



TO THE BOARD OF DIRECTORS

The management of the Federal Reserve Bank of Boston (FRBB) is responsible for the preparation and fair presentation of the Statement of Financial Condition, Statement of Income, and Statement of Changes in Capital as of December 31, 1997 (the "Financial Statements"). The Financial Statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System and as set forth in the Financial Accounting Manual for the Federal Reserve Banks, and as such, include amounts, some of which are based on judgments and estimates of management.

The management of the FRBB is responsible for maintaining an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements. Such internal controls are designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of reliable Financial Statements. This process of internal controls contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in the process of internal controls are reported to management, and appropriate corrective measures are implemented.

Even an effective process of internal controls, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements.

The management of the FRBB assessed its process of internal controls over financial reporting including the safeguarding of assets reflected in the financial statements, based upon the criteria established in the "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the management of the FRBB believes that the FRBB maintained an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements.

Cathy E. Minehan, President

Paul M. Connolly, First Vice President



TO THE BOARD OF DIRECTORS OF THE FEDERAL RESERVE BANK OF BOSTON:

We have examined management's assertion that the Federal Reserve Bank of Boston (the "Reserve Bank") maintained an effective internal control structure over financial reporting and over the safeguarding of assets as they relate to the Financial Statements as of December 31, 1997, included in the accompanying Management's Assertion.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control structure over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the Reserve Bank maintained an effective internal control structure over financial reporting and over the safeguarding of assets as they relate to the Financial Statements as of December 31, 1997, is fairly stated, in all material respects, based upon the criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Cosper & Lybrand L.L.P.

March 21, 1998

Boston, Massachusetts



Statement of Condition

<i>in millions</i>	December 31, 1997	December 31, 1996
ASSETS		
Gold certificates	\$ 624	\$ 661
Special drawing rights certificates	530	636
Coin	23	13
Items in process of collection	441	706
Loans to depository institutions	21	0
U.S. government and federal agency securities, net	26,458	23,198
Investments denominated in foreign currencies	637	830
Accrued interest receivable	250	209
Prepaid statutory surplus transfer to the U.S. Treasury	20	0
Interdistrict settlement account	0	1,024
Bank premises and equipment, net	123	122
Other assets	20	21
Total assets	\$ 29,147	\$ 27,420
LIABILITIES AND CAPITAL		
Liabilities:		
Federal Reserve notes outstanding, net	\$ 22,984	\$ 25,417
Deposits:		
Depository institutions	1,544	1,048
Other deposits	7	7
Deferred credit items	412	511
Statutory surplus transfer due U.S. Treasury	0	37
Interdistrict settlement account	3,621	0
Accrued benefit cost	50	47
Other liabilities	13	13
Total liabilities	\$ 28,631	\$ 27,080
Capital:		
Capital paid-in	262	172
Surplus	254	168
Total capital	516	340
Total liabilities and capital	\$ 29,147	\$ 27,420

These statements of income, condition, and changes in bank capital are prepared by Bank management. Copies of audited financial statements, complete with footnotes, are available by contacting the Federal Reserve Bank of Boston's Public & Community Affairs Department, P.O. Box 2076, Boston, MA 02106-2076. Telephone 617.973.3459.



Statement of Income

<i>in millions</i>	December 31, 1997	December 31, 1996
INTEREST INCOME:		
Interest on U.S. government securities	\$ 1,519	\$ 1,328
Interest on foreign currencies	14	19
Interest on loans to depository institutions	1	1
Total interest income	1,534	1,348
OTHER OPERATING INCOME (LOSS):		
Income from services	68	68
Reimbursable services to government agencies	8	9
Foreign currency (losses), net	(97)	(72)
Government securities gains, net	1	2
Other income	9	9
Total other operating income (loss)	(11)	16
OPERATING EXPENSES:		
Salaries and other benefits	75	73
Occupancy expense	12	12
Equipment expense	10	9
Cost of unreimbursed Treasury services	1	2
Assessments by Board of Governors	28	33
Other expenses	72	69
Total operating expenses	198	198
Net income prior to distribution	\$ 1,325	\$ 1,166
DISTRIBUTION OF NET INCOME:		
Dividends paid to member banks	\$ 12	\$ 10
Transferred to surplus	90	1
Payments to U.S. Treasury as interest on Federal Reserve notes	0	827
Payments to U.S. Treasury as required by statute	1,223	328
Total distribution	\$ 1,325	\$ 1,166

These statements of income, condition, and changes in bank capital are prepared by Bank management. Copies of audited financial statements, complete with footnotes, are available by contacting the Federal Reserve Bank of Boston's Public & Community Affairs Department, P.O. Box 2076, Boston, MA 02106-2076. Telephone 617.973.3459.



Statement of Changes in Capital

For the years ended December 31, 1997^{oo} and December 31, 1996

<i>in millions</i>	Capital Paid-in	Surplus	Total Capital
Balance at January 1, 1996 (5.4 million shares)	\$ 171	\$ 171	\$ 342
Net income transferred to surplus		1	1
Statutory surplus transfer to the U.S. Treasury		(4)	(4)
Net change in capital stock issued (26 thousand shares)	\$ 1		\$ 1
Balance at December 31, 1996 (5.4 million shares)	\$ 172	\$ 168	\$ 340
Net income transferred to surplus		90	90
Statutory surplus transfer to the U.S. Treasury		(4)	(4)
Net change in capital stock issued (1.8 million shares)	\$ 90		\$ 90
Balance at December 31, 1997 (5.2 million shares)	\$ 262	\$ 254	\$ 516

These statements of income, condition, and changes in bank capital are prepared by Bank management. Copies of audited financial statements, complete with footnotes, are available by contacting the Federal Reserve Bank of Boston's Public & Community Affairs Department, P.O. Box 2076, Boston, MA 02106-2076. Telephone 617.973.3459.

^{oo} During 1997 the value of Bank capital increased because of the effect of bank mergers.



Summary of Operations

	CALENDAR YEAR 1997		CALENDAR YEAR 1996	
	Daily Average Volume	Daily \$ Value of Transactions	Daily Average Volume	Daily \$ Value of Transactions
Services to Depository Institutions				
Funds Transfer	43,062 transfers	\$130.2 billion	39,122 transfers	\$106.3 billion
Automated Clearing House^o				
Commercial ACH Items Originated	582,486 items	\$1.2 billion	N/A	N/A
Government ACH Items Originated	1,470 items	\$5 million	N/A	N/A
Check Processing (Commercial)				
Total Volume	4.0 million checks	\$3.1 billion	4.2 million checks	\$2.9 billion
Processed Volume	3.5 million checks	\$2.7 billion	3.4 million checks	\$2.5 billion
Fine Sort Volume	0.5 million checks	\$0.3 billion	0.7 million checks	\$0.3 billion
Processed Returns	44,104 items	\$0.04 billion	44,778 items	\$0.04 billion
Government Volume	43,275 items	\$0.04 billion	85,984 items	\$0.08 billion
Adjustments Processed	1,019 items		933 items	
Cash Operations				
Cash Shipped	6.9 million notes	\$96.2 million	6.9 million notes	\$93.9 million
Cash Received	6.5 million notes	\$90.0 million	6.4 million notes	\$85.4 million
Services to the U.S. Treasury				
Electronic Book Entry Securities	8,465 Transfers	\$111.3 billion	7,593 Transfers	\$99.8 billion

^o As a result of Boston's conversion to centralized ACH processing in April 1996, comparable 1996 data are not available.