Contents

President’s Letter...page 4
First Vice President’s Letter...page 6
The Third District Economy Builds Momentum in 1996...page 8
Directors...page 18
Officers...page 20
Advisory Councils...page 22
Statement of Condition...page 24
Statement of Income...page 25
Statement of Changes in Capital...page 26
Operating Statistics...page 26
The nation’s economy turned in a remarkable performance in 1996. The expansion entered its sixth year. Output of goods and services grew at a robust pace. Nearly three million jobs were added to the nation’s payrolls. And the underlying rate of inflation was the lowest in over 30 years. Thus far the expansion of the 1990s has shown the kind of measured pace and balance that should sustain it for the foreseeable future.

Here in the Third District, the economy turned in a surprisingly strong performance in 1996. The pace of job growth in the tri-state area came closer to matching the nation’s than at any time in this expansion. And the momentum the local economy built up seems to be carrying into the new year.

Because the District’s economy has been slower to recover than the nation’s, it is particularly important for us that the national expansion continue for as long as possible. The pace of the national economy has always put bounds on how fast the region grows. For the local momentum to be realized, the national expansion must be sustained. Keeping inflation low is a key contribution the Fed can make toward sustainable growth and job creation.

Sustained expansion will bring steady improvements to all communities in the Third District. But the biggest benefits will come to those areas that are just beginning to turn around, including the city of Philadelphia, which in 1996 recorded its first job growth in five years.

As I write this, signs are positive that both the national and regional economies will continue to expand in 1997 in an environment of low inflation.

Edward G. Mezvinsky
A Letter from the First Vice President

The year 1996 was one of solid accomplishment for the Federal Reserve Bank of Philadelphia. Recognizing that profound changes to the nation’s payments system were under way, we have been investing in new equipment, new technologies, and better ways of doing business. Those efforts brought significant rewards this past year. And we expect them to yield still greater rewards in years to come.

In keeping with its role as an industry leader in check collection, the Bank introduced in August a new “check imaging” service for depository institutions. By capturing the digital image of a paper check, the Bank can make processing, storage, and retrieval faster, easier, and cheaper. We will expand our imaging capability in 1997, and we will be among the first Reserve Banks to image U.S. Treasury checks.

The new computer system that supports check imaging will serve as the springboard for other innovations as well. In fact, the Bank introduced two new electronic check deposit products in 1996. The Bank also spearheaded the Federal Reserve’s participation in the rollout of the new $100 bill. The “new look” currency, which includes a variety of innovative anti-counterfeiting features, will be introduced for smaller denomination bills over the next several years.

Meanwhile, as part of the Federal Reserve’s efforts to streamline electronic payments, the Bank reorganized its Automated Clearing House operation and successfully integrated its electronic funds and securities transactions into a new consolidated computer system.

Much has been accomplished, but maintaining a leadership role in the fast-changing payments business requires an ongoing effort. Thus the Bank has embarked on an aggressive campaign to continuously improve performance by achieving high standards of product quality and customer service and by encouraging greater creativity and innovation.

As the nation’s central bank, the Federal Reserve System is charged with fostering the kind of reliable, accessible, and efficient payments system the economy needs in order to grow. Here at the Federal Reserve Bank of Philadelphia, we are committed to serving the System and the nation as an innovative leader in the provision of high-quality payments services.

William H. Stricklin Jr.
For the economy of the Third Federal Reserve District, 1996 was a year of significant improvement. The momentum the District economy built up during the year puts us in position to make further gains in 1997 as the national expansion continues to unfold. Indeed, early indications from local labor and housing markets and from our own Business Outlook Survey suggest that 1997 will bring another year of solid growth. And so we can look back on 1996 as a year in which the District reaped some of the benefits of sustained economic growth and job creation.

Through most of this expansion we have said the three-state region has been lagging the nation. And that is well illustrated by a comparison of national and regional job growth over the past five years (see Payroll Job Growth for the U.S. and the three-state region on this page). With slower-than-average growth, the region did not regain all the jobs lost in the recession until the end of 1995. Since our economy generally recovers more slowly than the nation’s, it is particularly important for us that expansions continue as long as possible by maintaining sustainable growth at the national level. Keeping inflation low helps prolong economic expansions and job creation.

Even though jobs continued to grow at a slower pace in the tri-state region than in the nation in 1996, we came closer to the national average than at any other time in the expansion. Moreover, total jobs in the three states grew faster in 1996 than we had anticipated earlier in the year. Our projections were for job growth in the region to be slightly less than 1 percent. It turned out to be 1.7 percent. The national economy also grew faster than most forecasters had predicted.

When we look at the data for the individual states, we see a familiar pattern (see Payroll Job Growth for Pennsylvania, New Jersey, and Delaware on the next page). Job growth was significantly higher in Delaware than in the other two states. For the second consecutive year payrolls in Delaware increased faster than the national average. Jobs grew at an almost identical rate in Pennsylvania and New Jersey last year—1.6 percent. And total job growth over the past five years for these two states has differed by less than 0.1 percent. Pennsylvania recovered all the jobs lost
in the recession by mid-1994. But during the recession, job losses in New Jersey were much deeper than in Pennsylvania, so New Jersey has not yet recovered all the jobs lost between 1989 and 1992. If recent growth rates continue, New Jersey’s job levels should reach a new high sometime in 1997.

In the local labor markets across the District, job growth varied considerably last year. All the metropolitan areas shown in white on the map below had job growth of 2 percent or more. Besides the two metro areas in Delaware, the high growth areas in our District were in central and south central Pennsylvania and along the New Jersey shore. State College had the fastest growth in Pennsylvania, with a job gain of 4 percent, and Atlantic City had the fastest growth in New Jersey, with an increase of 3 percent. But Atlantic City still has the second highest unemployment rate in the state. At the other end of the scale, those areas shown in orange on the map had growth of less than 0.5 percent in 1996. And Johnstown and Vineland actually experienced some job losses on a fourth-quarter-over-fourth-quarter basis.

**Payroll Job Growth**

**Percent**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PA</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>NJ</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>DE</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics. Data are seasonally adjusted by FRB Philadelphia and changes are fourth quarter to fourth quarter.

**Job Growth 1995:IV to 1996:IV**

Source: Bureau of Labor Statistics. Data are seasonally adjusted by FRB Philadelphia.
For the Philadelphia metro area as a whole, jobs increased about 1 1/4 percent in 1996; that was up from less than 0.5 percent in the previous year. The suburbs grew at about the same pace in 1996 as they did in 1995 (see Philadelphia City & Suburban Job Growth). The big difference was the increase in jobs in the city. The data in the figure are fourth-quarter-over-fourth-quarter numbers, and the annual averages show a less dramatic improvement. But even if we use annual averages, job levels stabilized in the city last year.

By either measure, last year’s experience provides hope that Philadelphia can stem the tide of job losses that has plagued the city since 1988. If sustained expansions are important for the tri-state region, they are even more important for the city. It has taken the city more than five years since the end of the national recession to record any year-over-year job growth.

One factor in the improvement in the city’s economy was its continuing success in attracting tourists and conventioneers. This success is reflected in the hotel occupancy rate for Center City; it increased from 60 percent in 1991 to 75 percent in 1996 (see Hotel Occupancy Rates). And this upward trend is even more impressive than it appears at first glance. During this period the number of hotel rooms in Center City increased significantly with the opening of the Marriott. The increase in visitors in 1996 was due not only to the new Convention Center but also to some special events like the baseball All-Star game and the well-promoted Cézanne exhibit at the Art Museum. The good news is that the city was able to capitalize on these opportunities. The challenge is that these are not recurring events, so efforts to attract and promote similar events will have to be launched every year just to stay even.
The city's improvement, of course, was not just the result of special events; it was also part of a general rebound in the tri-state economy. As usual, the service-producing industries provided the bulk of the new jobs in the three states. But the area's rebound is best seen in some statistics from the construction and manufacturing industries.

Construction jobs increased more than 4 percent on a fourth-quarter-over-fourth-quarter basis, reversing the decline in the previous year. Contracts for nonresidential buildings fell sharply in the last quarter of 1995 and the first quarter of 1996. But they rebounded by mid-year (see Nonresidential Buildings). Shaded areas on the graphs represent the national recession. The fluctuations in contracts we see at the end of 1996 in this graph are not unusual for nonresidential construction.

And there are indications that nonresidential contracts will increase in 1997 or at least be sustained at current levels. New casino development is in the works for Atlantic City. Several Philadelphia suburbs have office occupancy rates in excess of 90 percent, which makes them ripe for new construction. And the high hotel occupancy rate for Center City is an incentive to add more rooms. Recently, plans were announced to convert the PSFS Building at 12th and Market streets into a 600-room hotel.

Residential construction in the region also bounced back last year from a slide that started in mid-1994. The slide began with a rise in mortgage rates. Rates rose in 1994 for the first time following the 1991-92 recession. Rates declined again in 1995, but by that time, job growth had slowed significantly in the tri-state area.

As mortgage rates rose in 1994, housing permits in this region declined, and they fell even further in 1995 as job growth slowed (see Housing Permits). A significant gap opened
up between housing growth in the region and the nation. But with the pickup in overall job growth in the three states last year, permits increased almost 20 percent. Our 1997 forecast of housing permits is shown by the dotted line on the Housing Permits graph. After a rise in the first quarter, we are looking for a gradual decline in permits through the rest of the year.

In the region’s manufacturing sector, the 1996 rebound is best seen in our Mid-Atlantic Manufacturing Index, which covers our three states plus New York (see Mid-Atlantic Manufacturing Index). Employment data do not always give us an accurate picture of how well manufacturing is doing. With the rapid productivity increases this country has experienced in manufacturing, the tri-state region has been losing industrial jobs even in years when output has gone up. Indeed, last year was the ninth consecutive year of job losses in the region’s manufacturing sector. The index on this graph is a measure of manufacturing output. Since the recession, output has increased in every year except 1995. And the decline in 1995 was more than reversed last year. The responses to our monthly survey of manufacturers in the District also reflected this decline in 1995 and pickup in 1996.

In our Business Outlook Survey we ask the respondents not only about the current month’s activity but also about what they expect over the next six months (see Business Outlook Survey Expectations). We form an index for each measure, such as overall activity or employment, by subtracting the percentage of respondents who expect a decrease from the percentage who expect an increase. So far this year the index of future activity has been near its highs for the past three years, and the index of future employment has recently had some of its highest readings in the last 10 years. These
indexes suggest that over the near term, we should see continued growth in the manufacturing sector and even some pickup in employment. According to the early payroll data for 1997, we may already be seeing some increase in factory jobs.

Any pickup in manufacturing jobs in 1997 is not likely to signal the beginning of a new trend in the region’s manufacturing sector. The Manufacturing Employment graph on this page shows the percentage of the region’s nonfarm jobs that are in manufacturing and the percentage of the nation’s jobs in manufacturing. Since 1980 the percentages have declined as manufacturing workers have become more productive. Today, both the nation and the region have fewer manufacturing workers and more output than in 1980. The region’s much greater concentration in manufacturing in 1980 can be seen in the gap between the two lines. If we extended these lines further back in time, the gap would be even wider. Today, the region’s economy is still slightly more manufacturing-oriented than the nation’s, but not nearly as much as it was 15 or 16 years ago.

An article in a recent issue of our Business Review discusses some of the factors that have made our region less competitive for manufacturing. Here are a few of the major ones. First, manufacturers tend to locate new facilities in rapidly expanding markets, and the mid-Atlantic region has had the slowest population growth of any region in the nation in recent decades. Also, many private costs for manufacturers tend to be higher in our region than elsewhere. These include labor costs, such as wages and benefits, and energy costs. For example, electricity prices in Pennsylvania and New Jersey are typically 20 to 50 percent higher than the national average. This is not true in Delaware. Finally, the business tax burden can tip the balance in the decision about where to locate a new plant. The business-related taxes in our region that tend to be much higher than the national averages are the corporate income tax in Pennsylvania and the property tax in New Jersey.

With the loss of manufacturing jobs in 1996, the private service-producing industries and government essentially provided all the new jobs in the region. They also account for most of the existing jobs. The five categories shown in the graph
(Service-Producing Sector) account for 80 percent of the jobs in the tri-state area, and two categories—trade and business and personal services—account for more than half. The biggest generator of new jobs was the broad category of business and personal services. Within this group, business support services, such as computer programming and maintenance, advertising, and direct mail, grew more than 7 percent. The first bar in the graph, however, shows a slight decline in jobs in the transportation and utilities industries. This is a sober reminder that service-producing industries are not immune to the kinds of cutbacks that we have often seen in manufacturing. Cost-cutting reduced jobs at gas and electric utility companies in the region more than 4 percent last year. This was the second year in a row for major job reductions in the industry. Cost-cutting and consolidation helped limit job growth in other service industries as well. While there has been a lot of job creation in some parts of the communications industry, such as cellular phones, paging, and fax services, there have been job cuts in some more traditional areas, especially at some large firms. Legal services continue to be under cost-cutting pressures, and the industry had very meager job growth in the three states last year, following a decline in the previous year.

In the region as a whole, job growth at banks and other depository institutions was greater than 1 percent last year, but banks continued to have different growth profiles across the three states (Depository Institutions). Led by the credit card banks, banking jobs in Delaware increased 8 percent. In New Jersey, on the other hand, jobs declined 3 percent in 1996 after a 5 percent loss in the preceding year. And we shouldn’t read too much into the better-than-average job growth in Pennsylvania’s
banking industry last year. This increase represents the return of only about half the jobs lost in the previous year.

The growth in total government employment in 1996 also hides some differences among the three levels of government (Government Sector Job Growth). All the net job growth in the tri-state region was at the local level. And this growth is basically being driven by increased enrollments in the public schools. Federal jobs in the three states declined only slightly last year, but 1996 was the eighth consecutive year of decline. Nationwide, federal jobs are now at their lowest level since 1982.

This look at some individual sectors shows that even in a year of good job growth there can be a great deal of shuffling among the various industries and within industries. We are likely to see more of the same in 1997, but what will overall growth look like?

Three important factors will determine the overall pace of growth in the region in 1997. First, the momentum from 1996 has already carried over into 1997. It has shown up in the early employment and housing statistics. Last year’s growth, however, was helped by the fact that the region was rebounding from a weak year in 1995. That will not be true this year; there is less slack in the region’s economy than there was a year ago. Finally, the national economy is expected to grow more slowly in 1997 than it did in 1996. And the pace of the national economy has always put bounds on how fast the region grows.

So while we expect solid growth in 1997, job growth in each of the three states is forecast to be somewhat slower than in 1996 (Payroll Jobs). Jobs in Delaware are expected to grow a little more than 2 percent, which is faster growth than we have projected for the nation as a whole. Jobs in New
Jersey are expected to grow a little less than 1.5 percent, and that is the same as we are projecting for the nation. Pennsylvania’s labor market has less slack than New Jersey’s. And jobs in Pennsylvania are expected to grow only about 1 percent in 1997.

We have been predicting a decline in the first-quarter unemployment rates for all three states this year (Unemployment Rate). The preliminary numbers for the first two months do show a decline in New Jersey and Delaware. And we expect the rates in these two states to stay at these levels for the rest of the year or drift a little lower. The preliminary numbers show little change in Pennsylvania’s unemployment rate in the first quarter of 1997. The final numbers may show a slight dip in the rate, but our forecast calls for Pennsylvania’s unemployment rate to tick up again before the end of the year.

In conclusion, there are two issues that should not alter the overall outlook for the region but could have a significant impact on certain industries or local labor markets. First, how much cost-cutting and consolidation will take place in 1997? Recent legislation and pending mergers and acquisitions indicate that there will be a considerable amount. With electricity deregulation on the horizon in Pennsylvania and New Jersey, utilities will remain under severe cost-cutting pressures. Furthermore, the breakup of Conrail will undoubtedly lead to a loss of jobs in the area; we just don’t know how many. And the merger of Bell Atlantic and Nynex will result in job cuts and a shift of some jobs out of our region.

Second, the effect of welfare reform on labor markets is not yet clear, but it could be substantial in large urban areas. For example, more than 40 percent of Pennsylvania’s welfare cases are in the city of Philadelphia, and about 50 percent are in the five southeastern counties. If the five-county area were to meet its share of the state’s quota under the new federal law, 13,000 adults would either have to find work or in some way be removed from the roles. That is about half the number of jobs that were added in the metropolitan area last year. Depending on how well welfare reform works, it could increase job growth in large urban areas like Philadelphia, or it could push up the unemployment rate. We will probably have to wait until the end of the year to see which scenario plays out.
The Third District Economy Builds Momentum in 1996 is based on a presentation by Vice President and Economist Theodore M. Crone, to the Board of Directors on April 17, 1997.
Directors

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

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

Albert B. Murry
President and Chief Executive Officer
Lebanon Valley National Bank
Lebanon, PA

Charisse R. Lillie
Partner
Ballard Spahr Andrews & Ingersoll
Philadelphia, PA

Dennis W. DiLazzero
President and Chief Executive Officer
Minotola National Bank
Vineland, NJ
Deputy Chairperson
Joan Carter
President and
Chief Operating Officer
UM Holdings Ltd.
Haddonfield, NJ

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

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

Howard E. Cosgrove
Chairman, President &
Chief Executive Officer
Delmarva Power and
Light Company
Wilmington, DE
In 1996, numerous promotions and administrative changes took place among the official staff:

**Milissa M. Tadeo** was named Senior Vice President responsible for the Fiscal and Treasury Direct departments.

**Henry T. Kern** was named Vice President, General Administrative Services.

**Arun K. Jain** was named Vice President, Retail Payments Processing, including both the Automated Clearing House and Check Processing.

**Theodore M. Crone** was named Vice President and Economist.

**Loretta J. Mester** was named Vice President and Economist.

**Beverly L. Evans** was named Assistant Vice President, Applications and Banking Structure, in the Supervision, Regulation and Credit Department.

**Donna L. Franco** was appointed Budget Officer, Business Planning and Budget Department.

**Howard M. James, Jr.** was appointed Support Services Officer for the Supervision, Regulation and Credit Department.

**J. Warren Bowman, Jr.** Vice President, became the officer in charge of Wholesale Payment Services.

**Robert J. Bucco** Vice President, became the officer in charge of Cash Services.

**Marie Tkaczyk** Assistant Vice President, became responsible for all Systems Development and Support, Data Base Administration, and the Information Center.

**Patrick M. Regan** Assistant Vice President, in addition to his responsibilities for Technical Support and Data Processing Operations, became responsible for Automation Planning and Data Security Administration and became the Bank’s Information Security 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

**Milissa M. Tadeo**
Senior Vice President

**J. Warren Bowman, Jr.**
Vice President

**Robert J. Bucco**
Vice President

**Theodore M. Crone**
Vice President and Economist

**Patrick L. Donahue**
Vice President

**William Evans, Jr.**
Vice President

**Joanna H. Frodin**
Vice President

**Arun K. Jain**
Vice President

**Jerry Katz**
Vice President

**Edward M. Mahon**
Vice President and General Counsel

**Frederick M. Manning**
Vice President and Community Affairs Officer
Loretta J. Mester
Vice President and Economist

Stephen A. Meyer
Vice President and Associate Director of Research

Louis N. Sanfelice
Vice President

John B. Shaffer
Vice President and General Auditor

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 & Assistant Secretary

Gerard A. Callanan
Assistant Vice President and Planning Officer

Shirley L. Coker
Assistant Vice President and Counsel

Dean Croushore
Assistant Vice President and Economist

John J. Deibel
Assistant Vice President

Robert N. Downes, Jr.
Assistant Vice President

Beverly L. Evans
Assistant Vice President

Donna L. Franco
Budget Officer

John V. Heelan
International Examinations Officer

Eugene E. Hendrzak
Assistant Vice President

Mary Ann Hood
Check Adjustments Officer

Howard M. James, Jr.
Support Services Officer

Alan L. Kiel
Assistant Vice President

Mary M. Labaree
Assistant Vice President and Assistant General Auditor

Thomas P. Lambinus
Assistant Vice President

Joseph L. McCann
Administrative Services Officer and Security Officer

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

Edward Morrison
Operations Officer

Camille M. Ochman
Assistant Vice President

Jeanette Paladino
Assistant Counsel

A. Reed Raymond, III
Assistant Vice President and Examination Review Officer

Patrick M. Regan
Assistant Vice President and Information Security Officer

Sherrill Shaffer
Assistant Vice President

Richard A. Sheaffer
Assistant Vice President

Ronald R. Sheldon
Assistant Vice President

Marie Tkaczyk
Assistant Vice President

Sharon N. Tomlinson
Assistant Vice President

Richard A. Valente
Audit Officer

Annie R. Ward
Assistant Vice President

Bernard M. Wennemer
Assistant Vice President

Anthony J. White
Financial Services 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.

Small Business & Agriculture Council

Chairman
Thomas J. McGinley
President and Chief Executive Officer
McGinley Mills
Easton, PA

Deputy Chairperson
Sharon Dauto-Baxter
President
Ralph Dauto & Sons
Vineland, NJ

Ruben Bermudez
President
Juvante Inc.
Vineland, NJ

Art Daube
General Manager
WBRE-TV
Wilkes-Barre, PA

Geraldine A. Henwood
President and Chief Executive Officer
Bio-Pharm Clinical Services
Blue Bell, PA

Thomas E. Hoversen
President
Comarco Products
Camden, NJ

Rodney L. Metzler
Owner
Pleasantview Farms
Martinsburg, PA

David R. Rice
President
Rice Fruit Company
Gardners, PA

G. Erwin Sheppard
Vice President
Sheppard Farms, Inc.
Cedarville, NJ

Steven J. Shotz
President
Quantum Group
Wilmington, DE

Clinton Tymes
Director
Delaware Small Business Development Center
Newark, DE

W. Gregory Wood
President
Hocher Manufacturing Company, Inc.
Rehoboth Beach, DE
Credit Union Council

Chairperson
Betty Benfield
President
K of C FCU
Philadelphia, PA

Deputy Chairperson
Sue S. Smiley
Chief Executive Officer
DPL FCU
Newark, DE

Beverly K. Brown
Treasurer & CEO
CUMCO FCU
South Vineland, NJ

Bruce K. Foulke
President & Treasurer
American Heritage FCU
Philadelphia, PA

Mary Jane Griffith
Vice President & CFO
South Jersey FCU
Deptford, NJ

Cathy S. Henry
President & CEO
Heritage Valley FCU
York, PA

David F. LaSala
Executive
Vice President
Benchmark FCU
West Chester, PA

Francis R. Muto
Manager & CEO
Peoples First CU
Allentown, PA

Heloise L. Osborne
Manager
Gemco Employee FCU
Wilmington, DE

Gary H. Penrose
President & CEO
Mercer County
Teachers FCU
Hamilton, NJ

James M. Reynolds
General Manager
Camden Community CU
Camden, NJ

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

Deputy Chairman
Dennis S. Marlo
President & CEO
Main Line Bank
Villanova, PA

Steven Brady
President
Ocean City Home Savings & Loan Association
Ocean City, NJ

Thomas L. Gray
President & CEO
Carnegie Bank N.A.
Princeton, NJ

Ronald L. Hankey
President & CEO
Adams County National Bank
Gettysburg, PA

Frederick E. Kutteroff
President & CEO
Keystone Savings Bank
Bethlehem, PA

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

Donald L. Masten
Chairman & CEO
The Pennsville National Bank
Pennsville, NJ

Zvi H. Muscal
President & CEO
First Executive Bank
Philadelphia, PA

Erwin T. Straw
Chairman & CEO
Prime Bank
Philadelphia, PA

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

John F. Tremblay
President & CEO
Bank of Mid-Jersey
Bordentown Township, NJ
### Statement of Condition (in millions)

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1996</th>
<th>December 31, 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gold certificates</td>
<td>$ 423</td>
<td>$ 433</td>
</tr>
<tr>
<td>Special drawing rights certificates</td>
<td>396</td>
<td>413</td>
</tr>
<tr>
<td>Coin</td>
<td>43</td>
<td>26</td>
</tr>
<tr>
<td>Items in process of collection</td>
<td>476</td>
<td>254</td>
</tr>
<tr>
<td>Loans to depository institutions</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>U.S. government and federal agency securities, net</td>
<td>15,259</td>
<td>16,567</td>
</tr>
<tr>
<td>Investments denominated in foreign currencies</td>
<td>924</td>
<td>923</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>138</td>
<td>169</td>
</tr>
<tr>
<td>Bank premises and equipment, net</td>
<td>74</td>
<td>70</td>
</tr>
<tr>
<td>Other assets</td>
<td>13</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$ 17,755</td>
<td>$ 18,883</td>
</tr>
<tr>
<td><strong>LIABILITIES AND CAPITAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Reserve notes outstanding, net</td>
<td>$ 13,822</td>
<td>$ 16,223</td>
</tr>
<tr>
<td>Deposits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depositary institutions</td>
<td>1,297</td>
<td>1,702</td>
</tr>
<tr>
<td>Other deposits</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Deferred credit items</td>
<td>261</td>
<td>251</td>
</tr>
<tr>
<td>Interest on Federal Reserve notes due U.S. Treasury</td>
<td>—</td>
<td>27</td>
</tr>
<tr>
<td>Statutory surplus transfer due U.S. Treasury</td>
<td>7</td>
<td>—</td>
</tr>
<tr>
<td>Interdistrict settlement account</td>
<td>1,762</td>
<td>237</td>
</tr>
<tr>
<td>Accrued benefit cost</td>
<td>47</td>
<td>46</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>17,214</td>
<td>18,503</td>
</tr>
<tr>
<td><strong>CAPITAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital paid-in</td>
<td>273</td>
<td>190</td>
</tr>
<tr>
<td>Surplus</td>
<td>268</td>
<td>190</td>
</tr>
<tr>
<td><strong>Total Capital</strong></td>
<td>541</td>
<td>380</td>
</tr>
<tr>
<td><strong>Total Liabilities and Capital</strong></td>
<td>$ 17,755</td>
<td>$ 18,883</td>
</tr>
</tbody>
</table>

Statement of Income (in millions)

<table>
<thead>
<tr>
<th></th>
<th>For the years ended</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 1996</td>
<td></td>
<td>December 31, 1995</td>
</tr>
<tr>
<td>INTEREST INCOME</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on U.S. government securities</td>
<td>$ 944</td>
<td></td>
<td>$ 996</td>
</tr>
<tr>
<td>Interest on foreign currencies</td>
<td>21</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>Total Interest Income</td>
<td>965</td>
<td></td>
<td>1,030</td>
</tr>
<tr>
<td>OTHER OPERATING INCOME</td>
<td>41</td>
<td></td>
<td>39</td>
</tr>
<tr>
<td>Income from services</td>
<td>18</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>Reimbursable services to government agencies</td>
<td>(80)</td>
<td></td>
<td>44</td>
</tr>
<tr>
<td>Foreign currency gains (losses), net</td>
<td>1</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Government securities gains, net</td>
<td>4</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Other income</td>
<td>4</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Total Other Operating Income (Loss)</td>
<td>(16)</td>
<td></td>
<td>105</td>
</tr>
<tr>
<td>OPERATING EXPENSES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and other benefits</td>
<td>64</td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>Occupancy expense</td>
<td>8</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Equipment expense</td>
<td>9</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Cost of unreimbursed Treasury services</td>
<td>3</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Assessments by Board of Governors</td>
<td>24</td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>Other expenses</td>
<td>48</td>
<td></td>
<td>47</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>156</td>
<td></td>
<td>153</td>
</tr>
<tr>
<td>Income before cumulative effect of accounting change</td>
<td>793</td>
<td></td>
<td>982</td>
</tr>
<tr>
<td>Cumulative effect of changes in accounting principles</td>
<td>—</td>
<td></td>
<td>(5)</td>
</tr>
<tr>
<td>Net Income Prior to Distribution</td>
<td>$ 793</td>
<td></td>
<td>$ 977</td>
</tr>
<tr>
<td>DISTRIBUTION OF NET INCOME</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid to member banks</td>
<td>$ 12</td>
<td></td>
<td>$ 11</td>
</tr>
<tr>
<td>Transferred to surplus</td>
<td>83</td>
<td></td>
<td>29</td>
</tr>
<tr>
<td>Payments to U.S. Treasury as interest on Federal Reserve notes</td>
<td>553</td>
<td></td>
<td>937</td>
</tr>
<tr>
<td>Payments to U.S. Treasury as required by statute</td>
<td>145</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>$ 793</td>
<td></td>
<td>$ 977</td>
</tr>
</tbody>
</table>
Statement of Changes in Capital *(in millions)*

For the years ended December 31, 1996 and December 31, 1995

<table>
<thead>
<tr>
<th></th>
<th>Capital Paid-in</th>
<th>Surplus</th>
<th>Total Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 1995 (3.2 million shares)</td>
<td>$161</td>
<td>$161</td>
<td>$322</td>
</tr>
<tr>
<td>Net income transferred to surplus</td>
<td></td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Net change in capital stock issued (.6 million shares)</td>
<td>29</td>
<td></td>
<td>29</td>
</tr>
<tr>
<td>Balance at December 31, 1995 (3.8 million shares)</td>
<td>$190</td>
<td>$190</td>
<td>$380</td>
</tr>
<tr>
<td>Net income transferred to surplus</td>
<td></td>
<td>83</td>
<td>83</td>
</tr>
<tr>
<td>Net change in capital stock issued (1.7 million shares)</td>
<td>83</td>
<td></td>
<td>83</td>
</tr>
<tr>
<td>Statutory surplus transfer to the U.S. Treasury</td>
<td></td>
<td>(5)</td>
<td>(5)</td>
</tr>
<tr>
<td>Balance at December 31, 1996 (5.5 million shares)</td>
<td>$273</td>
<td>$268</td>
<td>$541</td>
</tr>
</tbody>
</table>

Operating Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wire Transfer of funds</td>
<td>6.9 million transfers</td>
<td>$17.6 trillion</td>
<td>6.5 million transfers</td>
<td>$16.3 trillion</td>
</tr>
<tr>
<td>ACH:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>58.7 million items</td>
<td>$77.1 billion</td>
<td>49.3 million items</td>
<td>$58.3 billion</td>
</tr>
<tr>
<td>Commercial</td>
<td>189.2 million items</td>
<td>$662.0 billion</td>
<td>164.2 million items</td>
<td>$574.5 billion</td>
</tr>
<tr>
<td>Check processing:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government</td>
<td>20.4 million checks</td>
<td>$21.4 billion</td>
<td>20.9 million checks</td>
<td>$23.7 billion</td>
</tr>
<tr>
<td>All others</td>
<td>816.4 million checks</td>
<td>$932.4 billion</td>
<td>827.3 million checks</td>
<td>$996 billion</td>
</tr>
<tr>
<td>Cash operations:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency processed</td>
<td>961.8 million notes</td>
<td>$17.0 billion</td>
<td>1.08 billion notes</td>
<td>$15.9 billion</td>
</tr>
<tr>
<td>Coin processed</td>
<td>94.1 thousand bags</td>
<td>$47.2 million</td>
<td>98.3 thousand bags</td>
<td>$64.6 million</td>
</tr>
<tr>
<td>Loans to depository institutions</td>
<td>457 loans</td>
<td>$1.1 billion</td>
<td>438 loans</td>
<td>$942 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic book-entry transfers:</td>
<td>1.5 million transfers</td>
<td>$19.1 trillion</td>
<td>1.3 million transfers</td>
<td>$16.4 trillion</td>
</tr>
<tr>
<td>Food coupons processed:</td>
<td>156.8 million coupons</td>
<td>$802.5 million</td>
<td>156.4 million coupons</td>
<td>$808.9 million</td>
</tr>
</tbody>
</table>