FINANCIAL STATEMENTS

FEDERAL RESERVE BANK OF NEW YORK
STATEMENT OF CONDITION

In Dollars

Assets	December 31, 1995	December 31, 1994
Gold Certificates	4,273,059,792	4,133,635,217
Special Drawing Rights Certificates	3,903,000,000	2,808,000,000
Coin	19,509,815	18,697,679
Items in Process of Collection	763,668,763	648,912,240
U.S. Government and Federal Agency Securities, Net	166,400,947,234	146,780,936,411
Investments Denominated in Foreign Currencies	5,654,172,110	6,267,086,655
Accrued Interest Receivable	1,760,726,294	1,514,553,208
Property & Equipment, Net	226,593,820	221,028,182
Other Assets	891,021,117	734,096,200
Interdistrict Settlement Account	—	5,852,633,645
Total Assets	183,892,698,945	168,979,579,437

Liabilities and Capital		
Liabilities		
Federal Reserve Notes Outstanding, Net	139,004,388,019	151,607,516,466
Deposits:		
Depository Institutions	8,657,672,258	7,105,402,568
U.S. Treasury, General Account	5,979,192,840	7,161,094,854
Other Deposits	426,213,829	281,225,181
Deferred Credit Items	733,999,354	550,535,468
Interest on Federal Reserve Notes Due U.S. Treasury	289,458,974	131,183,807
Accrued Benefit Cost	128,603,205	110,051,829
Other Liabilities	42,552,860	57,303,764
Interdistrict Settlement Account	26,517,386,306	—
Total Liabilities	181,779,467,645	167,004,313,937
Capital		
Capital Paid-in	1,056,615,650	987,632,750
Surplus	1,056,615,650	987,632,750
Total Capital	2,113,231,300	1,975,265,500
Total Liabilities and Capital	183,892,698,945	168,979,579,437

The accompanying notes are an integral part of these financial statements.

FEDERAL RESERVE BANK OF NEW YORK
STATEMENT OF INCOME

In Dollars

	December 31, 1995	December 31, 1994
Interest Income		
Interest on U.S. Government Securities	9,387,450,289	6,942,877,055
Interest on Foreign Currencies	211,055,484	255,017,462
Interest on Loans to Depository Institutions	1,579,408	605,303
Total Interest Income	9,600,085,181	7,198,499,820
Other Operating Income		
Income from Services	96,356,576	101,971,655
Reimbursable Services to Government Agencies	47,916,037	43,915,081
Foreign Currency Gains/(Losses)	269,388,856	689,957,173
Government Securities Gains/(Losses)	2,973,126	(9,095,296)
Other Income	27,260,794	139,709,773
Total Operating Income	443,895,389	966,458,386
Operating Expense		
Salaries and Other Benefits	262,326,496	251,954,633
Occupancy Expense	38,136,227	36,720,003
Equipment Expense	36,830,599	38,114,109
Cost of Unreimbursed Treasury Services	3,416,012	3,234,295
Assessments by Board of Governors	190,289,603	185,938,579
Other Expense	97,310,185	99,926,418
Total Operating Expense	628,309,122	615,888,037
Income Before Cumulative Effect of Accounting Change	9,415,671,448	7,549,070,169
Cumulative Effect of Change in Accounting Principle	(15,585,891)	—
Net Income Before Net Periodic Pension Expense	9,400,085,557	7,549,070,169
Net Periodic Pension Expense	(119,217,028)	(75,646,845)
Net Income	9,519,302,585	7,624,717,014
Distribution of Net Income		
Dividends paid to Member Banks	61,464,192	58,789,295
Transferred to Surplus	68,982,900	18,988,250
Payments to U.S. Treasury	9,388,855,493	7,546,939,469
Total Distribution	9,519,302,585	7,624,717,014

The accompanying notes are an integral part of these financial statements.

FEDERAL RESERVE BANK OF NEW YORK
STATEMENT OF CHANGES IN CAPITAL
In Dollars

	Capital Stock	Surplus	Total Equity
Balance at December 31, 1994 (19,752,655 million shares)	987,632,750	987,632,750	1,975,265,500
Net Income Transferred to Surplus		68,982,900	68,982,900
Net Capital Stock Issued/(Redeemed) (1,379,658 million shares)	68,982,900		68,982,900
Balance at December 31, 1995 (21,132,313 million shares)	1,056,615,650	1,056,615,650	2,113,231,300

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

The Federal Reserve Bank of New York (the Bank) is part of the Federal Reserve System created by Congress under the Federal Reserve Act of 1913 which established the central bank of the United States. The Federal Reserve System (System) consists of the Board of Governors of the Federal Reserve (Board of Governors) and twelve Federal Reserve Banks (Reserve Banks). The Reserve Banks are federal instrumentalities chartered by the federal government and possess a unique set of governmental, corporate and central bank characteristics. Other major elements of the System are the Federal Open Market Committee and the Federal Advisory Council. The Reserve Banks are not subject to federal or state income taxes.

Corporate Structure

The Bank and its branch in Buffalo, New York serve the Second Federal Reserve District that includes the state of New York, the ten northern counties of New Jersey and Fairfield County Connecticut, as well as the Commonwealth of Puerto Rico and the U.S. Virgin Islands. In accordance with the Federal Reserve Act, the Bank has a corporate structure with supervision and control exercised by a Board of Directors chosen partly by nomination and election by member banks and partly by the Board of Governors. Banks that are members of the System include all national banks and any state-chartered bank that elects to become a member.

Board of Directors

The Federal Reserve Act specifies the composition of district boards of directors. Each board is comprised of nine members serving three-year terms: three directors, including those designated as Chairman and Deputy Chairman, are appointed by the Board of Governors and six directors are elected by member banks. Of the six elected by member banks, three represent the public and three represent member banks. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, a member bank's one vote is not affected by the number of shares of the Reserve Bank stock it holds.

2. OPERATIONS AND SERVICES

The Bank and other Reserve Banks and the Board of Governors perform a variety of services and operations. Functions include: formulating and conducting monetary policy; participating actively in the payments mechanism, including large-dollar transfers of funds, automated clearing house operations and check processing; distribution of coin and currency; fiscal agency functions for the U.S. Treasury and certain federal agencies; serving as the federal government's bank; providing short-term loans to depository institutions; serving the consumer and the community by providing educational materials and information regarding consumer laws; supervising bank holding companies and state member banks on behalf of the Board of Governors; and administering regulations of the Board of Governors. The Board of Governors' operating costs are funded through assessments on the Reserve Banks.

3. SIGNIFICANT ACCOUNTING POLICIES

In carrying out its responsibilities as part of the nation's central bank, the Bank participates in activities that result in income for the Bank, particularly interest income from securities held in the System Open Market Account. The income is incidental to the Federal Reserve's public responsibilities and does not motivate its activities or policy decisions. Specialized accounting principles for entities with the unique powers and responsibilities of the nation's central bank have not been formulated by the Financial Accounting Standards Board. The Board of Governors of the System has developed specialized accounting principles and practices which it believes are appropriate for the significantly different nature and function of a central bank as compared to the private sector. These accounting principles and practices are generally documented in the "Financial Accounting Manual" which is maintained by the Board of Governors of the System. All Reserve Banks are required to adopt and apply accounting policies and practices which are consistent with the Financial Accounting Manual. Accounting and disclosures for U.S. government and federal agency securities and investments denominated in foreign currencies (as further described in notes 3(d), 4 and 5) are consistent with the Financial Accounting Manual. The Bank has elected not to include a Statement of Cash Flows as the liquidity and cash position of the Bank are not of primary concern to users of these financial statements. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income and Changes in Capital. Therefore, a Statement of Cash Flows would not provide any additional useful information. There are no other significant differences between the policies outlined in the Financial Accounting Manual and generally accepted accounting principles. Unique accounts and significant accounting policies are explained below.

a. Gold Certificates

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks to monetize gold held by the U.S. Treasury. Payment for the gold certificates by the Reserve Banks is made by crediting equivalent amounts in dollars into the account established for the U.S. Treasury. These gold certificates held by the Reserve Banks are required to be backed by the gold of the U.S. Treasury. The U.S. Treasury may retire the gold certificates at any time and the Reserve Banks must deliver them to the U.S. Treasury. At such time, the U.S. Treasury's account is charged and the Reserve Banks' gold certificate account is lowered. The value of gold for purposes of backing the gold certificates is set by the Federal Reserve Act at $42.2222 a fine troy ounce. The Board of Governors reallocates the gold certificates among Reserve Banks once a year based upon Federal Reserve notes outstanding in each district.

b. Special Drawing Rights Certificates

Special drawing rights are issued by the International Monetary Fund to its members according to the capital each country deposits with the Fund upon membership. The special drawing rights serve as a supplement to international monetary reserves and may be transferred, somewhat like gold, from one national monetary authority to another. Under the law providing for United States participation in the special drawing rights system, the Secretary of the U.S. Treasury is authorized to transfer special drawing rights certificates by crediting equivalent amounts in dollars into the account established for the U.S. Treasury. The Reserve Banks are required to purchase them for the purpose of financing special drawing rights certificate acquisitions or for financing exchange stabilization operations. Upon changes in the amount of monetized special drawing rights, Reserve Bank holdings of special drawing rights certificates are adjusted proportionate to their respective totals of Federal Reserve notes outstanding at the end of the preceding year.

c. Loans to Depository Institutions

The Depository Institutions Deregulation and Monetary Control Act of 1980 provides that all depository institutions that maintain reservable transaction accounts or nonpersonal time deposits, as defined in Regulation D issued by the Board of Governors, have borrowing privileges at the discretion of the Reserve Banks. Borrowers execute certain lending agreements and deposit sufficient collateral before credit is extended. Loans are evaluated for collectibility and currently all are considered collectible and fully collateralized. If any loans were deemed to be uncollectible, an appropriate reserve would be established. Interest is recorded on the accrual method and is charged at the discount rate established at least every fourteen days by the Board of Directors of the Bank, subject to review by the Board of Governors. However, Reserve Banks retain the option to impose a surcharge above that rate in certain circumstances.

d. U.S. Government and Federal Agency Securities and Investments Denominated in Foreign Currencies

The Federal Open Market Committee (FOMC) is composed of the Board of Governors, the Bank's president and, on a rotating basis, four other Reserve Bank presidents. The FOMC designated the Bank to execute open market transactions. The FOMC establishes policy regarding the open market operations, oversees these operations, and issues authorizations and directives to the Bank for its execution of transactions for the System Open Market Account (SOMA), which is participated or designated to each Reserve Bank. Authorized transaction types include direct purchases and sales of securities and matched sale-purchase transactions. The Bank is also authorized to buy securities under agreements for repurchase that are not participated or designated to each Reserve Bank. These transactions are conducted in government and federal agency securities. The securities are held in the SOMA at the Bank.

Specifically, the Federal Reserve provides or absorbs additional reserve deposits of depository institutions by purchasing or selling government securities, respectively, in the open market. While the application of current market prices to the securities currently held by the Reserve Banks may result in values substantially above or below their carrying values, these unrealized changes in value would have no necessary effect on the quantity of reserves available to the banking system or on the prospects for future Reserve Bank earnings or capital.

In addition to conducting outright purchases and sales of securities, the Bank is authorized by the FOMC to enter into matched sale-purchase transactions. These are generally overnight transactions in which the Bank sells a security and buys it back the next day at the rate specified at the commencement of the transaction. These transactions are accounted for as separate sale and purchase transactions. At December 31, 1995, the Bank had matched sale-purchase transactions involving U.S. Government securities with a par value of $12.3 billion.

In addition to operations in the domestic securities market, the Bank is authorized by the FOMC to execute operations in foreign exchange markets for major currencies and to invest those currencies to the extent possible in investments with maturities of less than 12 months. Balances and changes in balances arise from transactions for the purpose of countering disorderly conditions in exchange markets and other needs specified by the FOMC in carrying out its central bank responsibilities.

Each Federal Reserve Bank participates in the above activities that result in income for the Bank. Although the resulting portfolio generates interest income and the transactions can result in gains or losses when holdings are sold prior to maturity, decisions regarding the securities and foreign currencies, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, earnings and any gains or losses resulting from the sale of such currencies and securities are incidental to the open market operations and do not motivate its activities or policy decisions.

In order to ensure the effective conduct of open-market operations, the FOMC authorizes select Reserve Banks to lend U.S. Government securities held in SOMA to U.S. Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Reserve Bank, under such instructions as the FOMC may specify from time to time. At December 31, 1995, U.S. Government securities with a par value of $1.1 billion were loaned. These securities-lending transactions are fully collateralized by other U.S. Government securities. Accordingly, these transactions are off balance sheet and, therefore, are not reflected in the accompanying financial statements. It is the Reserve Banks' policy to take possession of the collateral in amounts in excess of the market values of the securities loaned. The market values of the collateral and the securities loaned are monitored by the Reserve Banks on a daily basis, with additional collateral obtained as necessary.

U.S. securities comprising the SOMA are recorded at cost, on a settlement-date basis, adjusted for the amortization of premiums and accretion of discounts on a straight-line basis. Interest income is recorded on the accrual method. Gains and losses resulting from sales of securities are determined by the specific identification method.

e. Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over estimated useful lives of assets ranging from 2 to 50 years. New assets, major alterations, renovations and improvements are capitalized at cost as additions to the asset accounts. Maintenance, repairs and minor replacements are charged to operations in the year incurred.

f. Other Real Estate (ORE)

ORE is comprised of commercial real estate properties held for sale or future use in operations. ORE assets are carried at the lower of cost or fair value. Subsequent write-downs that may be required to the carrying value of these assets and losses realized from asset sales are charged to operating expense. Gains realized from the sale of ORE are included in other operating income.

g. Interdistrict Settlement Account

At the close of business each day, all Reserve Banks and branches assemble the payments due to or from other Reserve Banks and branches as a result of transactions involving accounts residing in other Districts that occurred during the day's operations. Such transactions may include check and ACH clearing operations. The cumulative net amount due to or due from other Reserve Banks is reported as the interdistrict settlement account.

h. Federal Reserve Notes

Federal Reserve notes, the circulating currency of the nation, are issued through the various Federal Reserve agents to the Reserve Banks upon deposit with such agents of certain classes of collateral security, typically U.S. government securities. These notes are identified as issued to a specific Reserve Bank. The Federal Reserve Act provides that the collateral security tendered by the Reserve Bank to the Federal Reserve agent must be equal to the sum of the notes applied for by such Reserve Bank. Due to the stability and short-term nature of the securities tendered, the collateral value is equal to the par value of such securities. The Board of Governors may at any time call upon a Reserve Bank for additional security to adequately collateralize the Federal Reserve notes. To satisfy its obligation to provide sufficient collateral for its outstanding Federal Reserve notes, the Bank is a party to an agreement with the eleven other Reserve Banks which provides that certain assets of the Reserve Banks are jointly pledged as collateral for the Federal Reserve notes of all Reserve Banks. At December 31, 1995, the Bank's total holdings of securities were pledged as collateral. In the event that this collateral is insufficient, the Act provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Bank. Finally, as obligations of the United States, Federal Reserve notes are backed by the full faith and credit of the United States government.

i. Capital Paid-in

The Federal Reserve Act requires that each member bank subscribe to the capital stock of its Reserve Bank in an amount equal to 6 percent of the capital and surplus of the member bank. Member banks are those state-chartered banks that choose to join the System and all national banks. Currently, only one-half of the subscription is paid-in and the remainder is subject to call. These shares, with a par value of $100, may not be transferred or hypothecated. As a member bank's capital and surplus changes, its holdings of the Reserve Bank's stock must be adjusted.

By law, each member bank is entitled to receive an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

j. Surplus

The amount of surplus, as designated by the Board of Governors, is intended to provide additional capital and reduce the possibility that the Bank would be required to call on member banks for additional capital. After providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in, excess earnings have historically been transferred to the U.S. Treasury (generally as payment of interest on Federal Reserve notes outstanding). In the event of losses, payments to the U.S. Treasury are suspended until such losses are recovered through subsequent earnings. Weekly payments to the U.S. Treasury vary significantly.

k. Accounting Change

Effective January 1, 1995, the Financial Accounting Manual was changed to require the Bank to use the accrual method of accounting to recognize the obligation to provide benefits to former or inactive employees, consistent with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits". Prior to 1995, the Bank recognized costs for postemployment benefits when paid. The cumulative effect of this change in accounting for benefits was recognized by the Bank as a one-time charge to expense of $11.7 million. Additionally, the Bank recognized an increase in 1995 operating expenses of approximately $1.2 million as a result of the change in accounting for these costs.

Effective January 1, 1995, the Bank also began accruing a liability for employees' rights to receive compensation for future absences consistent with SFAS No. 43, "Accounting for Compensated Absences". Prior to 1995, the Bank recognized these costs when paid. The cumulative effect of this change in accounting for compensated absences was recognized by the Bank as a one-time charge to expense of $3.9 million. Ongoing operating expenses for the year ended December 31, 1995, were not materially impacted by the change in accounting for these costs.

4. U.S. GOVERNMENT AND FEDERAL AGENCY SECURITIES

Securities are held in the SOMA at the Bank. An undivided interest in the SOMA is designated to each Reserve Bank on a percentage basis derived from an annual settlement, performed in April of each year, of interdistrict clearings and equalization among the Reserve Banks of gold certificate holdings to Federal Reserve notes outstanding. Gains and losses on sales of these securities are allocated to each Reserve Bank based on that Bank's designated share of the total portfolio. The Bank's allocated share of securities held in SOMA at December 31, 1995 was approximately 39.75 percent.

Securities held in the System Open Market Account and the Bank's allocated share at December 31, 1995 were as follows (in thousands):

	Total SOMA Account	Allocated to Bank
Par Value:		
Federal Agency	$ 2,633,995	$ 1,046,893
U.S. Treasury:		
Bills	183,115,712	72,780,143
Notes	151,013,150	60,020,839
Bonds	44,068,604	17,515,259
Total Par	380,831,461	151,363,134
Unamortized Premiums	4,508,183	1,791,797
Unaccreted Discounts	(3,477,093)	(1,381,986)
	$381,862,551	$151,772,945

In addition to the above balances, the Bank holds securities under repurchase agreement. These balances are not allocated to other Reserve Banks. Securities held under repurchase agreement at December 31, 1995 were as follows (in thousands):

Par Value:	
Federal Agency	$ 1,100,000
U.S. Treasury	12,762,000
Total Par	13,862,000
Unamortized Premiums	902,643
Unaccreted Discounts	(136,641)
	$14,628,002

The maturities of investment securities in the SOMA account at December 31, 1995 were as follows (in thousands):

	Par Value	
Maturities of Securities Held	U.S. Government Securities	Federal Agency Obligations
Within 15 days	$ 7,580,018	$ 240,000
16 days to 90 days	93,738,368	474,000
91 days to 1 year	123,216,569	527,295
Over 1 year to 5 years	85,272,558	840,950
Over 5 years to 10 years	31,469,096	526,750
Over 10 years	36,920,857	25,000
Total	$378,197,466	$2,633,995

The maturities of investment securities allocated to the Bank at December 31, 1995 were as follows (in thousands):

	Par Value	
Maturities of Securities Held	U.S. Government Securities	Federal Agency Obligations
Within 15 days	$ 3,012,711	$ 95,389
16 days to 90 days	37,256,725	188,393
91 days to 1 year	48,972,966	209,576
Over 1 year to 5 years	33,891,952	334,239
Over 5 years to 10 years	12,507,530	209,359
Over 10 years	14,674,357	9,937
Total	$150,316,241	$1,046,893

5. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

The Bank, on behalf of the Reserve Banks, maintains accounts with foreign central banks and The Bank for International Settlements and holds foreign currency deposits and government debt instruments denominated in foreign currencies. Each Reserve Bank is allocated a share of foreign currency-denominated assets based upon the ratio of its capital and surplus to aggregate capital and surplus at the preceding December 31. Gains and losses are allocated to each Reserve Bank based on that bank's designated share of the total portfolio.

Investments denominated in foreign currencies are limited to maturities of less than one year and are accounted for at cost on a settlement-date basis, adjusted for amortization of premiums and accretion of discounts using a method that approximates the effective interest rate method. Foreign currency-denominated assets of the Reserve Banks are revalued monthly at current market exchange rates in order to report these assets in U.S. dollars. Interest income is recorded on the accrual basis. These investments are guaranteed as to principal and interest by the foreign governments or are contracts with the central banks or The Bank for International Settlements.

During 1995, the Federal Reserve Bank of New York was authorized to hold balances of and to have outstanding forward contracts to receive or to deliver the following foreign currencies:

Australian schillings	Italian lire
Belgian francs	Japanese yen
Canadian dollars	Mexican pesos
Danish kroner	Netherlands guilders
Pounds sterling	Norwegian kroner
French francs	Swedish kroner
German marks	Swiss francs

In addition, at the direction of the FOMC, the Bank is authorized to maintain reciprocal currency arrangements ("F/X swaps") for SOMA for periods up to a maximum of 12 months with the following foreign central banks:

Foreign Central Bank	Amount of Arrangement (Millions of Dollars Equivalent)
Austrian Nation Bank	250
National Bank of Belgium	1000
Bank of Canada	2000
National Bank of Denmark	250
Bank of England	3000
Bank of France	2000
Deutsche Bundesbank	6000
Bank of Italy	3000
Bank of Japan	5000
Bank of Mexico	6000 *
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1250

* The swap arrangement with the Bank of Mexico consists of a regular $3 billion line and a special temporary $3 billion line. The special line expired on January 31, 1996. As of December 31, 1995, $650 million was outstanding on this facility; however, this amount was repaid in January 1996 and as of March 31, 1996, there was no amount outstanding on this facility.

In connection with its foreign currency activities, the Bank, on behalf of the Reserve Banks, enters into contracts that may involve off-balance sheet market risk and credit risk because they may represent contractual commitments involving future settlement. The credit risk is controlled through credit approvals, limits and monitoring procedures.

Foreign exchange contracts are contractual agreements between two parties to exchange a specified currency, at a specified price, on a specified date. Spot foreign contracts normally settle two days after the trade date, whereas the settlement date on forward contracts is negotiated between the contracting parties, but will extend beyond two days from the trade date up to one year. The Bank generally enters into spot contracts, with any forward contracts generally limited to the second leg of a swap/warehousing transaction. Swaps are executed only with authorized foreign central banks, while warehousing transactions are authorized only with the U.S. Treasury and the Exchange Stabilization Fund. As of December 31, 1995, the Reserve Banks had no open foreign exchange contracts.

An F/X swap arrangement is a renewable, short-term reciprocal currency arrangement between two parties, the Bank, on behalf of the Reserve Banks, and an authorized foreign central bank, who mutually agree to exchange their currencies up to a prearranged maximum amount and for an agreed upon period of time, generally for one year. These arrangements give the Federal Reserve temporary access to the foreign currencies which it needs for intervention operations, and give the partner foreign central bank temporary access to dollars they need to support their own currencies. As of December 31, 1995, there was a $650 million open F/X swap contract, with the Bank of Mexico.

The FOMC has an agreement to "warehouse" foreign currencies for the U.S. Treasury and the Exchange Stabilization Fund (ESF). This is an arrangement under which the FOMC agrees to exchange, at the request of the Treasury, U.S. dollars for foreign currencies held by the Treasury or ESF over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury and ESF for financing purchases of foreign currencies and related international operations. As of December 31, 1995, this facility was $20 billion, with no open agreements.

6. BANK PREMISES AND EQUIPMENT

A summary of bank premises and equipment at December 31, 1995 is as follows (in thousands):

Bank Premises:	
Land	$ 21,218
Buildings	102,403
Building machinery and equipment	50,043
Construction in progress	12,491
	186,155
Less accumulated depreciation	39,667
Bank Premises, net	146,488
Furniture and equipment	211,776
Less accumulated depreciation	131,670
Furniture and equipment, net	$ 80,106

Depreciation expense for the year ended December 31, 1995 was $28.8 million.

7. COMMITMENTS

At December 31, 1995, the Bank was obligated under noncancelable leases for premises and equipment with terms, including renewal options, ranging from one to approximately eight years, which provide for increased rentals based upon increases in real estate taxes, operating costs or selected price indices.

Rental expense under capital and operating leases for certain operating facilities, warehouses, data processing, and office equipment (including taxes, insurance and maintenance when included in rent and contingent rentals), net of sublease rentals, was $16.8 million in 1995. Certain of the Bank's leases have options to renew, and there are no significant contingent rentals.

Future minimum rental payments under capital leases and noncancellable operating leases, net of sublease rentals with terms of one year or more, at December 31, 1995, were (in thousands):

	Operating	Capital
1996	$11,020	$3,297
1997	887 *	3,165
1998	10,426	912
1999	10,425	0
2000	10,425	0
Thereafter	19,489	0
	$62,672	$7,374

Accumulated amortization of capital leases was $5.4 million at December 31, 1995.

* Payment of $9,565,000 fixed minimum rent for 1997 for 59 Maiden Lane space occupied by the Bank was made at the time of lease renewal in 1988.

8. RETIREMENT AND THRIFT PLANS

Substantially all of the Reserve Banks' employees participate in the Retirement Plan for Employees of the System. The System's plan is a defined benefit plan which covers employees of the Reserve Banks, the Board of Governors and the Plan Administrative office. Benefits are based on length of service and level of compensation. The Bank acts as the Plan sponsor, including the net periodic pension expense on its balance sheet. The net periodic pension expense includes amounts related to Board of Governors participation in the Plan.

Salary and salary-related expenses of the Office of Employee Benefits, the Plan Administrator, are paid for by the Plan. The Office of Employee Benefits is a related party to the Reserve Bank. In 1994, the most recent date for which data are presently available, the amounts of such expenses paid by the Plan which were estimated to be attributable to the administration of the Thrift Plan, Long Term Disability Income Plan and Supplemental Survivor Income Plan for Employees of the Federal Reserve System aggregated to approximately $2,025,000.

For the year ended December 31, 1994, investment service fees of approximately $7,490,000 and administrative expenses of approximately $1,457,000, which include charges of $1,200,000 from certain related parties within the Federal Reserve System primarily for rent, systems support, personnel, postage and data processing, on a specific allocation basis, were paid by the Retirement Plan.

Contributions to the System's plan are actuarially determined and fully funded by participating employers at amounts prescribed by the Plan Administrator. No separate accounting is maintained of assets contributed by the participating employers, and net pension expense for the period is the required contribution for the period. As of December 31, 1994, the most recent date for which data are presently available, actuarial calculations showed that the fair market value of the assets of the System's plan exceeded the projected benefit obligations. Based on these calculations, it was determined that employer funding contributions were not required and the excess plan assets will continue to fund future years' contributions.

Following is a summary of the components of the net periodic pension expense that is recognized on the Bank's Statement of Income for the year ending December 31, 1995 (in millions).

Service cost—benefits earned during the period	$ 49
Interest cost on projected benefit obligation	133
Expected return on assets	(257)
Amortization of initial net asset at January 1, 1987	(45)
Amortization of prior service cost	6
Amortization of net gain	(9)
Net periodic pension expense	(123)
Cost of special termination benefits	4
Net periodic pension expense after special termination benefits	$(119)

Employees of the Bank may also participate in the Federal Reserve System's Thrift Plan. Under the Thrift Plan, employees may contribute a percentage of their salaries up to a maximum 19 percent limit as prescribed by the Internal Revenue Service. Matching contributions by the Bank are based on a fixed percentage of each employee's basic contribution. Currently, the Bank matches 80 percent of the employees' contributions up to 6 percent of their salary. The Bank's Thrift Plan contributions totaled $8.1 million in 1995.

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In addition to the Bank's defined benefit retirement plan, employees who have met certain age and length of service requirements are eligible for both medical benefits and life insurance coverage during retirement. The retiree medical plan is contributory and provides benefits to retirees, their covered dependents and beneficiaries. The life insurance plan is noncontributory and covers retirees only.

The Bank funds benefits payable under the medical and life insurance plans as due, using a January 1 measurement date. The following is a reconciliation between the plan's funded status and the amounts recognized in the Bank's balance sheet as of December 31, 1995 (in millions).

Accumulated postretirement benefit obligation:	
Retirees and covered spouses	$ 55
Actives eligible to retire	16
Other actives and disables	40
Total accumulated postretirement benefit obligation	111
Unamortized net transition obligation	0
Unrecognized net gain (loss)	(1)
Unrecognized prior service cost	1
Accrued postretirement benefit cost	$111

Costs for the Bank were projected using an 8.75 percent discount rate and the following health care cost trend rates. The initial trend rate for medical costs for 1995 is 11 percent, with the ultimate trend rate of 6.5 percent by 2004.

The following is a summary of the components of net periodic postretirement cost for the year ended December 31, 1995 (in millions).

Service Costs	$ 3
Interest costs of accumulated benefit obligation	9
Net amortization and deferral	0
Net periodic cost	$12

The Bank began using the accrual method of accounting to recognize the obligation to provide benefits to former or inactive employees, consistent with SFAS No. 112 "Employers Accounting for Postemployment Benefits," effective January 1, 1995. Benefits include medical and dental insurance, survivor income and disability benefits. Costs were projected using the same discount rate and the same health care trend rates as were used for projecting postretirement costs. The accrued postemployment benefit cost recognized by the Bank at December 31, 1995, was $12.9 million. Net periodic costs of $3.3 million were included in 1995 operating expenses.

10. CONTINGENCIES

The Bank is involved in certain legal actions and claims arising in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these actions, in management's opinion, based on discussions with counsel, the aforementioned litigation and claims will be resolved without material adverse effect on the financial position of the Bank.