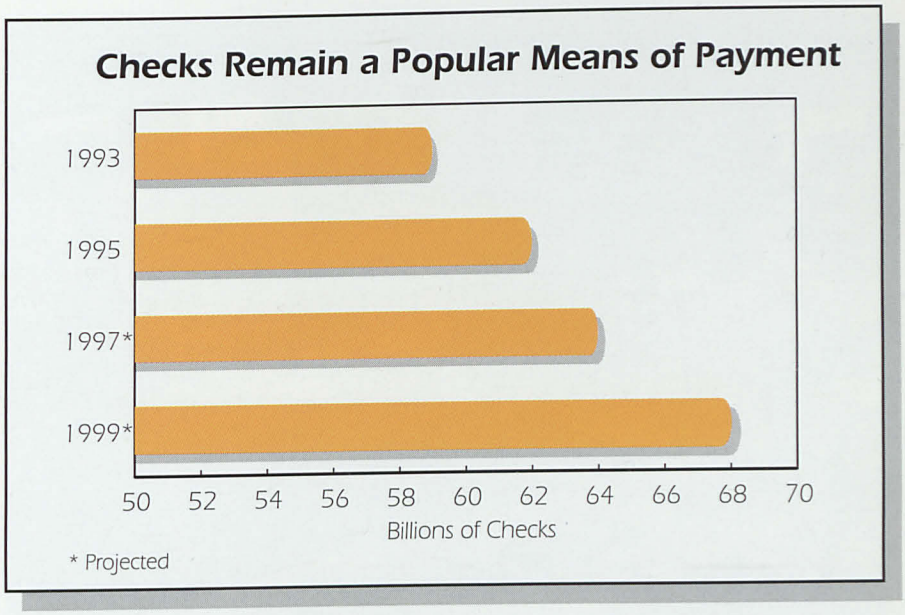
When depository institutions receive checks drawn on other institutions, they have several options for collecting their funds: 1) they can send the checks directly to the paying institution; 2) they can deliver them to the institution through a local clearinghouse; or 3) they can pur-

chase the collection services of a correspondent institution or a Federal Reserve office.

In 1995, approximately 30 percent of the 63 billion checks written in the U.S. were processed by the Federal Reserve. And of all the 47 check-processing centers operated by the Fed, none is as active as the site in Philadelphia. At the end of 1995, the operation was processing 3.5 million checks daily and settling another half-million checks already processed by depositors.

Check processing begins when the collecting institutions send their bundled checks to the Reserve Bank. In the first stage of processing, the bundles of checks are matched against an accompanying list called a "cash letter." After all the checks are accounted for, the bundles of checks and cash letters are separated by appropriate control documents for processing. They are moved into the "high speed" area, where machines sort them by institution and groups of accounts based on specific requests by the collecting institutions.

Any checks that can't be read by the high-speed sorter are immediately transferred to the "low speed" area, where the operator keys in the digits that cannot be read by machine and the checks are sorted on the low-speed machines. Checks sorted through "high speed" (at 30 checks per second) and "low speed" (at eight checks per second) are sent, along with the Fed's own cash letter, to the shipping area, where they are packaged and delivered to the paying institutions.



An automated settlement system credits the collecting institution and debits the paying institution. The Fed credits the account of the collecting institution for the value of the checks according to availability schedules. These schedules reflect the time the Fed normally needs to receive payments from the institutions on which the checks are drawn. Credit is usually given on the day of deposit or the next business day. Naturally, speedy check processing is essential to minimize the amount of "float"—the cost per check.

When There's a Discrepancy

Any discrepancies resulting from the processing of checks are handled either by the settlement or adjustments units. The settle-

ment unit's primary function is to reconcile the credits passed to the depositors with the charges to the paying banks. The adjustment unit, meanwhile, handles items encoded incorrectly, listing errors, missing checks, and various errors reported by the financial institutions.

New Check-Processing System Offers Greater Reliability

After many years of planning, the Philadelphia Fed converted to a new check-processing system in 1995. The new Unisys-based system offers tremendous capacity, along with the capability to provide the most reliable, efficient, and cost-effective check services available today.

The decision to convert dates back to the mid-1980s, when it became obvious that the existing system was outdated. Implementing service enhancements, no matter how small, required extensive programming changes that were very costly and time-consuming.

The new system is more reliable, flexible, and responsive to customers' needs. Moreover, with intensified use of electronic presentment and imaging on the horizon, a strong platform was needed to provide the new services of the future.

In late 1995, efforts were under way to put additional tracking and feedback systems in place at various stages of check processing. Now that the feedback process has been automated, operators making an error will receive a report on it that day.

The Benefits of Electronic Processing

The processing of paper checks is undeniably costly, estimated by one study at some $40 billion each year. In paper form, checks are handled an average of 12 times. With check imaging and check truncation, checks are handled just two times on average.

Basically, *check imaging* creates an electronic picture of a check, both front and back, and stores the information electronically. These images can then be delivered to institutions on CD-ROM, magnetic tape, or, in small quantities, via data transmission.

Meanwhile, *check truncation* involves holding a paper check

In High-Speed Processing:
Al Dennis runs checks through the high-speed sorter.

at the bank at which it was deposited and electronically forwarding the essential information to the bank on which it was written. A truncated check is not returned to the writer.

Check-imaging services will offer numerous benefits to large and small institutions alike:

- *Less handling of paper*
  Because check images are captured and stored in a computer database, institutions will no longer need to process, file, and store checks.

- *Easier archiving*
  Imaged checks on CD-ROM take up only a fraction of the room needed for stored paper checks.

- *Speedier check retrievals*
  Researching and retrieving check information can be done in minutes.

- *Reduced costs*
  The reduction in postage, processing, and handling allows for significant cost savings.

- *Improved cash management*
  Institutions can receive an online history of their check transactions on CD-ROM, allowing them to retrieve check information instantly.

- *Less risk of fraud*
  Faster processing and presentment will make it easier to identify fraudulent checks. In addition, early access to images of checks permits more timely and thorough review, helping to control fraud.

In Low-Speed Processing: Vennel Jones prepares to run checks through the low-speed sorter.

Check imaging will also help reduce the cost of government, a major user of payment services. Current tests of imaging with U.S. Treasury checks are under way, offering the possibility of significant cost reductions in handling these items.

At some point, the volume of checks will stop growing and then decline as electronic instruments supplant the paper check as the preferred method of payment. But for some years to come, checks will continue to grease the wheels of the nation's economy.

AUTOMATED CLEARINGHOUSE

The Automated Clearinghouse, developed jointly by the private sector and the Federal Reserve in 1972, is an electronic system for processing payments. A nationwide mechanism, ACH provides an efficient alternative to checks.

Businesses use ACH to make direct-deposit payroll payments, to move funds from one corporate account to another, and to make payments to other businesses such as contractors and vendors. The U.S. government uses ACH for direct deposit of Social Security payments, Veterans Administration benefits, and payments related to U.S. Treasury securities. Consumers use ACH to make payments on insurance premiums, mortgages, loans, and other bills.

The Fed completed an all-electronic ACH system at the end of June 1994. Prior to that time, some of the volume had been generated on tapes and diskettes, which were not only expensive to process but less reliable.

The Federal Reserve processed about 2 billion commercial ACH transactions in 1995, representing approximately 80 percent of the total. A few private-sector operators accounted for the rest.

The Fed's ACH data-processing will soon be based at one location, creating a more efficient, flexible network consistent with the banking industry's consolidation and interstate reorganization activities.

By the end of 1996, each ACH payment handled by the Fed will go through one network and be delivered to, processed by, accounted for, and dispatched from a single mainframe computer with multiple backups.

Processing ACH items out of one location simplifies the handling of ACH payments by banks located in multiple Federal Reserve districts.

The individual Reserve Banks will fill a customer-support role, providing advice and assistance to institutions in their districts.

How ACH Works

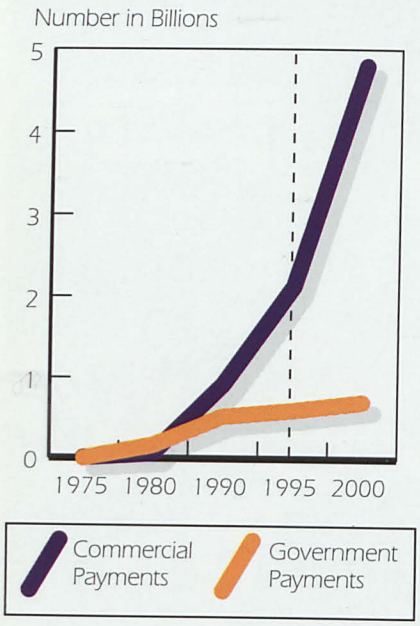
ACH is an electronic clearing and settlement system used by participating institutions to process credits, such as payroll deposits, or debits, such as insurance premiums, mortgage payments, and monthly utility payments.

Unlike check processing, the system involves just two steps. The depository institutions transmit their ACH payments-related data to the Federal Reserve according to preestablished schedules. The Fed, in turn, makes the ACH items available to receiving institutions within four hours of the deposit.

ACH is growing at double-digit rates, which the Fed expects to continue. The greatest potential for growth appears to be consumer use for routine bill-paying, as well as direct deposit of payrolls.

By the end of 1996, a new system for ACH will give companies more time to calculate payrolls, which

ACH Volume Small but Growing



should make them more favorably disposed to the use of direct deposit. The percentage of U.S. employees paid by direct deposit is estimated to be 70 percent by 1997, about double the 1985 level of 35 percent.

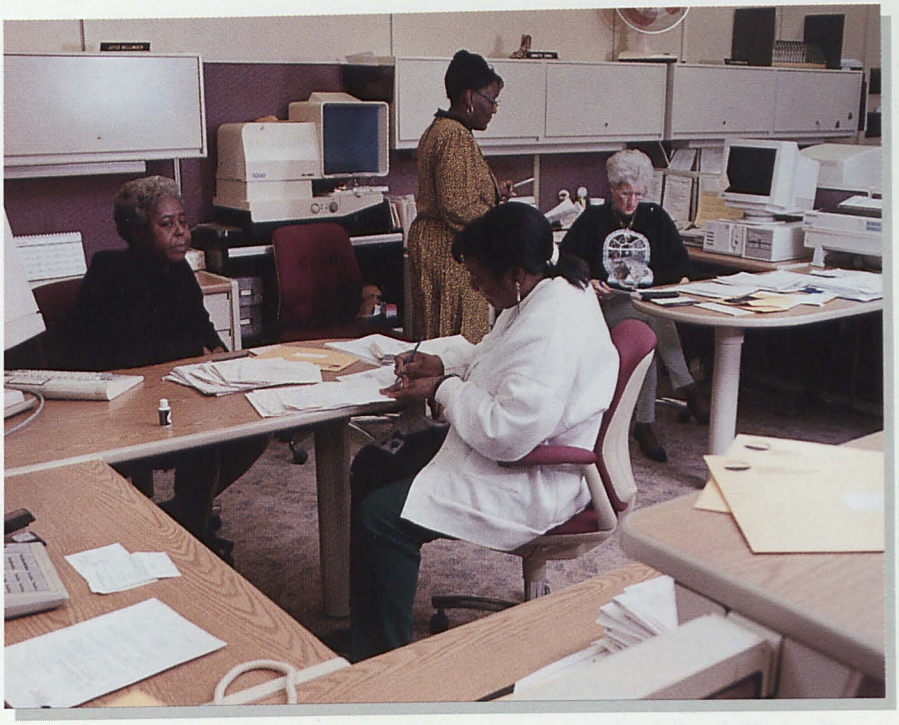
Growth potential for ACH also exists in the areas of health care, government payments, and truncated checks. Strong growth is also expected to come from private-sector providers. Visa, NYACH, and the Arizona Clearinghouse Association are expected to make increasing use of ACH as their businesses grow.

ACH Data Processing Will Be Centralized by 1996

At the end of 1995, the Federal Reserve began moving ACH data-processing operations to its site in East Rutherford, New Jersey. By the end of 1996, the transition will be complete and new software, FedACH, will be in use.

The new software was developed from the customers' perspective. The Fed conducted several market research projects to identify desired changes in the way ACH items are processed. FedACH will offer enhanced deposit and delivery choices and provide a platform for future service enhancements that support ACH growth. It will also give both originators and receivers of ACH payments greater flexibility, new cash-management services, and improved capabilities for system recovery.

Institutions will be able to choose how they want their items sorted before they are transmitted to them. They can also request delivery of pending items at any time throughout the day, as well as information on a file's processing status or disposition of an individual item.



In ACH: Providing customer support in ACH are (from left) Joyce Bellinger, Annette Simms, Virginia Young, and Joann DiGiovannantonio.

The reengineering of ACH was one of the most complex projects ever undertaken by the Fed. Testing of the new system was intensive and time-consuming to ensure the reliability and integrity necessary for such an important national service.

The new system is backed up by an identical system in Dallas. In the event of an outage at the primary site, processing will resume quickly at the back-up site.

FEDWIRE

One of two Fed services that involve the electronic transfer of funds is ACH. The other is Fedwire, which is used to transfer both funds and securities.

Through Fedwire, depository institutions typically transfer payments involving large sums. The average value of a Fedwire transfer in 1995 was approximately $3 million in funds and $11 million in securities.

When the Federal Reserve processes a funds transfer, it electronically debits the account of the sending institution and credits the account of the receiving institution. The funds transfers are processed in seconds.

At least 80 percent of the transactions over Fedwire are "bank-to-bank" wires. A typical transfer would be as follows: an executive in San Francisco needs a large sum of money from the home office in Philadelphia in order to close a business deal. The home office's bank contacts the Federal Reserve Bank of Philadelphia, which wires the money to the Federal Reserve Bank of San Francisco, which in turn wires the funds to a local bank where the executive is waiting.

When vast amounts of money must be moved quickly, wire transfers through systems like Fedwire are overwhelmingly the preferred means of payment because the funds are available immediately.

Indeed, these electronic transfers, which can be of either funds or securities, are essential to the smooth functioning of the payments system and the financial markets.

Most Fedwire transactions are from bank to bank, involving wires sent by the institutions either on their own behalf or to meet obligations of their customers.

The wires can be of the following types: corporations paying each other for products or services rendered; corporations paying taxes to state and federal governments; state governments paying lottery proceeds to vendors selling tickets; mutual funds wiring interest payments to their customers' bank accounts; and individuals wiring money to their children away at college.

Typically, wire transfers account for very little in payments-system volume, but 80 percent or so of transaction value. The average dollar values of funds and securities transfers are $3 million and $11 million, respectively.

How Fedwire Transfers Funds...

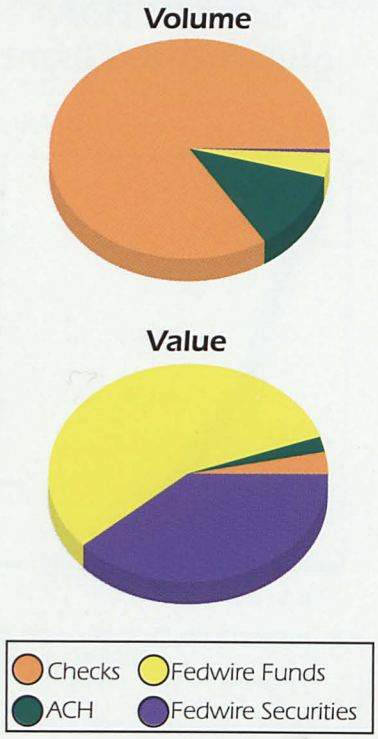
Transfers of funds over Fedwire are processed individually—and in seconds. Most institutions initiate their transfers through PCs or mainframes. Sophisticated communications systems ensure that each transfer is authorized by the sender.

The transfers are final to the receiving institution. The Fed guarantees the payment to the bank receiving the transfer and assumes any risk if the bank sending the payment has insufficient funds in its Federal Reserve account to complete the transfer.

...and Government Securities

Fedwire is important also to the market for U.S. Treasury securities and the securities of such federal agencies as the Federal National Mort-

Fedwire Transactions: Small in Number, Large in Value



gage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Ownership of these government securities is recorded in the Fed's computer system, where they are known as "book entries" (as opposed to paper certificates). The book-entry securities, held in safekeeping by the Federal Reserve Banks, can be transferred to new owners electronically over Fedwire.

When the Federal Reserve Bank receives a request to transfer a security, it determines that the security is held in safekeeping for the institution requesting the transfer and then withdraws the security from the institution's account. The Fed then electronically credits the proceeds of the sale to the institution's account, deposits the security into the account of the receiving institution, and electronically debits the latter account for the purchase price.

Fedwire and CHIPS

Two large-dollar electronic systems serve the nation's domestic and international payment requirements. One is Fedwire. The other is the private sector's Clearing House Interbank Payments System, or CHIPS, for short. CHIPS limits its membership to institutions with a New York City presence.

Fedwire handles primarily domestic transactions, while CHIPS accommodates most of the foreign-related payments. Together, Fedwire and CHIPS handle 85 percent of the value of national payments, but less than 1 percent of all payment transactions volumes.

In EFT: In the Electronic Funds Transfer area, Vicky Mozitis (left) and Barb Johns support Fedwire customers.

Fedwire's funds transfer volumes increased an average annual 7.7 percent in the past 14 years, though growth in the last five years has moderated to 4.1 percent annually. This growth is expected to remain moderate.

CHIPS volume, meanwhile, has increased steadily since 1985, growing at an annual rate of 7 percent during the past three years. Finality of payment over CHIPS is not guaranteed by the Federal Reserve or any other government entity.

Changes on the Horizon

During 1996-97, a new format will be implemented for Fedwire funds messages. This development will enhance Fedwire's compatibility with CHIPS and foster more end-to-end automation of transactions, while allowing banks to comply with Treasury Department regulations on money laundering.

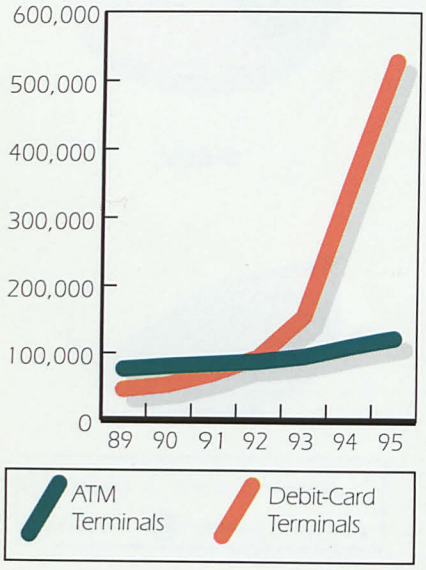
CASH SERVICES

Even in this electronic age, for the payments system to function smoothly, enough cash must still be in circulation to meet public demand. Usually, this demand varies with the level of economic activity and with the seasons of the year. During the December holiday season, for example, consumer demand for currency and coin typically reaches its highest point of the year.

An important job of the Federal Reserve is to function as "the banks' bank," ensuring that institutions have sufficient currency and coin on hand to meet current demand. As a result, each of the 12 Federal Reserve Banks is authorized to issue cash to financial institutions within its district.

The additional currency and coin put into circulation to meet seasonal demand is eventually returned to the institutions by merchants and other business owners. And so, to reduce the excess currency and coin held in their vaults, depository institutions typically return cash to their regional Federal Reserve Bank, where it is credited to their accounts. The process is reversed when the institutions need to replenish or increase their supply of currency and coin.

Debit-Card Terminals Now Outnumber ATMs



Federal Reserve Notes

Virtually all U.S. currency in circulation is in the form of Federal Reserve notes, first issued in 1914. They represent a first lien on the assets of the issuing Reserve Bank and are obligations of the U.S. government.

Contrary to popular belief, the notes are designed and printed not by the Federal Reserve but by the Treasury Department's Bureau of Engraving and Printing (BEP). The Reserve Banks circulate the notes and pay the BEP only for the cost of printing.

Coin, meanwhile, is a direct obligation of the Treasury Department. The Reserve Banks pay the Treasury Department's Bureau of the Mint for the face value of the coin received rather than for the cost of the minting.

The Demand for Cash

In dollar terms, cash accounts for only a small proportion of all monetary transactions. Still, currency and coin volumes continue to grow, despite the available alternatives to cash. Since 1985, currency payments and receipts by the Fed have grown at compound rates of approximately 4 percent.

Of the currency volume coming into Reserve Banks, about 35 percent are in the form of $1 notes. Over time, however, the demand for larger denominations, such as $20, $50, and $100 notes, has also increased. In 1960, these larger denominations constituted 64 percent of the total value of currency in circulation. By the end of 1993, they accounted for 92 percent.

Because the dollar is viewed throughout the world as a highly stable and readily negotiable currency, a significant demand for notes of larger value exists internationally. In fact, it is believed that only one-third of total U.S. currency is in circulation at home.

Cash Services at the Philadelphia Fed

Financial institutions deliver their deposits to the Philadelphia Fed via armored carriers. Since the Cash Department is 35 feet underground, the armored trucks are driven into

enormous elevators and lowered to the Receiving Department, where a team of receiving tellers inspects each deposit to verify the bank's name and the dollar amount.

The receiving team then performs a "bulk verification" of the deposit before it is placed in the vault. Thereafter, the notes are transferred to Currency Counting, where they are piece-counted on high-speed equipment that detects incorrect denominations, currency stuck together, counterfeits, and currency unfit for circulation because of excessive soil, wear, or abuse. Unfit currency is automatically shredded on the high-speed equipment.

After processing, currency fit for recirculation is transferred to the Paying Unit tellers, who use it to fill currency orders from Third District financial institutions.

The heaviest day for the Currency Receiving Division is Friday, when an average of 325 to 350 deposits are received. For the Paying Unit the big day is Wednesday, when a similar number of orders are processed.

January and September are the busiest months of the year for Currency Receiving. During those two months, deposits increase because of the end to both the holiday season and summer vacation periods. In January and September alone, the Division can receive more than 4,000 currency deposits totaling well over $2 billion.

Meanwhile, the busiest months for the Paying Unit are June, the beginning of the vacation season, and November, when banks are gearing up for the holiday demand for cash. During those peak months, the Philadelphia Fed may receive over 6,000 currency orders totaling over $2 billion.

Inside the Vault: An employee in Cash Services inspects ergonomically-correct carts containing bundles of cash.

A New Look for the U.S. Currency

Founding father or not, Ben Franklin has a more modest look these days, his fur collar having been replaced with simple cloth. During 1996, the Treasury Department is issuing new $100 bills incorporating design changes, including a bigger portrait of Ben, and anti-counterfeiting devices.

Advances in technology over the last decade have made it easier to reproduce currency through the use of copiers, printers, electronic digital scanners, color workstations, and computer software. The redesign was initiated to stay ahead of the technological capabilities. Other redesigned denominations, starting with the $50 bill, will follow at a rate of about one per year. Old notes will not be recalled or devalued.

DIRECTORS

In 1995, *Dennis W. DiLazzero* was elected a Class A director, replacing *H. Bernard Lynch*, and *Robert D. Burris* was elected a Class B director, replacing *James A. Hagen*.

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

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

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

Dennis W. DiLazzero
President and
Chief Executive Officer
Minotola National Bank
Vineland, N.J.

Terry K. Dunkle
Chairman
United States National Bank
Johnstown, Pa.

(from left) James M. Mead
Carl L. Campbell
J. Richard Jones
David W. Huggins

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

Joan Carter
President and
Chief Operating Officer
UM Holdings Ltd.
Haddonfield, N.J.

Robert D. Burris
President and
Chief Executive Officer
Burris Foods, Inc.
Milford, Del.

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

Joan Carter
Robert D. Burris

Terry K. Dunkle (left)
Dennis W. DiLazzero (right)
Donald J. Kennedy (seated)

OFFICERS

In 1995, numerous promotions and administrative changes took place among the official staff.

Edward J. Coia, Senior Vice President, was named Product Manager of the new Cash/Fiscal Product Office. **Alice Menzano** and **Vish P. Viswanathan** became Deputy Product Managers in the new Office.

Joanna H. Frodin, Vice President of the Check Product Office, moved to Supervision, Regulation, and Credit.

Shirley L. Coker was promoted to Assistant Vice President and Counsel of the Legal Department.

Annie Ward, Operations Officer, was promoted to Assistant Vice President responsible for the Fiscal Department.

Hank Kern, Assistant Vice President, moved from Check Operations to General Administrative Services. **Joseph L. McCann,** Administrative Services Officer, was given responsibility for Purchasing and Printing, as well as Protection.

Ron Sheldon, Assistant Vice President, moved from Computer Services to Check Operations, with responsibility for all check item processing. **Arun Jain** assumed responsibility for check settlement, and **Mary Ann Hood** was promoted to Check Adjustments Officer.

Edward G. Boehne
President

William H. Stone, Jr.
First Vice President

Donald F. Doros
Executive Vice President

Edward J. Coia
Senior Vice President and Manager, Cash/Fiscal Product Office

Michael E. Collins
Senior Vice President and Lending Officer

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

Patrick L. Donahue
Vice President

William Evans, Jr.
Vice President

Joanna H. Frodin
Vice President

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
Vice President and
Cash/Fiscal Product Officer

Eileen P. Adezio
Assistant Vice President

John G. Bell
Assistant Vice President

Gerard A. Callanan
Assistant Vice President and
Planning Officer

Shirley L. Coker
Assistant Vice President and 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

Beverly L. Evans
Applications and Structure Officer

John V. Heelan
International Examinations Officer

Eugene E. Hendrzak
Assistant Vice President

Mary Ann Hood
Check Adjustments 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

Joseph L. McCann
Administrative Services Officer

Alice J. Menzano
Assistant Vice President and
Cash/Fiscal Product Officer

Loretta J. Mester
Assistant Vice President and Economist

Edward Morrison
Operations Officer

Camille M. Ochman
Assistant Vice President

Jeanette Paladino
Assistant Counsel

A. Reed Raymond
Assistant Vice President and
Examination Review Officer

Patrick M. Regan
Assistant Vice President and
Technical Services Officer

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

Annie R. Ward
Assistant Vice President

Bernard M. Wennemer
Assistant Vice President

Anthony J. White
Financial Services Officer

Richard A. Valente
Audit Officer

Michael P. Zamulinsky
Assistant Vice President

ADVISORY COUNCILS

The Federal Reserve Bank's three 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 exchanging important information about local business and the economy. The 1995 members of the advisory councils are listed below.

Small Business/Agriculture Council

Chairman

Gregory L. Sutliff
President, Sutliff Chevrolet Co.
Harrisburg, Pa.

Deputy Chairman

Thomas J. McGinley
President and CEO
McGinley Mills
Easton, Pa.

Ruben Bermudez
President
Juvante, Inc.
Vineland, N.J.

William R. Camerer, III
Owner
Camerer Farm
Jersey Shore, Pa.

G. Wallace Caulk, Sr.
President
Exchange Tract Limited
Woodside, Del.

Arlene Coggins
Secretary
Coggins Waste Management, Inc.
Ocean City, N.J.

Sharon Dauito-Baxter
President
Ralph Dauito & Sons
Vineland, NJ

Kemel G. Dawkins
President
Kemrodco Development
and Construction, Inc.
Philadelphia, Pa.

Geraldine A. Henwood
President and CEO
Bio-Pharm Clinical Services
Blue Bell, Pa.

Thomas E. Hoversen
President
Comarco Products
Camden, N.J.

G. Erwin Sheppard
Vice President
Sheppard Farms, Inc.
Cedarville, N.J.

Clinton Tymes
Director
Delaware Small Business
Development Center
Newark, Del.

Credit Union Council

Chairman

Roger Kase
President
Dover FCU
Dover, Del.

Deputy Chairman

Betty Benfield
President, K of C FCU
Philadelphia, Pa.

Beverly K. Brown
Treasurer/CEO
CUMCO FCU
South Vineland, N.J.

Tamara M. Ciccioli
Manager/Treasurer
Bridgeton Onized FCU
Bridgeton, N.J.

Albert F. Farnschlader
President and CEO
Lehigh Valley Postal Employees FCU
Allentown, Pa.

Bruce K. Foulke
President/Treasurer
American Heritage FCU
Philadelphia, Pa.

Cathy S. Henry
President and CEO
Heritage Valley FCU
York, Pa.

Andrew L. Jaeger
CEO and Manager
NJDOT CU
Trenton, N.J.

James M. Reynolds
General Manager
Camden Community CU
Camden, N.J.

Leonard V. Shimko
President
Cross Valley FCU
Wilkes-Barre, Pa.

Sue S. Smiley
CEO
DPL FCU
Newark, Del.

John D. Unangst
President
Franklin Mint FCU
Media, Pa.

Community Banking Council

Chairman
Thomas H. van Arsdale
President and CEO
Franklin First Savings Bank
Wilkes-Barre, Pa.

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

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

Steven Brady
President
Ocean City Home Savings & Loan Association
Ocean City, N.J.

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

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

Frederick E. Kutteroff
President and CEO
Keystone Savings Bank
Bethlehem, Pa.

Frederick A. Marcell, Jr.
President
Willow Grove Bank
Maple Glen, Pa.

Dennis S. Marlo
President and CEO
Main Line Federal Savings Bank
Villanova, Pa.

Donald L. Masten
Chairman and CEO
The Pennsville National Bank
Pennsville, N.J.

Zvi H. Muscal
President and CEO
First Executive Bank
Philadelphia, Pa.

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

Erwin T. Straw
President and CEO
Prime Bank
Philadelphia, Pa.

Thomas V. Stress
President
American Eagle Savings Bank, PaSa
Boothwyn, Pa.

Craig W. Yates
President
Farmers & Mechanics Bank
Burlington, N.J.

STATEMENT OF CONDITION

	December 31, 1995	1994
Assets		
Gold Certificates	$ 433,000,000	$ 393,000,000
Special Drawing Rights Certificates	413,000,000	303,000,000
Coin	25,686,047	19,240,182
Items in Process of Collection	254,234,116	332,247,278
Loans to Depository Institutions	750,000	17,335,000
U.S. Government and Federal Agency Securities, Net	16,566,909,659	14,428,571,816
Investments Denominated in Foreign Currencies	922,989,752	736,989,986
Accrued Interest Receivable	168,506,819	144,553,422
Property and Equipment, Net	70,453,524	72,241,920
Other Assets	27,016,698	19,948,884
Interdistrict Settlement Account	(236,671,921)	2,232,230,904
Total Assets	***$ 18,645,874,694***	***$ 18,699,359,392***
Liabilities and Capital		
Liabilities		
Federal Reserve Notes Outstanding, Net	$ 16,222,782,372	$ 16,773,224,939
Deposits:		
Depository Institutions	1,701,874,231	1,491,487,639
U.S. Treasury, General Account	0	0
Other Deposits	7,738,683	7,542,027
Deferred Credit Items	250,703,612	32,287,227
Accumulated Benefit Obligation	45,654,352	38,154,763
Interest on Federal Reserve Notes Due U.S. Treasury	27,295,607	23,618,520
Other Liabilities	9,443,437	10,858,577
Total Liabilities	***$ 18,265,492,294***	***$ 18,377,173,692***
Capital		
Capital Paid-in	$ 190,191,200	$ 161,092,850
Surplus	190,191,200	161,092,850
Total Capital	***$ 380,382,400***	***$ 322,185,700***
Total Liabilities and Capital	***$ 18,645,874,694***	***$ 18,699,359,392***

Note to Statement of Condition, Income and Expenses, and Statement of Changes in Capital: Supplemental information, including 1995 financial statement footnote disclosures, is available upon request by contacting the Public Affairs Department of the Federal Reserve Bank of Philadelphia.

INCOME & EXPENSES

	Years Ended December 31, 1995	1994
Interest Income		
Interest on U.S. Government Securities	$ 996,324,388	$ 741,805,133
Interest on Foreign Currencies	33,744,503	30,174,859
Interest on Loans to Depository Institutions	167,833	162,271
Total Interest Income	***1,030,236,724***	***772,142,263***
Operating Income		
Income from Services	38,662,624	39,055,693
Reimbursable Services to Government Agencies	17,792,525	18,540,343
Foreign Currency Exchange	43,940,036	81,003,004
Sale of Government Securities	345,705	(955,915)
Other Income	3,575,353	2,707,794
Total Operating Income	***104,316,243***	***140,350,919***
Operating Expenses		
Salaries and Other Benefits	64,962,668	66,113,326
Occupancy Expense	8,471,821	8,742,024
Equipment Expense	8,011,696	9,952,421
Assessments by Board of Governors	23,424,300	19,084,351
Cost of Unreimbursed Treasury Services	2,101,899	1,977,891
Cost of Earnings Credits to Depository Institutions	24,315,650	26,331,165
Shared Federal Reserve System Costs	13,500,866	9,717,497
Other Expenses	8,037,399	11,106,009
Total Operating Expenses	***152,826,299***	***153,024,684***
Income Before Cumulative Effect of Accounting Change	***981,726,668***	***759,468,498***
Cumulative Effect of Change in Accounting Principle	(5,019,226)	—
Net Income	***$ 976,707,442***	***$ 759,468,498***
Distributable Net Income		
Dividends paid to Member Banks	$ 10,795,852	$ 8,328,151
Transferred to Surplus	29,098,350	47,370,050
Payments to U.S. Treasury	936,813,240	703,770,297
Total Distributable Net Income	***$ 976,707,442***	***$ 759,468,498***

STATEMENT OF CHANGES IN CAPITAL

For the Years Ended December 31, 1995 and 1994

	Capital Stock	Surplus	Total Stockholders' Equity
1994			
Balance at January 1, 1994 (2,274,456 shares)	$ 113,722,800	$ 113,722,800	$ 227,445,600
Net Income Transferred to Surplus	0	47,370,050	47,370,050
Net Capital Stock Issued/(Redeemed) (947,401 shares)	47,370,050	0	47,370,050
Balance at December 31, 1994 (3,221,857 shares)	**$ 161,092,850**	**$ 161,092,850**	**$ 322,185,700**
1995			
Balance at January 1, 1995 (3,221,857 shares)	$ 161,092,850	$ 161,092,850	$ 322,185,700
Net Income Transferred to Surplus	0	29,098,350	29,098,350
Net Capital Stock Issued/(Redeemed) (581,967 shares)	29,098,350	0	29,098,350
Balance at December 31, 1995 (3,803,824 shares)	**$ 190,191,200**	**$ 190,191,200**	**$ 380,382,400**

OPERATING STATISTICS

	1995 Volume	1995 Dollar Value	1994 Volume	1994 Dollar Value
Services to Depository Institutions				
Wire transfers of funds:	6.5 million transfers	$16.3 trillion	5.9 million transfers	$13.2 trillion
ACH				
Government	49.3 million items	$58.3 billion	49.5 million items	$115.1 billion
Commercial	164.2 million items	$574.5 billion	143.7 million items	$463 billion
Check processing:				
U.S. Government	20.9 million checks	$23.7 billion	22.4 million checks	$23.2 billion
All others	827.3 million checks	$996 billion	902.7 million checks	$1.1 trillion
Cash operations:				
Currency processed	1.08 billion notes	$15.9 billion	825.2 million notes	$11.8 billion
Coin processed	98.3 thousand bags	$64.6 million	73.1 thousand bags	$41.1 million
Loans to depository institutions:	438	$942 million	781	$1,165 million
Services to U.S. Treasury				
Electronic book-entry transfers:	1.3 million transfers	$16.4 trillion	1.1 million transfers	$12.7 trillion
Food coupons processed:	156.4 million coupons	$808.9 million	161.6 million coupons	$815.7 million