State Street Boston Corporation

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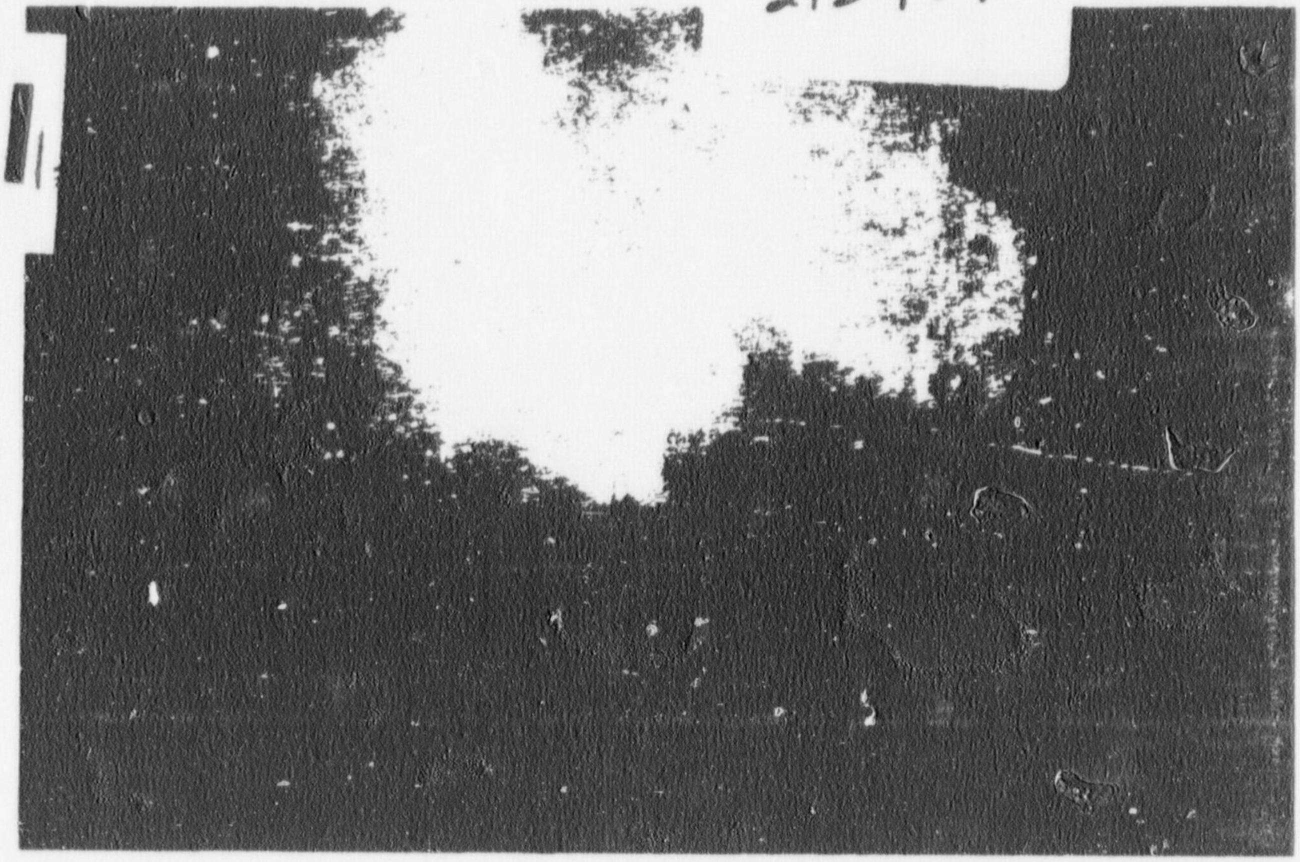


Annual

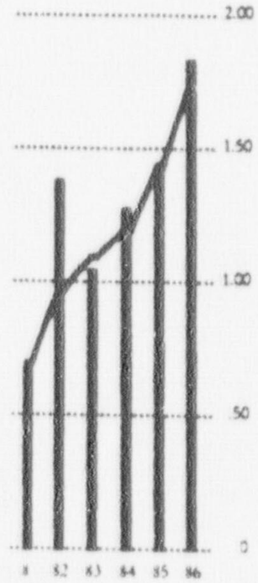
Report

1986

The [illegible] depicted [illegible] during the pre-Civil War era, when the [illegible] clipper ship [illegible]. The [illegible] is believed to be the clipper "[illegible]" of [illegible]. One of the [illegible] Harbor and the city, "[illegible]" was painted by John William Hill ([illegible]) in 1857. Our cover is [illegible] from a hand-colored engraving of the scene, by Charles [illegible]

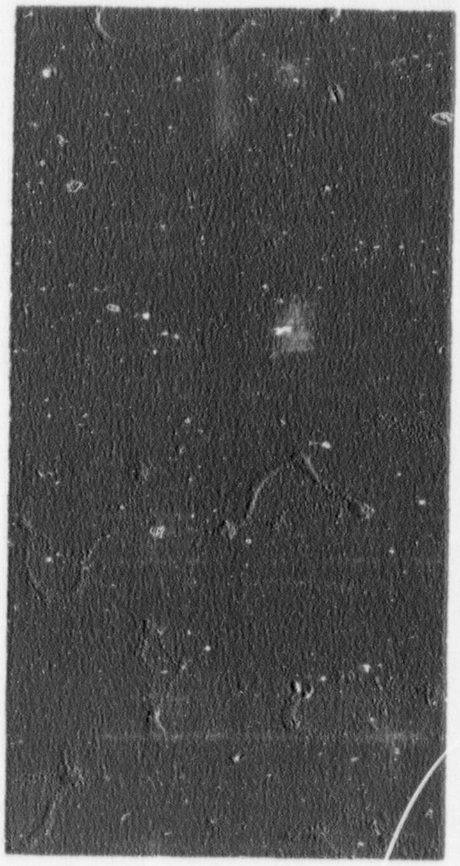
Highlights of Our 194th Year

(Dollars in thousands, except per share data)	1986	1985	Change
Earnings Per Share			
Primary	$ 1.97	$ 1.60	
Excluding gain on leveraged leases in 1986	1.87	1.60	17%
Fully diluted	1.84	1.45	
Excluding gain on leveraged leases in 1986	1.75	1.45	21
Dividends Per Share			
Cash dividends declared	.36	.30	20
Income			
Net income	71,395	55,254	
Excluding gain on leveraged leases in 1986	67,823	55,254	23
Return on Equity			
Excluding gain on leveraged leases in 1986	19.0%	18.8%	

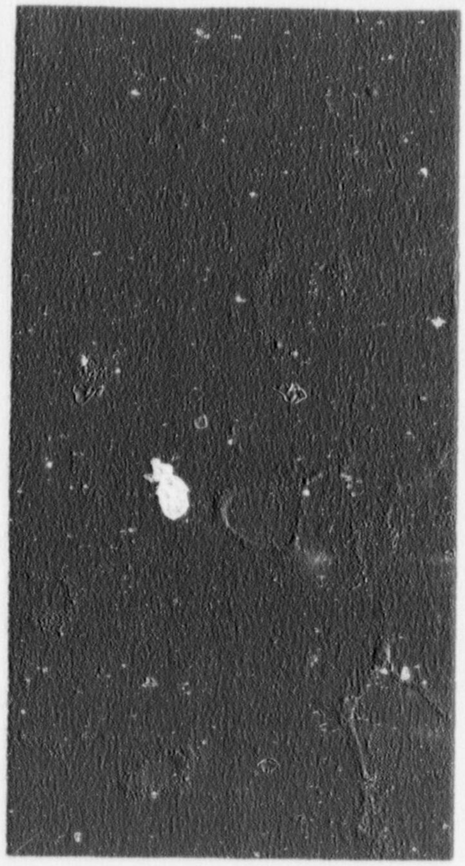


Earnings Per Share
(Fully Diluted)
(Dollars)
Earnings Per Share Excluding Non-Recurring Items

Dividends Per Share
(Dollars)



William S. Edgerly
Chairman



Peter E. Madden
President

To our Stockholders

We are pleased to report that 1986 was another excellent year for State Street. The highlights on page one summarize our financial progress. Excluding non-recurring items, earnings per share have grown at an annual compound rate of 19% over the last five years and were 21% higher for 1986 than for 1985. Return on stockholders' equity was 19%.

The dividend rate at year-end was 25% higher than a year ago reflecting two increases during 1986. Our fourth two-for-one stock split in the past five years was distributed in August.

The emergence of a worldwide financial marketplace is a development of considerable importance to State Street. As financial assets of people and institutions all over the world become more significant, there is a strong trend toward professional management and care of those assets. Financial markets throughout the world are linked by information technology. Hundreds of trading rooms communicate with dozens of market floors to form a worldwide marketplace. Users of capital are put in touch with suppliers of capital with increasing disregard for where either is located.

Securitization, underwriting, and distribution are transcending the previously local dimensions of the intermediation process. Funds to finance New England companies' growth can come from anywhere in the world. U.S. pension funds have increased their overseas investments from virtually nothing five years ago to more than $30 billion in 1986. Money managers in financial centers such as Tokyo, London, and Zurich are turning increasingly to investments outside their own domestic markets.

State Street's opportunities in this emerging marketplace continue to expand. Our roles are twofold. We provide to investors services such as securities custody, recordkeeping, and investment management. We invest in financial assets and provide related services. Both functions generate interest and fee income and contribute to steady growth of our earnings. In both roles, we are contributors to the emergence of a worldwide financial marketplace and the beneficiaries of its expansion.

During 1986, total assets under our custody surpassed $440 billion, strengthening our position as one of the world's largest securities custodians. In mutual fund and master trust services, we have established strong leadership positions, and we anticipate continued success in providing services to the growing mutual fund and pension industries. Our corporate trust business is benefitting from the rapid development of securitization. For example, we were selected as trustee and custodian for the collateralized mortgage obligations issued by a major investment banking firm, and as trustee for the securitization of $4 billion of GMAC automobile loans, the largest private debt offering in U.S. history. More recently, another large investment banking firm selected State Street as trustee for its REMICs, the new real estate mortgage investment conduits.

We provide custody, investment management, and participant recordkeeping services for the increasingly popular defined contribution plans such as 401(k) plans. To help our corporate customers develop sophisticated, creative solutions to their financing needs, we continue to expand our corporate finance capabilities. In connection with our securities processing businesses, we increased our foreign exchange trading during the year to accommodate our customers' international activities. In the following pages, we describe further some of the businesses in which our strategy for growth is producing successful results.

State Street's participation in the broad development of a worldwide financial marketplace offers long-term opportunities to serve a growing number of customers and to create value for our stockholders.

W.S. Edgerly

William S. Edgerly
Chairman

P.E. Madden

Peter E. Madden
President

The flourishing worldwide financial marketplace offers significant opportunities for State Street. We contribute to its development and benefit from its growth.

State Street serves a growing number of customers worldwide by emphasizing quality. We place a high priority on innovation. In each of our businesses, we aim to be a recognized leader in the reliability and value of our services.

With 40% of the U.S. mutual fund industry's assets under custody, State Street is the nation's largest supplier of custody services to this dynamic industry. At year-end 1986, the number of mutual funds serviced by State Street equaled 46% of the industry's total funds.

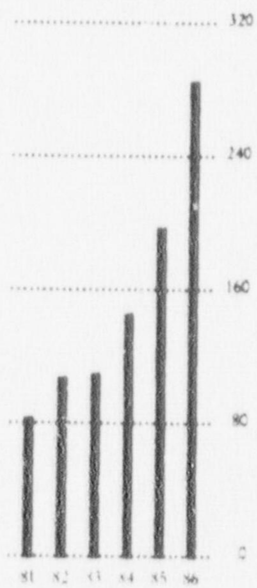
Since 1924, when the first mutual fund chose State Street to provide fund accounting and recordkeeping, the mutual fund industry has experienced remarkable expansion, and its growth has accelerated in recent years. By year-end 1986, industry assets totaled $716 billion. State Street's growth in mutual fund custody services, at 36% in 1985 and 43% in 1986, reflects the industry's rapid growth. On December 31, 1986, we had over $286 billion in mutual fund assets in our custody.

As the industry has grown, it has responded to the changing needs of investors by developing a broad array of funds with a variety of investment objectives. Product lines have expanded and now include money market funds, municipal bond funds, stock and bond funds, and Ginnie Mae funds, as well as investment products such as futures and options.

In addition, mutual funds are increasingly being used as investment vehicles for retirement plans such as the IRA and Keogh plans and the variable life insurance products. During the past year, significant growth occurred in international mutual funds, and State Street's global custody service is a valuable addition to our services for these funds.

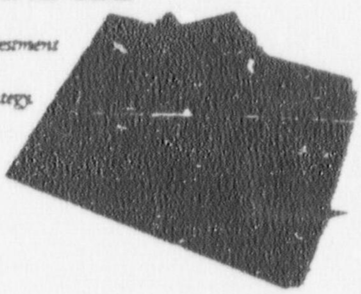
State Street provides services to participants in all segments of the industry. In addition to independent investment companies, the industry includes broker/dealers, insurance companies, and banks collaborating with fund distributors, all of whom have achieved excellent success in marketing mutual funds to their customers.

We attract and retain mutual fund customers because of our high level of customer service, a broad range of products, and a continuing partnership with our customers to develop new products. Custody services include portfolio accounting, general ledger accounting, and securities custody. We have developed an innovative accounting system, called Horizon,™ with a modular structure whose flexibility enables us to meet the industry's expanding needs. During 1986, enhancements to Horizon included the automation of complicated payment processing for Ginnie Mae securities and municipal bond funds, and a remote report writer and data retrieval module that enables our mutual fund customers to retrieve data from State Street's files to generate a variety of customized reports.

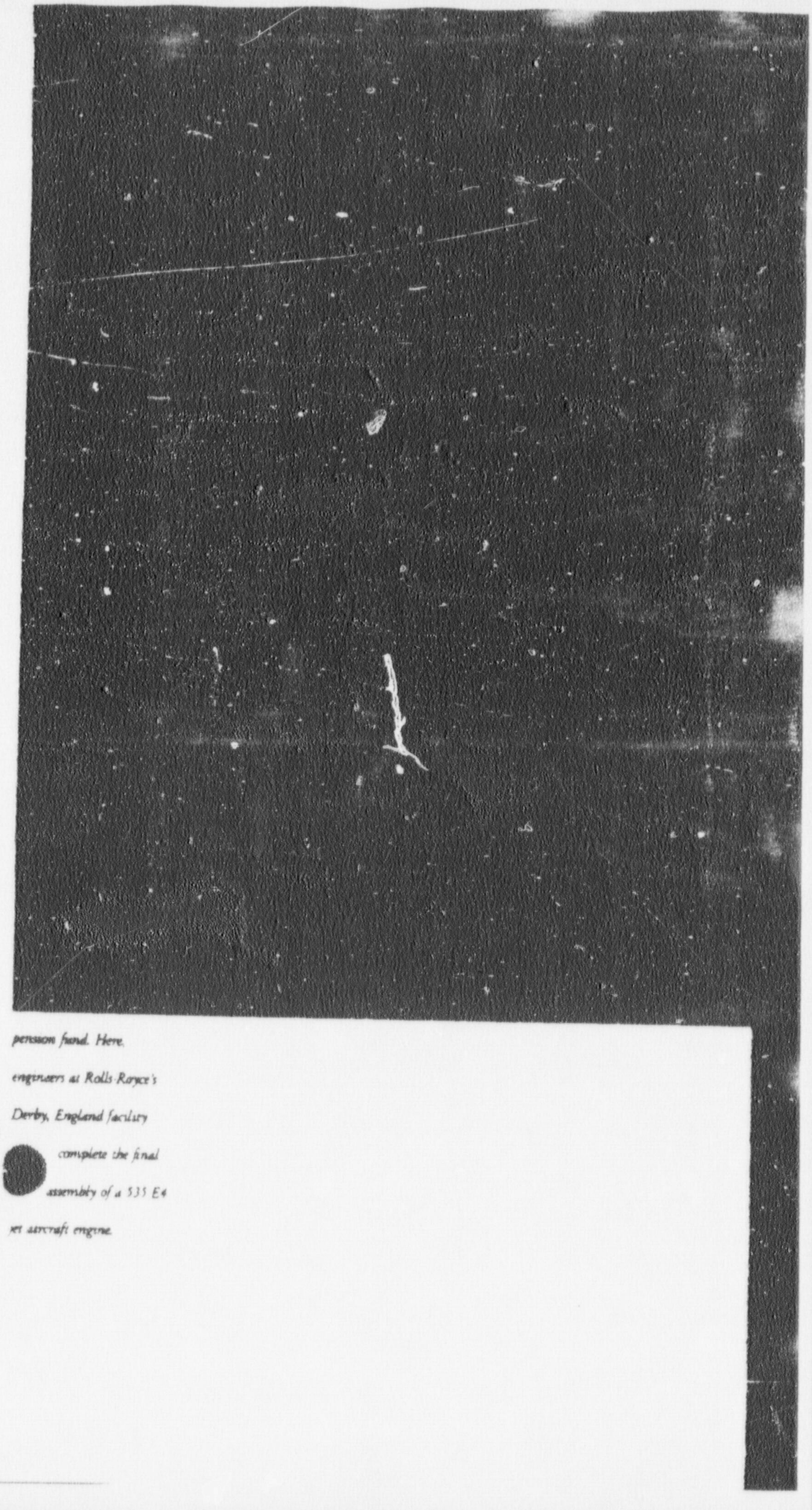


State Street's Growth in Mutual Fund Assets Under Custody
(Billions of dollars)

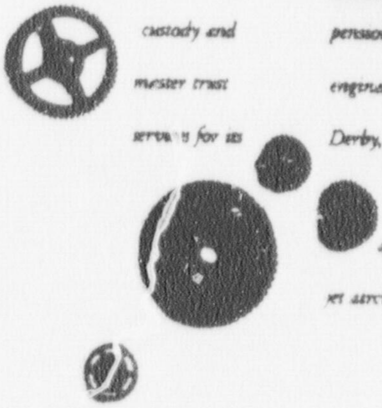
We expect to continue to take advantage of the opportunities created by the growth in the mutual fund industry. In addition, we are currently adapting our mutual fund custody services to meet the insurance industry's recordkeeping and reporting needs for their general account assets. We believe our expansion into this market offers significant opportunities for future growth.



Rapid growth of worldwide financial markets has created new opportunities for the expansion of State Street's services for mutual funds. In 1986, Merrill Lynch Asset Management Inc., chose State Street to provide global custody services for three new international funds. Above, Merrill Lynch executives discuss international investment strategy.



State Street's leadership in the domestic master trust business has created a base for international expansion. As master custodian for Rolls-Royce plc, State Street provides a complete range of global custody and master trust services for its pension fund. Here, engineers at Rolls-Royce's Derby, England facility complete the final assembly of a 535 E4 jet aircraft engine.



With 40% of the mutual fund industry's assets in our care, State Street is the nation's largest supplier of custody services to this dynamic industry. In 1986, State Street was also ranked as the nation's leading master trust custodian bank.

Building on our capabilities as a custodian for the mutual fund industry, State Street has become a leading supplier of custody, recordkeeping, and benefit plan services to institutional investors. During 1986, we were ranked the nation's largest master trust custodian bank. At year-end, domestic assets for which we act as master trustee or master custodian for U.S. pension plans totaled $99 billion.

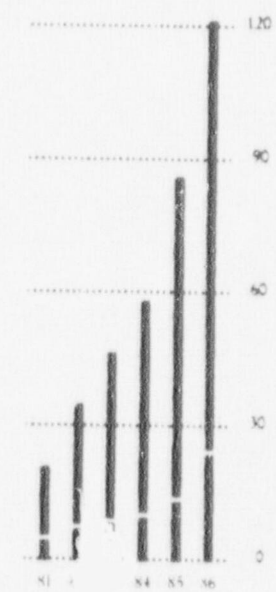
As master trustee, State Street provides securities safekeeping, income collection, trade settlement, cash management, and timely reporting of portfolio information worldwide. Related services include performance measurement, portfolio analysis, on-line access to portfolio information, and securities lending.

Plan sponsors continue to seek broader diversification through increased international investments. Our global custody service, begun in 1981, extends our master trust services to cover all of the world's major financial markets. We provide our customers with comprehensive portfolio recordkeeping services for their international investments.

Large corporate pension plans are a major part of the market for these services. Public pension funds are a rapidly growing segment of the pension market, and we have adapted our capabilities to the special requirements of these plans. State Street's custody services are also widely used by endowment funds. Our approach to the market is client-driven. By developing expertise in the special requirements of each market segment, our teams of professionals provide services tailored to our clients' needs.

State Street's services for defined contribution plans, such as 401(k) plans, include employee recordkeeping, investment management, portfolio accounting, and benefit payments. We provide these services to a growing list of Fortune 500 companies. During the year, our Selection Fund, an innovative approach to pooled guaranteed insurance contracts (GICs), more than doubled in size. This fund offers our clients safety and flexibility at higher rates than traditional approaches.

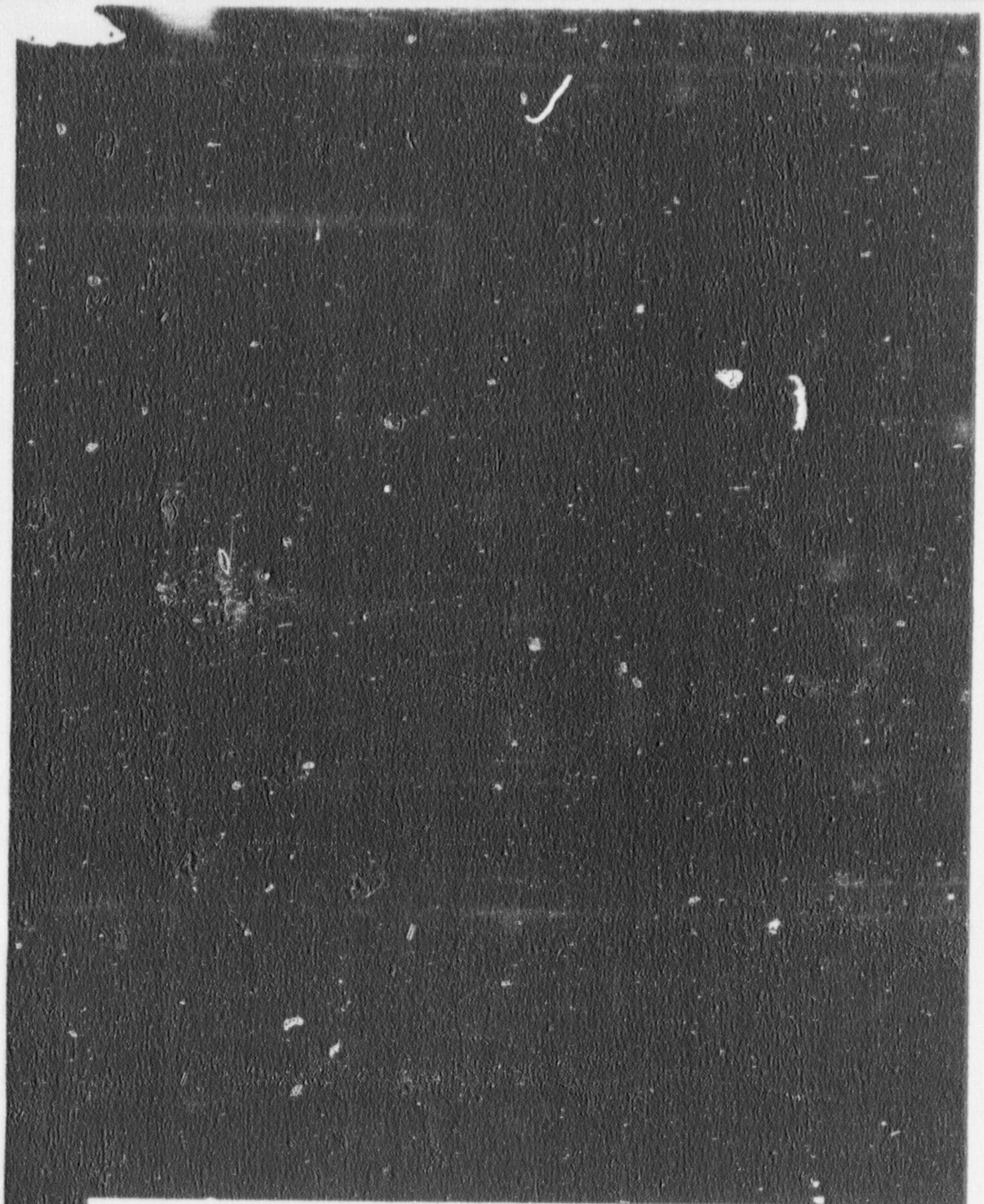
State Street's extensive experience in providing custody services led us to develop investment management products designed for institutional investors. We focus on quantitative investment products, with special emphasis on index funds designed to replicate a segment of the market or, in some cases, outperform market averages. These products are becoming increasingly popular, as managers of large pension funds seek reliable investment results for sizeable portfolios. Our closed-end real estate funds enable pension fund managers to diversify their portfolios and capitalize on specialized real estate investment management. At year-end 1986, State Street had $24 billion of institutional assets under management. We are ranked the ninth largest bank money manager in the United States.



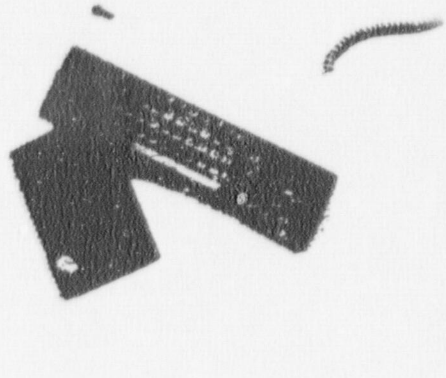
State Street's Growth in Institutional Assets
(Billions of dollars)
Under Custody
Under Management

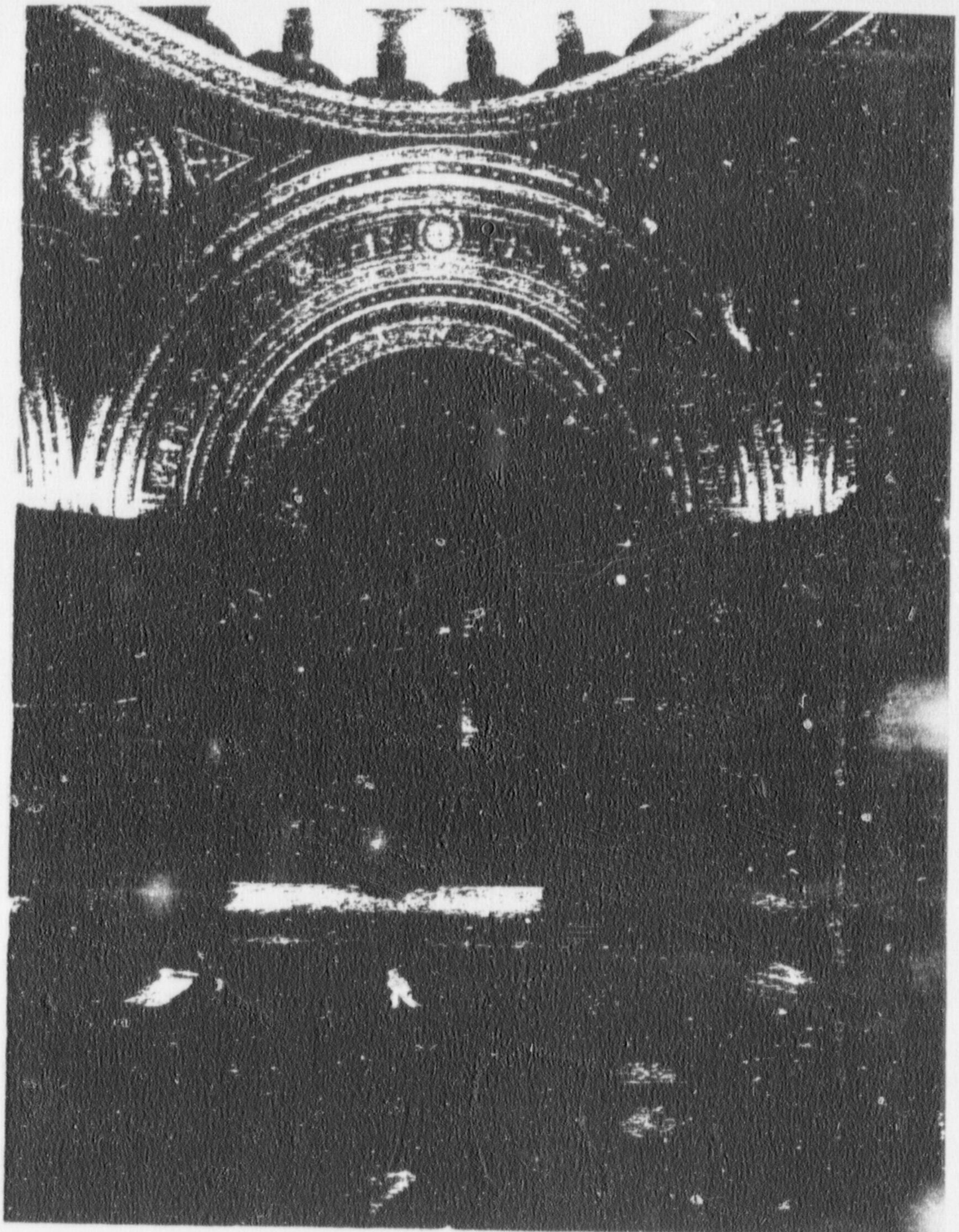
State Street has developed a variety of investment products for institutional investors who seek diversification through international investments, including the first ERISA-approved commingled international index fund, country selection funds, and our High Value Fund, which takes a more active approach to stock selection. During 1986, we created a global index fund for the overseas subsidiary pension plans of a major U.S. corporation. We are currently the largest manager of international indexed assets in the United States.

The international expansion of our securities custody and recordkeeping services extends our proven expertise to non-U.S. customers. State Street has provided custody services to European investors for their U.S. portfolios since 1968.



As a custodian for AT&T's pension funds, State Street was a logical choice for providing investment management services. In 1986, AT&T selected State Street's S&P 500 index fund and our extended index fund for a portion of its pension assets. Undersea lightwave cable is shown here being coiled into the hold of an AT&T cable-laying ship.





State Street provides a broad range of services for commercial and financial institutions worldwide. ***For The Royal Bank of Scotland plc,*** *whose historic Edinburgh headquarters are shown above, State Street provides U.S. dollar clearing and custody services, and maintains active capital markets and foreign exchange relationships.*

Building on our strength as the nation's leading master trust and mutual fund custodian, State Street is expanding custody services worldwide. International assets under our custody totaled $20 billion at year-end, nearly a threefold increase over 1985.

We have identified strong growth opportunities for our global custody services in the international pension fund market, especially Australia, the United Kingdom, and Canada. Significant growth and change in these markets have prompted pension plan sponsors to diversify by hiring multiple investment managers and investing significant portions of their assets in foreign markets.

During 1986, we expanded our operation in London to serve an increasing number of European customers. Our office in Sydney, opened in late 1985, provides custody and recordkeeping services for our growing list of customers in Australia and Asia. In addition, we installed our new intercontinental telecommunications system that links State Street's offices worldwide. At year-end 1986, international assets under our custody, including U.S. assets for non-U.S. customers, totaled $20 billion, nearly a threefold increase over December 31, 1985.

State Street offers lending and other financial services to middle market companies. The New England region's expanding economy provides a strong base for our services. Our head office banking approach distinguishes us from other banks that address this market through subsidiaries or loan production offices. State Street's corporate customers work directly with highly trained, knowledgeable banking officers who have ready access to top management and product specialists. A steadily growing number of well-managed companies are choosing State Street as their primary bank.

State Street's credit services include unsecured facilities, asset-based finance, and leasing. Our real estate financing services are directed toward premier real estate developers. We also offer cash management services, as well as investment

At State Street, head office banking means quality. Lending officers, who have ready access to top management and highly trained product specialists, serve our customers directly.

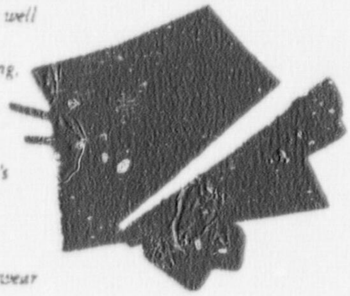
management for both corporate funds and employee benefit plans.

Our international trade services support the import and export activities of our corporate customers. For importers, we provide letter of credit and other documentary services that assure efficient and reliable payment for goods. For exporters, in addition to offering documentary services, we provide trade finance services to assist in managing the risk of selling abroad while arranging terms that are competitive in the world marketplace. In addition to supporting the trade finance needs of our domestic corporate customers, State Street Asia Limited, our Hong Kong subsidiary, and State Street Bank (Switzerland) are adding an increasing number of overseas companies to our corporate customer list.

Capital markets activities are at the center of the growth and development of international financial markets, and State Street continues to expand its activities in this area. Our money market operations complement our credit services by providing funding sources that match the varied pricing structures of commercial lending State Street's funding activities include the use of interest rate swaps and financial futures in combination with conventional funding methods. In addition, we offer to our corporate customers a variety of short- and medium-term investment vehicles, including certificates of deposit, repurchase agreements, insured money market accounts, bankers acceptances, and municipal and government securities. During 1986, we expanded our municipal bond underwriting activities and broadened our customer base for distribution of these tax-exempt securities by over 50%.

State Street's foreign exchange trading actively supports

By providing a rapidly growing New England company with well structured financing, State Street has supported Reebok's impressive success in the athletic footwear business. Today, this relationship has expanded to include a wide range of credit, international, cash management, and investment services.



When Brigham's Inc., needed a financial advisor to value, structure, and arrange its sale to new owners, it turned to State Street. Our corporate finance subsidiary provides specially designed investment banking services to medium sized companies, including merger and acquisition services, private placements, and project finance. Above are some of the fresh and natural ingredients used by Brigham's in its ice cream.

Recent developments in securitization offer growth opportunities for State Street. In 1986, State Street was selected as trustee for $4 billion in securities collateralized by GMAC automobile loans, the largest private debt offering in U.S. history.

our global custody clients and the international trade activities of our corporate customers. Our London Branch and State Street Bank (Switzerland) are active intermediaries with both U.S. and non-U.S. corporate customers that operate in Europe and require foreign exchange, deposit, and lending facilities. The issuance of Eurodollar certificates of deposit through our London Branch provides expanded investment alternatives to many of our corporate customers.

State Street's corporate finance services are provided through State Street Boston Capital Corporation. These services include private placement of debt, acquisitions and divestitures, and project finance. We also provide loan syndication services to our corporate customers. As deregulation creates new opportunities for commercial banks to provide investment banking services, State Street will be well positioned to take advantage of those opportunities.

State Street expanded its activities in other businesses during 1986. We strengthened our reputation as a leading trustee and money manager for personal wealth. In addition to our traditional personal trust business, we have had significant success in providing money management services to professionals and entrepreneurs, and to trusts and foundations. We plan to continue our growth in these areas.

More than 50,000 new credit card accounts were added during the year, and cardholder loans increased by 60%. Our card services are marketed to creditworthy New England consumers. During 1986, we added a number of affinity group card programs, which araimed at people affiliated with universities and other organizations.

We completed the consolidation of our branch banking system into six offices. We played a key role in the formation of a New England-wide cash machine network, which will give State Street customers access to more than 1,800 Yankee 24™ machines in all six New England states.

The expansion of our corporate trust business is benefitting from the trend toward securitization of debt. Building on our experience as bond trustee and sophisticated recordkeeper, we are providing trustee services for collateralized mortgage obligations and automobile loan bond issues. During 1986, we were selected as trustee for the securitization of $4 billion of GMAC automobile loans, the largest private debt offering in U.S. history. We believe securitization will continue to offer substantial opportunities for State Street.

State Street combines information technology with banking to serve a growing number of customers worldwide. We aim to strengthen further our leadership positions in our existing businesses, and we see excellent growth opportunities in the rapidly developing worldwide financial marketplace.

Financial Statements

Financial History

State Street Boston Corporation and Subsidiaries

(Dollars in millions, except per share data)	1986[1]	1985	1984[2]	1983[3]	1982[4]	1981	Compound Growth Rate 81-86[5]
Condensed Income Statements							
Net interest income, taxable equivalent	$212.1	$185.1	$152.6	$150.2	$141.2	$116.8	13%
Taxable equivalent adjustment	31.1	29.5	24.9	19.5	18.1	17.4	14
Provision for loan losses	17.9	12.5	4.0	4.7	8.5	5.0	29
Other operating income	248.0	177.7	143.1	115.6	112.1	65.2	31
Other operating expenses	301.0	232.2	189.9	176.3	152.5	122.9	20
Income taxes	38.7	33.3	27.9	26.8	25.3	10.5	30
Net income	$ 71.4	$ 55.3	$ 49.0	$ 38.5	$ 48.9	$ 26.2	22
Per Share[6]							
Earnings:							
Primary	$ 1.97	$ 1.60	$ 1.42	$ 1.11	$ 1.47	$ .78	19
Fully diluted	1.84	1.45	1.29	1.05	1.39	.72	19
Cash dividends declared	.36	.30	.25	.23	.20	.17	17
Book value at year end	11.19	9.48	8.10	6.96	6.09	4.90	18
Closing price	23.38	20.63	11.50	7.25	6.91	3.86	43
Average Balances							
Interest-earning assets	$4,967	$3,957	$3,078	$3,147	$2,717	$2,352	16
Loans, net of unearned income	1,938	1,660	1,332	1,279	1,207	1,144	11
Total assets	6,288	4,935	3,902	3,938	3,535	3,058	16
Noninterest-bearing deposits	2,241	1,550	1,184	1,176	1,056	979	18
Long-term debt	81	79	82	69	65	69	3
Stockholders' equity	358	293	251	224	179	153	19
Ratios[5]							
Return on average equity	19.0%	18.8%	18.3%	18.3%	19.4%	17.2%	
Return on average assets	1.08	1.12	1.18	1.04	.98	.86	
Internal capital generation rate	15.5	15.5	15.0	14.8	15.6	13.6	
Primary capital ratio (average)	6.3	6.6	7.1	6.4	5.7	5.7	
Net charge-offs to average loans	.64	.34	.25	.12	.29	.33	
Allowance for loan losses to ending loans	1.95	1.78	1.76	2.11	2.09	1.90	

(1) Excluding the gain on leveraged leases, taxable equivalent net interest income is $215,664,000, net income is $67,823,000, earnings per share are $1.87 and fully diluted earnings per share are $1.75.

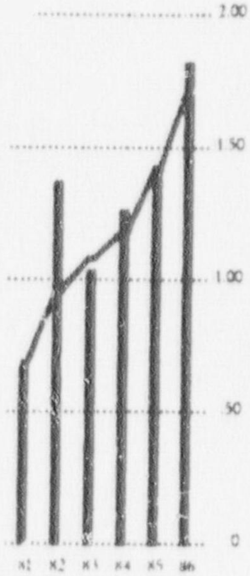
(2) Excluding the gain on disposition of options, net income is $45,869,000, earnings per share are $1.33, and fully diluted earnings per share are $1.21.

(3) Excluding the loss on the sale of subsidiaries, net income is $40,972,000, earnings per share are $1.19, and fully diluted earnings per share are $1.11.

(4) Excluding the gain on the sale of real estate options, net income is $34,630,000, earnings per share are $1.04, and fully diluted earnings per share are $.98.

(5) Ratios and compound growth rates exclude non-recurring items. Including these items, return on equity is 20.0%, 19.6%, 17.2% and 27.4%, and return on assets is 1.14%, 1.26%, .98% and 1.38% for 1986, 1984, 1983 and 1982, respectively.

(6) Per share amounts for 1981 to 1985 have been restated to reflect two-for-one stock splits distributed in 1982, 1983, 1985 and 1986.



Earnings Per Share
(Fully Diluted)
(Dollars)
* Earnings Per Share Excluding Non-Recurring Items

This section provides information about the operating results and financial condition of State Street Boston Corporation for the three years ended December 31, 1986. This section should be read in conjunction with the consolidated financial statements, financial history, and supplemental financial data.

Summary

In 1986, fully diluted earnings per share were $1.84. These results included $.09 per share from a non-recurring gain from accounting for leveraged leases brought about by the Tax Reform Act of 1986. Excluding this gain, earnings per share were $1.75, an increase of 21% from 1985, net income of $67.8 million was up 23%, and return on stockholders' equity was 19.0%. This is the fifth year in a row that State Street's return on equity exceeded 18%.

Improvement in earnings per share resulted from a 40% increase in other operating income and, excluding the non-recurring gain, a 17% increase in taxable equivalent net interest income, partially offset by increased expenses and a higher provision for loan losses.

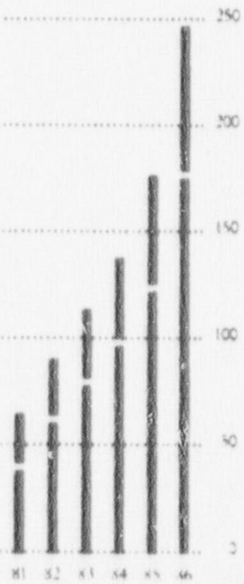
State Street's revenue is reported in two major categories—other operating income and net interest income. In 1986, other operating income, or fee income, continued to account for an increasing percentage of taxable equivalent income before operating expenses, reaching 56%.

For 1986, earnings of $1.75 represent a 19% annual growth rate since 1981, when earnings per share were $.72. This growth reflected a 31% annual growth in other operating income and a 13% annual growth in taxable equivalent net interest income.

Other Operating Income

In 1986, the growth rate in other operating income accelerated to 40% from 29% in 1985. Other operating income increased $70.3 million to $248.0 million. The growth in 1986 resulted primarily from the rapid growth in fiduciary compensation and also from increased foreign exchange trading income.

The following table shows the components of other operating income. Non-recurring gains are included on a separate line in the table.



Other Operating Income
(Excluding Non-Recurring Items)
(Millions in dollars)
■ Fiduciary Compensation

Other Operating Income

(Dollars in millions)	1986	1985	1984	1983	1982	1981	Change 85–86	Compound Growth Rate 81–86
Fiduciary compensation	$176.6	$122.4	$ 96.9	$ 79.7	$ 60.1	$39.8	44%	35%
Bank card fees	23.7	20.5	16.6	13.7	9.9	8.1	16	24
Foreign exchange trading	14.3	5.7	2.2	1.5	0.5	1.6	151	55
Service fees	12.1	9.9	8.2	8.5	9.3	7.4	22	10
Correspondent service fees	8.5	8.3	9.0	7.3	8.5	7.1	2	4
Trading gains (losses), net	1.5	1.4	(0.3)	0.3	0.2	0.1		
Securities gains (losses), net	0.7	0.7	0.1	(1.1)	(3.2)	(3.9)		
Other	10.6	8.8	5.0	5.7	5.4	5.0		
	248.0	177.7	137.7	115.6	90.7	65.2	40	31
Non-recurring gains			5.4		21.4			
Total other operating income	$248.0	$177.7	$143.1	$115.6	$112.1	$65.2	40	31

Fiduciary compensation increased 44% to $176.6 million in 1986. The major services contributing to fiduciary compensation w... securities custody and recordkeeping for mutual funds; master trust services for ...nsion plans, endowments, and foundations; global custody; personal trust ...vices; investment management for employee benefit plans; the administration ... retirement plans; and services for defined contribution plans. The increase in fiduciary compensation included growth in all product areas and was primarily attributable to new business and the growth of existing clients' assets.

Fiduciary compensation reflects revenue based on the volume of assets under custody or management, portfolio activity, and other services. In addition to fees, certain services have associated demand deposits. These deposits are invested, and the resulting income appears on the income statement as interest income. The following table shows the growth in assets under custody and assets under management:

Assets Under Custody and Management

(Assets in billions)	1986	1985	1984	1983	1982	1981	Change 85–86	Compound Growth Rate 81–86
Total assets under custody	$440.8	$326.2	$245.1	$178.8	$151.5	$110.4	35%	32%
Mutual funds	286.3	199.8	146.7	110.3	108.2	83.0	43	28
Master trust, domestic	99.1	80.6	55.0	43.8	33.9	20.7	23	37
International*	19.9	6.8	4.0	3.3	1.5	.9	193	86
Total assets under management	26.1	15.3	11.7	9.7	8.5	5.1	71	39
Institutional	23.5	13.1	9.8	7.9	7.0	3.8	79	44
Personal	2.6	2.2	1.9	1.8	1.5	1.3	18	15

**Includes international mutual fund assets.*

Growth in assets under custody was the primary reason for the increase in fiduciary compensation. At year-end, total assets under custody were $441 billion, up 35% from $326 billion at year-end 1985.

Mutual fund assets increased 43% following a 36% increase in 1985, reflecting the accelerating growth of the mutual fund industry. Assets of nearly all types of mutual funds soared. Bond and income funds grew dramatically, particularly U.S. government income, Ginnie Mae, long-term municipal bond and corporate bond funds. Equity, short-term municipal bond and money market funds also increased.

State Street's market share of the U.S. mutual fund industry, measured by assets under custody, is 40%. During 1986, State Street added 160 new funds for current and new clients, bringing the total funds serviced to 851, 46% of U.S. mutual funds.

Domestic master trust assets under custody increased 23% to $99 billion, primarily because of asset growth and additional portfolios from clients. State Street ranks as the nation's largest master trust custodian bank and has approximately 6% of the U.S. market.

During 1986, the global custody business grew substantially. New clients around the world were serviced from expanded facilities in Quincy (Massachusetts), London and Sydney. International assets under custody nearly tripled, reaching $20 billion. This number includes portfolios of non-U.S. customers, and the international portfolios of U.S. pension plans and mutual funds.

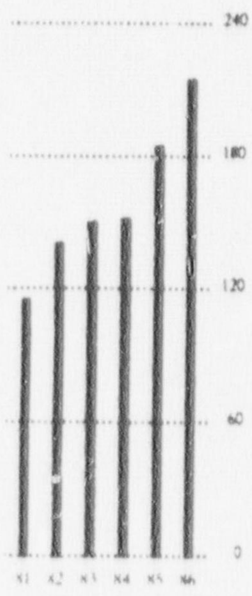
The growth in fiduciary compensation also reflects rapid growth in assets managed. During 1986, institutional assets managed increased to $23.5 billion, up 79%, due to new business, use of additional products and funding by existing clients, and asset appreciation. Growth was particularly notable in passive equity products, with substantial growth also in passive international equities, passive fixed income, and short-term investment funds. Personal trust services continue to be an important and growing source of fiduciary income. During 1986, new business and asset appreciation contributed to the growth.

Rapid growth in services for defined contribution plans, particularly 401(k) plans, contributed to the increase in fiduciary compensation. Income continued to grow from the administration of retirement plans, primarily IRAs and Keogh plans.

Foreign exchange trading income was $14.3 million, up $8.6 million, or 151%, from 1985 due to an increased customer base combined with increased participation in an active market.

Bank card fees include annual membership fees, transaction fees and merchant discounts earned on credit and debit cards. In 1986, bank card fees grew 16% to $23.7 million due to increased credit card usage and an 18% increase in the number of credit card accounts.

The $2.2 million, or 22%, increase in service fees resulted primarily from additional commercial loan fees. State Street places emphasis on the fee component of its compensation for commercial lending services.



Net Interest Income
(Taxable Equivalent Basis)
(Millions of dollars)

Net Interest Income

Net interest income is the amount by which income generated by earning assets (loans, investment securities, and money market assets) exceeds the interest cost of deposits and funds purchased. The presentation of net interest income is on a "taxable equivalent" basis to adjust for the tax-exempt status of income earned on certain investments and loans. In 1986, taxable equivalent net interest income was reduced by $3.6 million from an adjustment for leveraged leases brought about by the Tax Reform Act of 1986. This was more than offset by the reduction in taxes. The remainder of this discussion excludes this non-recurring item from taxable equivalent net interest income, yields, and margin.

In 1986, taxable equivalent net interest income was $215.7 million, up 17% from 1985. The improvement resulted primarily from increased noninterest-bearing deposits, largely from activity and growth of securities processing businesses. Interest-earning assets increased 26%, including a 17% increase in loans. This growth was funded by a 40% increase in noninterest-bearing funds and by a 19% increase in interest-bearing liabilities. The benefits of balance sheet growth were partially offset by the effect of lower interest rates. Short-term interest rates averaged approximately 1.5 percentage points lower in 1986 than in 1985.

Taxable Equivalent Net Interest Income

(Dollars in millions)	1986	1985	1984	1983	1982	1981	Change 85–86	Compound Growth Rate 81-86
Interest income	$393.5	$367.1	$337.8	$326.8	$353.6	$336.5		
Taxable equivalent adjustment	33.5	29.5	24.9	19.5	18.1	17.4		
	427.0	396.6	362.7	346.3	371.7	353.9		
Interest expense	211.3	211.5	210.1	196.1	230.5	237.1		
Net interest income-taxable equivalent basis	$215.7	$185.1	$152.6	$150.7	$141.2	$116.8	17%	13%

Earning Assets. The components of earning assets are shown in the following table:

Average Interest-Earning Assets

(Dollars in millions)	Average Volume 1986	1985	1984	Average Rate 1986	1985	1984
Interest-bearing deposits with banks	**$ 859**	$ 803	$ 725	**7.56%**	9.47%	11.30%
Federal funds sold and securities purchased under resale agreements	**606**	392	223	**6.80**	8.14	9.94
Investment securities:						
U.S. Treasury and Federal agencies	**1,004**	745	522	**9.01**	10.55	11.05
State and municipal	**311**	236	197	**10.24**	10.44	11.13
Other investments	**186**	48	43	**7.63**	11.21	12.81
Total investment securities	**1,501**	1,029	762	**9.16**	10.55	11.09
Trading account assets	**63**	73	36	**7.27**	8.22	9.96
Loans, net of unearned income:						
Commercial and financial	**1,071**	1,030	877	**8.13**	10.03	12.42
Real estate construction	**192**	126	85	**9.30**	10.64	12.57
Real estate mortgage	**80**	67	51	**9.67**	11.04	13.49
Consumer	**336**	236	191	**12.76**	13.28	14.44
Foreign	**170**	136	79	**7.55**	8.24	11.79
Leases	**89**	65	49	**8.89**	10.48	12.33
Total loans	**1,938**	1,660	1,332	**9.09**	10.48	12.76
Total interest-earning assets	**$4,967**	$3,957	$3,078	**8.59**	10.02	11.79

Average loans increased 17% to $1.9 billion. Commercial and financial loans, which comprised 55% of the loan portfolio in 1986, grew 4%. An increase in loans to middle market companies was partially offset by a decline in less profitable loans to large national companies. The consumer loan portfolio grew 42% to $336 million primarily as a result of the credit card expansion program begun in May, 1985. Under this program, the number of credit card accounts increased 30% to over 300,000 accounts. In 1986, real estate construction loans increased $66 million to $192 million. The increase in foreign loans of $34 million, or 25%, results from the inclusion of the loans of State Street Bank (Switzerland) for a full year.

As sources of funds increased, an additional $472 million was invested in securities. $259 million was placed in U.S. Treasury securities. Additional State and municipal securities were purchased at the end of 1985 in anticipation of a Federal tax law change. During 1986, $138 million of other investment securities were added to the portfolio, including mortgage-backed securities, floating rate notes of corporations and bank holding companies, and Euronotes and corporate bonds with short maturities.

The Corporation invested a portion of its rapidly growing noninterest-bearing deposits overnight in Federal funds sold, which increased Federal funds sold and securities purchased under resale agreements by $214 million to $606 million.

Funding Sources. During 1986, there was a shift in the funding mix toward lower-priced funds, as shown below:

Sources of Funds

(Dollars in millions)	Average Volume 1986	1985	1984	Average Rate 1986	1985	1984
Interest-bearing deposits:						
Savings and NOW	**$ 163**	$ 157	$ 119	**5.52%**	5.89%	6.33%
Insured money market accounts	**516**	357	228	**5.94**	7.29	9.05
Certificates of $100,000 or more	**436**	529	580	**7.21**	8.31	10.33
Other time	**36**	33	26	**6.68**	7.99	10.21
Foreign	**597**	535	333	**7.25**	8.56	10.82
Federal funds purchased	**412**	277	234	**6.45**	7.94	10.24
Securities sold under repurchase agreements	**934**	695	500	**6.13**	7.44	9.48
Debt (short and long-term)	**131**	125	133	**7.83**	8.32	8.98
Total interest-bearing liabilities	**3,225**	2,708	2,153	**6.55**	7.81	9.76
Noninterest-bearing sources	**1,742**	1,249	925			
Total sources	**$4,967**	$3,957	$3,078	**4.25**	5.34	6.83

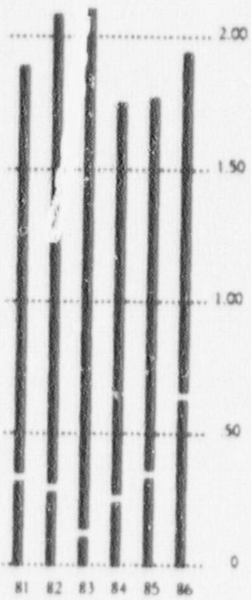
Noninterest-bearing sources of funds grew at an accelerated rate, increasing 40% from 1985. This was due primarily to a 45% increase in noninterest-bearing deposits, based to a great extent on activity and growth in the securities processing businesses. Stockholders' equity grew 22%, primarily from the retention of earnings and also from the conversion of debentures.

Interest-bearing liabilities increased 19%. Securities sold under repurchase agreements were up $239 million, or 34%, in conjunction with the expansion of the U.S. Treasury securities portfolio. Insured money market accounts were up $159 million, or 45%, reflecting additional deposits from personal trust clients, governments, corporations, and law firms holding deposits on behalf of their clients. Correspondent banks sold us additional Federal funds, increasing Federal funds purchased by $135 million. The Corporation reduced its use of large certificates of deposit by $93 million.

Net Interest Margin. Net interest margin, defined as taxable equivalent net interest income divided by average interest earning assets, declined to 4.34% in 1986 from 4.68% in 1985 due to lower market interest rates and the resulting lower asset yields. Because 35% of funding for interest-earning assets comes from noninterest-bearing sources, State Street's net interest margin tends to reflect the level of market interest rates.

Net Interest Margin

	1986	1985	1984	1983	1982	1981
Yield on interest-earning assets	**8.59%**	10.02%	11.79%	11.01%	13.68%	15.05%
Rate on employed funds	**4.25**	5.34	6.83	6.24	8.48	10.08
Net interest margin	**4.34%**	4.68%	4.96%	4.77%	5.20%	4.97%



Allowance for Loan Losses
- Allowance for Loan Losses as a Percentage of Ending Loans
- Net Charge-Offs as a Percentage of Average Loans

Provision for Loan Losses/Credit Experience

The provision for loan losses charged to income was $17.9 million, up from $12.5 million in 1985. This increase was due to a 17% increase in average loans and higher loan charge-offs. Net loans charged-off were $12.4 million, up from $5.6 million in 1985. This was due to an increase in the amount of consumer loans charged-off from the expanded credit card portfolio, higher commercial loan charge-offs, and fewer recoveries.

The allowance for loan losses increased to $42.4 million, equal to 1.95% of ending loans. Non-accrual loans declined to $9.3 million, or .43% of loans at year-end. There were no interest concession loans or other real estate owned on December 31, 1986.

Credit Experience

(Dollars in millions)	1986	1985	1984	1983	1982	1981
Provision for loan losses	$17.9	$12.5	$ 4.0	$ 4.7	$ 8.5	$ 5.0
Charge-offs	17.1	12.1	7.2	9.2	11.5	11.7
Recoveries	4.7	6.5	3.8	7.6	8.0	8.0
Net loan charge-offs	12.4	5.6	3.4	1.6	3.5	3.7
Allowance for loan losses, year-end	42.4	36.2	27.1	26.5	27.6	22.6
Non-performing loans	9.3	10.6	9.9	5.4	8.2	12.6
Ratios:						
Net charge-offs to average loans, net	.64%	.34%	25%	.12%	.29%	.33%
Allowance to ending loans, net	1.95	1.78	1.76	2.11	2.09	1.90
Non-performing loans to ending loans, net	.43	.52	.64	.42	.62	1.06

Other Operating Expenses

Other operating expenses include all expenses other than interest expense and the provision for loan losses. The following table summarizes the components of other operating expenses:

Other Operating Expenses

(Dollars in millions)	1986	1985	1984	1983	1982	1981	Change 85–86	Compound Growth Rate 81-86
Compensation	$140.6	$113.7	$ 89.4	$ 84.4	$ 76.0	$ 60.1	24%	19%
Other personnel costs	20.3	17.5	17.7	16.1	13.9	11.9	16	11
Total personnel costs	160.9	131.2	107.1	100.5	89.9	72.0	23	17
Occupancy, net	21.7	15.2	12.7	11.5	11.7	10.5	43	16
Equipment	22.9	18.3	14.8	13.9	11.2	8.5	25	22
External contract services	18.4	12.4	10.3	8.1	6.9	4.4	48	33
Postage, stationery and supplies	11.4	9.5	7.7	8.0	7.0	6.4	20	12
Professional fees	9.9	7.2	6.9	6.1	4.7	4.5	38	17
Advertising and customer contact	7.2	7.6	5.9	5.8	4.6	4.0	(5)	12
Telecommunications	8.5	5.4	4.5	4.1	3.5	2.8	57	25
Insurance	6.8	3.7	2.2	2.3	2.1	1.2	84	41
Loss on sale of subsidiaries				1.3				
Other	33.3	21.7	17.8	14.7	10.9	8.6		
Total other operating expenses	$301.0	$232.2	$189.9	$176.3	$152.5	$122.9	30	20

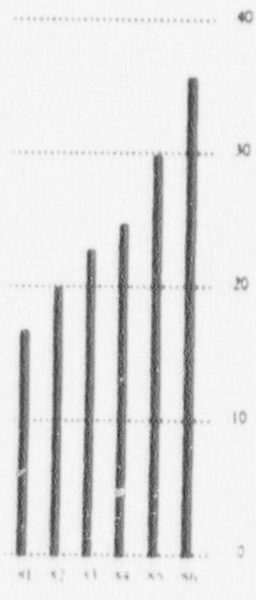
In 1986, other operating expenses were $301.0 million, up 30% from 1985. Compensation, the largest category, was up 24% primarily as a result of adding 675 staff during 1986 to process increased business. Salary raises, as well as increased use of contract help and overtime, also contributed to the year-to-year increase. Other personnel costs, up 16%, reflected the increase in staff. While one major component of other personnel costs, medical insurance, increased with the growth in staff covered, a second component, pension expense, declined due to better investment performance relative to actuarial assumptions. In 1987, State Street will adopt the new regulations of the Financial Accounting Standards Board on pension accounting which if applied in 1986 would have caused a reduction in pension expense.

Occupancy expense increased 43% due to the addition of office space during 1986. This included the acquisition of a 150,000 square-foot building in Quincy, Massachusetts; the use of an additional 95,000 square feet in two other buildings in Quincy; the occupancy of an additional 1½ floors in the headquarters building in Boston; the expansion of facilities in New York, London, Munich, and Sydney; and the opening of an office in California. The cost of bank branches was lowered with the closing of nine offices. At year-end 1986 State Street had six branches in greater Boston.

Equipment expenses increased 25%, in part because of an increased number of computer terminals and additional mainframe capacity. Expansion of global custody services accounted in part for the 48% increase in external contract services and the 57% rise in telecommunications. Professional fees increased 38% as a result of business growth. The 84% rise in insurance costs resulted primarily from increases in premium rates. The year-to-year increase in "Other" included higher operating losses, start-up expenses associated with global custody, and the timing of charitable contributions.

Income Taxes

The income taxes charged to earnings were $38.7 million in 1986, or 35% of income before taxes. The tax provision of $33.3 million in 1985 represented 38% of income before taxes. The 1986 decrease in the effective rate primarily results from the impact of the Tax Reform Act of 1986 on accounting for leveraged leases. Under applicable accounting rules, the rate changes which become effective in 1987 and 1988 required the Corporation to recalculate its net investment in its leveraged lease portfolio and recognize the effect in 1986. This resulted in a decrease in loan income of $1.1 million, a reduction in taxes of $4.7 million, and an increase in net income of $3.6 million. On a taxable equivalent basis, loan income decreased $3.6 million and taxes were reduced by $7.2 million.

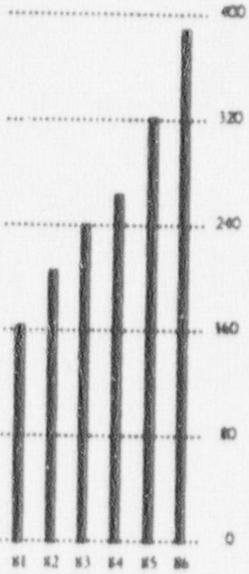


Dividends Per Share
(Dollars)

Dividends and Common Stock

Dividends per share were increased twice in 1986, continuing a practice started in December, 1978. At the end of 1986, the dividend rate was 25% higher than at the end of 1985. For 1986, the dividend payout ratio was 19%. In setting dividend policy, the Board of Directors seeks both growth in dividends and internal capital generation to support earnings growth. Since 1981, cash dividends declared per share have grown at a 17% annual rate.

A two-for-one stock split was distributed on August 5, 1986, the fourth in five years. At December 31, 1986, the Corporation had authorization to purchase up to 1,280,000 additional shares of common stock in the open market or in privately negotiated transactions. There were 4,439 stockholders of record at year-end.



Stockholders' Equity at Year End
(Millions of dollars)

The following table shows dividends and market value per share for 1985 and 1986:

Dividends and Common Stock

Common Stock (per share)	Dividends Declared	Market Price Low	Market Price High	Market Price End of Period
1985				
First	$.06	$$11\frac{5}{8}$	$$13\frac{7}{8}$	$13
Second	.08	$12\frac{21}{32}$	$17\frac{1}{8}$	$16\frac{3}{4}$
Third	.08	14	$16\frac{11}{16}$	$15\frac{1}{16}$
Fourth	.08	$14\frac{15}{16}$	$20\frac{7}{8}$	$20\frac{5}{8}$
1986				
First	$.08	$$19\frac{9}{16}$	$$26\frac{1}{8}$	$24
Second	.09	$22\frac{3}{8}$	$28\frac{7}{8}$	$28\frac{3}{8}$
Third	.09	$19\frac{1}{4}$	$28\frac{7}{16}$	$21\frac{7}{8}$
Fourth	.10	$20\frac{1}{2}$	$28\frac{1}{8}$	$23\frac{3}{8}$

Capital

Equity capital grew primarily from the retention of earnings. In 1986, and for the preceding four years, capital was generated internally at a rate exceeding 14% each year. On December 31, 1981, stockholders' equity was $165 million, as shown on the chart. As of December 31, 1986, stockholders' equity had increased to $392 million, a 19% annual growth rate. In 1986 stockholders' equity increased $69 million. Of this increase, $8 million came from the conversion of debentures and $59 million came from the retention of earnings. The average regulatory ratio of primary capital to assets was 6.3% in 1986, compared to the minimum regulatory requirement of 5.5%.

During the fourth quarter of 1986, State Street issued $75 million of long-term notes, which are included in the Federal regulators' definition of total capital. On average during 1986, the Corporation's total capital ratio was 7.1%.

No one financial ratio or formula satisfactorily measures the total level of risk at a bank holding company, nor, by extension, the adequacy of its capital base. One additional meaningful way to evaluate the adequacy of capital is to measure the ratio of primary capital to risk assets. Among the assets included as risk assets are: loans, municipal investment securities, and other investment securities. The ratio excludes assets with minimal credit risk, such as U.S. Treasury securities, interest-bearing bank balances, cash and due from banks, Federal funds sold, securities purchased for resale, and trading account assets. As of June 30, 1986, State Street's ratio was 13.2%, ranking it above 95% of its peer group of 83 bank holding companies with assets of $3 to $10 billion.

Balance Sheet Strength

Asset composition. The composition of State Street's balance sheet reduces credit risk. On average during 1986, 48% of State Street's assets were invested in money market assets (investment securities, deposits with other banks, and federal funds sold). Loans were 31% of assets, a relatively low level. The remaining 21% of assets were noninterest-earning, including customers' acceptance liability, premises and equipment, and accrued income receivable.

Liquidity. Liquidity is the ability to satisfy demands for withdrawals of deposits, lending obligations, and other Corporate needs. Liquidity is provided from maturing investments, the large portfolio of marketable investments, payments on loans, and through access to borrowed funds and deposits.

The short maturity structure of State Street's assets enhances liquidity. As of December 31, 1986, $2.3 billion, or 74%, of investment securities and money market assets had maturities within one year. The loan portfolio had $1.3 billion of loans due within one year.

State Street continued to expand and diversify its funding sources during 1986. Noninterest-bearing deposits supported 36% of State Street's total assets, a relatively high percentage. Interest-bearing deposits and liabilities, which increased 19% in 1986, were held primarily by corporations, institutional investors, banks, and savings and loan associations. Individuals held additional interest-bearing deposits in the form of insured money market accounts, savings and NOW accounts, and certificates of deposit. State and local governments and non-profit organizations provided additional funding.

Country risk. Country risk arises from borrowers' possible inability to repay because of the inconvertibility of their assets into dollars. At December 31, 1986, assets with country risk included $910 million of Eurodollar placements, $209 million of acceptance financing and $96 million of loans. Eurodollar placements, usually for six months or less, were with foreign branches of large U.S. banks and in large international banks in Western Europe, Asia, and Canada. Acceptance financings were with large international Western European and Asian banks. The Corporation had foreign outstandings of 1% or more of total assets in Japan, United Kingdom, Switzerland, Italy, France, Canada, and Germany. Total country risk in Latin America was $14 million, with no more than $4.5 million in any one country.

Interest sensitivity management. The Corporation manages the structure of interest-earning assets and interest-bearing liabilities to balance the objective of income growth against the risk of interest rate fluctuations. Interest rate risk arises from a mismatch of repricing timeframes between assets and liabilities. The Corporation monitors the volume, yields, and repricing characteristics of rate-sensitive assets and liabilities over various time horizons. Interest rate risk is controlled by maintaining a close match between the volume of assets and liabilities subject to repricing during a given period, and by adjusting to market conditions and changing interest rates.

On December 31, 1986, interest-earning assets and interest-bearing liabilities subject to rate change were as follows:

Interest Sensitivity Position at December 31, 1986

		Interest Sensitivity Period In months			
(Dollars in millions)	Balance	0–3	4–6	7–12	over 12
Interest-Earning Assets:					
Loans	$ 1,864	$1,283	$ 36	$ 32	$ 513
Investment securities	1,622	299	197	329	797
Money market assets*	1,513	1,041	272	198	2
Total interest-earning assets	4,999	2,623	505	559	1,312
Interest-Bearing Liabilities:					
Deposits	1,862	1,639	55	32	136
Federal funds purchased and repurchase agreements	902	902			
Other interest-bearing liabilities	202	66			136
Total interest-bearing liabilities	2,966	2,607	55	32	272
Interest sensitivity position		16	450	527	1,040
Cumulative interest sensitivity position		16	466	993	2,033

*Includes adjustment to normalize the one day position.

As the previous table shows, on December 31, 1986, State Street had $16 million more of assets than liabilities maturing or repricing within the succeeding three months. Within the twelve-month timeframe, the position was $993 million more in interest-sensitive assets than in liabilities.

The Corporation maintains flexibility in its balance sheet to adjust its gap position. State Street's interest-bearing sources of funds are predominantly short-term, and the Corporation correspondingly has maintained a generally short structure for its interest-earning assets, including loans. Within the shorter timeframes, State Street adjusts its gap position to increase earnings in a changing rate environment. During 1986, the Corporation reduced the maturities on some of its short-term liabilities and, as a result, benefitted further from declining interest rates.

The Tax Reform Act of 1986

The Tax Reform Act of 1986 will affect State Street's business in 1987, and to a greater extent in 1988 when the majority of the provisions of the new law are fully effective.

It is hard to predict how markets that have been tax-advantaged will adjust to the new tax law. Because of State Street's business mix, any negative adjustments will likely be more than offset by the benefit from the reduction in the corporate tax rate.

The repeal of the investment tax credit will have a significant impact on the leasing business, necessitating changes in the form and pricing structure of leases. Interest expense related to holding most of the newly-acquired tax-exempt securities will no longer be tax deductible, making these investment securities less attractive. Mutual funds will become relatively more attractive investment vehicles, and individuals will have additional cash to invest. Offsetting this may be somewhat slower growth in IRA investments in mutual funds, as some individuals previously contributing to IRAs will no longer have their contributions fully tax deductible. The change in the treatment of the provision for loan losses for tax purposes will have no significant earnings impact on State Street, as the Corporation's tax deductions have essentially been limited to net charge offs for several years. The tax-basis bad debt reserve will be recognized as taxable income over four years. This will have a moderate impact on cash flow but no direct impact on the income statement.

The Federal tax rate has been reduced from 46% in 1986 to 40% in 1987 and to 34% in 1988. State Street currently pays substantial taxes. The reduction in the corporate tax rate will lower taxes immediately, and over time this rate reduction could be of increasing benefit as State Street's businesses, currently taxed at a 46% rate, continue their rapid growth.

Inflation

As measured by the preliminary GNP deflator, inflation was 2.7%. While the effect of inflation was relatively small in 1986, over time inflation does affect reported earnings.

Reported earnings reflect the impact of inflation on other operating expenses, fee income, and net interest income. The costs of doing business, including compensation, other personnel costs, office space, and equipment, are impacted by inflation as well as other factors. Offsetting this, State Street maintains the flexibility to reprice most of its products and services. To the degree that inflation influences the level of market interest rates, inflation has an impact on net interest income.

Comparison of 1985 Versus 1984

In 1985, fully diluted earnings per share were $1.45. This compares with $1.29 in 1984, when earnings per share included $.08 from a gain on disposition of options. When this non-recurring item is excluded from 1984, earnings per share were up 20%.

In 1985, taxable equivalent net interest income increased 21% to $184.5 million. This improvement resulted primarily from a 31% increase in noninterest-bearing deposits, and also from a 25% increase in loans. The benefits of balance sheet growth were partially offset by the effect of lower short-term interest rates, which averaged about two percentage points lower in 1985 than in 1984. Net interest margin declined from 4.96% to 4.68% due to lower interest rates and the resulting lower asset yields.

The provision for loan losses charged to income was $12.5 million in 1985, up from $4.0 million in 1984. This was due primarily to the 25% increase in average loans, and also because of a $2.2 million increase in net loans charged-off. Net loans charged-off expressed as a percentage of average loans were .34%, compared with .25% in 1984. The allowance for loan losses at the end of 1985 was $36.2 million, equal to 1.78% of ending loans.

Other operating income was $177.7 million in 1985. This compares with $143.1 million in 1984, which included $5.4 million from a gain on disposition of options. Excluding this non-recurring item from 1984, other operating income was up 29%. The largest component of other operating income, fiduciary compensation, increased 26% to $122.4 million primarily due to new business.

Other operating expenses increased 22% to $232.2 million in 1985. The largest component of non-interest expense, personnel costs, was up 23% as a result of additional staff added to process increased business.

The Corporation's effective tax rate was 38% in 1985. This compares with 36% in 1984, when the effective tax rate was lowered by a gain on disposition of options taxed at the capital gains rate.

Consolidated Statements of Condition

State Street Boston Corporation and Subsidiaries

(Dollars in thousands) December 31,	1986	1985
Assets		
Cash and due from banks-Note B	$1,323,412	$ 818,821
Interest-bearing deposits with banks	1,047,435	891,143
Investment securities (market value $1,644,316 and $1,276,939)-Note C	1,622,477	1,271,748
Trading account assets	33,740	167,589
Federal funds sold and securities purchased under resale agreements	455,000	981,550
Loans (net of unearned income of $3,342 and $5,109)-Note D	2,169,490	2,031,661
Allowance for loan losses	(42,355)	(36,214)
Net loans	2,127,135	1,995,447
Premises and equipment, net-Notes E and G	131,190	72,152
Customers' acceptance liability	216,852	260,606
Accrued income receivable	111,503	96,774
Other assets	121,074	96,865
Total Assets	$7,189,818	$6,652,695
Liabilities		
Deposits:		
Noninterest-bearing:		
Domestic	$3,382,719	$2,678,457
Foreign	23,540	17,772
Interest-bearing:		
Domestic	1,321,887	1,297,416
Foreign	541,450	576,256
Total deposits	5,269,596	4,569,901
Short-term borrowings-Note F	968,028	1,206,830
Acceptances outstanding	218,158	263,030
Accrued taxes and other expenses-Note N	113,592	83,316
Other liabilities	92,087	136,281
Long-term debt-Note G	135,993	70,129
Total Liabilities	6,797,454	6,329,487
Commitments and contingent liabilities-Note Q		
Stockholders' Equity-Notes G, H and I		
Preferred stock, no par:		
Shares authorized, 3,500,000; none issued		
Common stock, $1 par:		
Shares issued, 35,078,000 and 17,048,000	35,078	17,048
Surplus	38,671	46,542
Retained earnings	318,615	259,618
Total Stockholders' Equity	392,364	323,208
Total Liabilities and Stockholders' Equity	$7,189,818	$6,652,695

See notes to consolidated financial statements.

Consolidated Statements of Income

State Street Boston Corporation and Subsidiaries

(Dollars in thousands, except per share data)	1986	1985	1984
Interest Income			
Loans, including fees	$160,488	$157,365	$156,384
Investment securities:			
U.S. Treasury and Federal agencies	90,461	78,656	57,651
State and municipal (exempt from Federal taxes)	17,410	13,121	11,442
Other investments	13,795	4,592	4,748
Trading account assets	4,029	5,399	3,490
Deposits with banks	64,957	76,074	81,956
Federal funds sold and securities purchased under resale agreements	41,165	31,905	22,140
Total interest income	392,305	367,112	337,811
Interest Expense			
Deposits	117,205	127,487	126,854
Short-term borrowings	87,233	77,523	76,505
Long-term debt	6,854	6,525	6,812
Total interest expense	211,292	211,535	210,171
Net interest income	181,013	155,577	127,640
Provision for loan losses-Note D	17,914	12,501	3,998
Net interest income after provision for loan losses	163,099	143,076	123,642
Other Operating Income			
Fiduciary compensation	176,643	122,444	96,936
Bank card fees	23,698	20,468	16,577
Gain on disposition of options-Note J			5,412
Other-Note K	47,643	34,785	24,178
Total other operating income	247,984	177,697	143,103
Income before other operating expenses	411,083	320,773	266,745
Other Operating Expenses			
Compensation	140,649	113,670	89,435
Other personnel costs-Note M	20,296	17,529	17,636
Occupancy, net	21,714	15,159	12,657
Equipment	22,857	18,279	14,835
Other-Note L	95,478	67,556	55,325
Total other operating expenses	300,994	232,193	189,888
Income before income taxes	110,089	88,580	76,857
Income taxes-Note N	38,694	33,326	27,842
Net Income	$ 71,395	$ 55,254	$ 49,015
Earnings per Share			
Primary	$1.97	$1.60	$1.42
Fully diluted	1.84	1.45	1.29
Average Shares Outstanding (in thousands)			
Primary	36,178	34,584	34,566
Fully diluted	39,552	39,300	39,577

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

State Street Boston Corporation and Subsidiaries

(Dollars in thousands)	1986	1985	1984
Source of Funds			
From Operations:			
Net income	$ 71,395	$ 55,254	$ 49,015
Provision for loan losses	17,914	12,501	3,998
Deferred taxes	5,857	20,453	13,487
Depreciation and amortization	14,303	8,287	5,640
Total funds from operations	109,469	96,495	72,140
Issuance of long-term debt	75,000		
Issuance of common stock	10,159	614	125
Issuance of treasury stock		10,976	297
Increase in:			
Deposits	699,695	1,358,871	719,543
Short-term borrowings		410,610	
Other liabilities		78,809	
Decrease in:			
Cash and due from banks		18,849	
Trading account assets	134,004		
Federal funds sold and securities purchased under resale agreements	526,550		
Other assets			85,952
Total Source of Funds	$1,554,877	$1,975,224	$ 878,057
Use of Funds			
Cash dividends declared	$ 12,506	$ 9,907	$ 8,330
Conversions and payments of long-term debt	9,136	11,463	555
Common stock acquired		214	15,812
Increase in:			
Cash and due from banks	504,591		393,789
Interest-bearing deposits with banks	156,292	153,272	49,594
Investment securities	354,652	473,629	15,871
Trading account assets		148,125	
Federal funds sold and securities purchased under resale agreements		606,913	22,574
Loans	149,602	496,197	283,747
Premises and equipment	69,484	20,200	8,273
Other assets	39,027	55,304	
Decrease in:			
Short-term borrowings	238,802		78,542
Other liabilities	20,785		970
Total Use of Funds	$1,554,877	$1,975,224	$ 878,057

See notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

State Street Boston Corporation and Subsidiaries

(Dollars in thousands)	Common Stock	Surplus	Retained Earnings	Treasury Stock	Total
Balance at December 31, 1983	$ 8,676	$58,928	$173,705	$	$241,309
Net income			49,015		49,015
Cash dividends declared, $.25 per share			(8,330)		(8,330)
Issuance of common stock (7,869 shares)	8	117			125
Issuance of treasury stock (23,652 shares)		(498)		795	297
Common stock acquired (480,000 shares)				(15,812)	(15,812)
Balance at December 31, 1984	8,684	58,547	214,390	(15,017)	266,604
Net Income			55,254		55,254
Cash dividends declared, $.30 per share			(9,907)		(9,907)
Stock dividend, two-for-one split	8,330	(8,330)			
Issuance of common stock (34,772 shares)	34	580			614
Issuance of treasury stock (459,709 shares)		(4,255)		15,231	10,976
Common stock acquired (3,361 shares)				(214)	(214)
Foreign currency translation			(119)		(119)
Balance at December 31, 1985	17,048	46,542	259,618		323,208
Net income			71,395		71,395
Cash dividends declared, $.36 per share			(12,506)		(12,506)
Stock dividend, two-for-one split	17,331	(17,331)			
Issuance of common stock (699,[illegible]31 shares)	699	9,460			10,159
Foreign currency translation			108		108
Balance at December 31, 1986	$35,078	$38,671	$318,615	$ 0	$392,364

See notes to consolidated financial statements.

Note A—Summary of Significant Accounting Policies

The accounting and reporting policies of State Street Boston Corporation ("State Street") and its subsidiaries conform to generally accepted accounting principles. The significant accounting policies are summarized below.

Basis of Presentation: The consolidated financial statements include the accounts of State Street Boston Corporation and its subsidiaries, including its principal subsidiary, State Street Bank and Trust Company ("State Street Bank"). All significant intercompany accounts and transactions have been eliminated upon consolidation. State Street's investment in its 50% owned affiliate, Boston Financial Data Services, Inc., is accounted for on the equity method.

On May 3, 1985, State Street acquired the net assets of Continental Illinois Bank (Switzerland). The acquisition has been accounted for as a purchase and, accordingly, the accompanying consolidated financial statements include its results of operations from date of acquisition. The acquisition cost and the prior operating results are not material to the consolidated financial statements.

Income and expenses are recognized using the accrual method of accounting except for certain trust fees and other sources of income and expense which are recorded as received or paid. These exceptions are immaterial to the results of operations.

Certain 1985 and 1984 amounts have been reclassified to conform to the 1986 method of presentation. Where appropriate, number of shares and per share amounts have been restated to reflect stock splits (see Note H).

Securities: Investment securities are stated at cost adjusted for amortization of premiums and accretion of discounts. Gains or losses on securities sold are computed based upon identified cost. Income taxes related to net securities gains were $390,000, $373,000 and $38,000 in 1986, 1985 and 1984, respectively. Trading account assets are carried at market value.

Loans and Lease Financing: Loans are placed on a non-accrual basis when they become 60 days past due as to either principal or interest.

Subsidiaries of State Street provide equipment financing to customers through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual value less unearned income. Leveraged leases, a form of financing lease, are carried net of nonrecourse debt. Unearned income on direct financing leases and leveraged leases is amortized over the lease terms by methods producing approximate level rates of return on net lease assets and net investment in leases, respectively.

Allowance for Loan Losses: The adequacy of the allowance for loan losses is evaluated on a regular basis by management. Factors considered in evaluating the adequacy of the allowance include previous loss experience, current economic conditions and their effect on borrowers, and the performance of individual credits in relation to contract terms. The provision for loan losses charged to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb probable losses.

Foreign Exchange Trading: Foreign exchange trading positions, including ledger balances and spot and forward contracts, are valued daily at prevailing exchange rates. The resulting gain or loss is included in other operating income.

Foreign Currency Translation: The assets and liabilities of foreign operations are translated at exchange rates prevailing at the end of each year, and income and expense accounts are translated at average exchange rates in effect during

Note A—Summary of Significant Accounting Policies (continued)

the years. Gains or losses from the translation of the net assets of certain foreign subsidiaries, net of foreign currency hedges and related taxes, are charged or credited to retained earnings. Gains or losses from other translations are included in other operating income.

Interest-Rate Futures: Financial futures are used by State Street to provide hedges on certain net interest sensitive positions. Futures contracts are adjusted to market value on a current basis and gains or losses are included in other operating income.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization charged to expense are computed by the straight-line method using rates based on estimated useful lives.

Pension Costs: Actuarially determined costs of pension plans, including amortization of prior service costs, are funded annually.

Income Taxes: Provision for income taxes includes deferred income taxes arising as a result of reporting certain items of income and expense in different years for tax and financial reporting purposes. Investment tax credits are accounted for using the deferral method under which tax benefits are recognized ratably over the lives of the assets acquired.

Earnings Per Share: The computation of primary earnings per share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during each year. The computation of fully diluted earnings per share is based on the assumption that the convertible capital notes and debentures had been converted as of the beginning of each year, with the elimination of related interest expense less income tax effect.

Note B—Restrictions on Cash and Due from Banks

Subsidiary banks are required to maintain reserve balances with the Federal Reserve Banks. The average reserve balance for the year ended December 31, 1986 was $190,798,000.

Note C—Investment Securities

Investment securities consisted of the following at December 31:

(Dollars in thousands)	1986		1985	
	Cost	Market	Cost	Market
U.S. Treasury and Federal agencies	$1,046,230	$1,065,117	$ 852,465	$ 864,433
State and municipal	287,354	290,334	351,224	344,360
Other investments	288,893	28[illegible] 865	68,059	68,146
Total investment securities	$1,622,477	$1,644,316	$1,271,748	$1,276,939

Securities carried at $833,319,000 and $927,407,000 at December 31, 1986 and 1985, respectively, were designated as security for public and trust deposits, borrowed funds and for other purposes as provided by law.

Note D—Loans

Loans, net of unearned income, included the following at December 31:

(Dollars in thousands)	1986	1985
Commercial and financial	$1,232,863	$1,198,220
Real estate construction	189,060	175,858
Real estate mortgage	110,742	72,204
Instalment and consumer	395,198	311,420
Foreign	142,344	182,266
Lease financing	99,283	91,693
Loans, net	$2,169,490	$2,031,661

Included in loans at December 31, are non-accrual loans as follows:

(Dollars in thousands)	1986	1985
Non-accrual loans	$9,330	$10,595
Interest income which would have been recorded under original terms	995	1,350
Interest income actually recognized	419	714

At December 31, 1986 and 1985, there were no loans outstanding whose terms had been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower.

At December 31, 1986 there were no commitments to lend additional funds to debtors whose terms had been modified in troubled debt restructurings.

Changes in the allowance for loan losses for the years ended December 31, were as follows:

(Dollars in thousands)	1986	1985	1984
Balance at beginning of year	$36,214	$27,115	$26,496
Provision for loan losses	17,914	12,501	3,998
Loans charged off	(17,133)	(12,117)	(7,242)
Recoveries previously charged off	4,720	6,492	3,863
Allowance of subsidiary purchased		1,807	
Foreign currency translation	640	416	
Balance at end of year	$42,355	$36,214	$27,115

Note E—Premises and Equipment

Premises and equipment consisted of the following at December 31:

(Dollars in thousands)	1986	1985
Buildings and land	$ 92,493	$ 51,254
Leasehold improvements	40,397	23,299
Equipment	56,434	44,159
	189,324	118,712
Accumulated depreciation and amortization	(58,134)	(46,560)
Premises and equipment, net	$131,190	$ 72,152

Note F — Short-Term Borrowings

Short-term borrowings consisted of the following at December 31:

(Dollars in thousands)	1986	1985
Federal funds purchased	$ 277,100	$ 290,260
Securities sold under repurchase agreements	624,353	830,932
U.S. Treasury demand notes	45,000	45,000
Other	21,575	40,638
Total short-term borrowings	$ 968,028	$1,206,830

Federal funds purchased generally represent one day borrowings. Securities sold under repurchase agreements are borrowings, which generally mature from 1 to 49 days, secured by U.S. Treasury and Federal agency securities.

State Street's lines of credit with various banks aggregated $27,000,000 at December 31, 1986. These lines of credit have not been activated. There are no compensating balance requirements under these agreements.

Note G — Long-Term Debt

The following are included in long-term debt (less unamortized original issue discount, where applicable) at December 31:

(Dollars in thousands)	1986	1985
8½% Notes due 1996	$ 74,631	$
7¾% Convertible subordinated debentures due 2008	31,517	39,184
9½% Mortgage note due 2009	29,134	29,502
5% Convertible capital notes due 1994	711	1,443
Total long-term debt	$135,993	$ 70,129

The 8½% notes are direct, unsecured obligations of State Street. The notes may be redeemed in whole or in part, at any time on or after November 1, 1993 at 100% of the principal, with accrued and unpaid interest to the date fixed for redemption.

The 7¾% convertible subordinated debentures are convertible at the option of the holder at a conversion price of $11.50 per share, subject to adjustment for certain events. The debentures are redeemable at any time at the option of State Street, in whole or in part, at a price of 106.20% at May 1, 1986, and declining annually to par at May 1, 1998 and thereafter. At December 31, 1986, 2,740,609 shares of authorized common stock have been reserved for issuance upon conversion. During 1986 and 1985, $7,667,000 and $10,816,000 of notes were converted into 666,696 and 940,476 shares of common stock, respectively.

Aggregate maturities of the mortgage note for the years 1987 through 1991 are $408,000, $448,000, $493,000, $542,000 and $591,000, respectively. At December 31, 1986, property having a net book value of approximately $39,944,000 serves as collateral for the mortgage notes.

The 5% notes are convertible at any time into common stock of State Street at a conversion price of $3.97 per share, subject to adjustment for certain events. During 1986, 1985 and 1984, $732,000, $313,000 and $250,000 of notes were converted into 184,439, 78,866 and 62,936 shares of common stock, respectively. At December 31, 1986, 179,147 shares of authorized common stock have been reserved for issuance upon conversion.

Note H—Stockholders' Equity

The authorized number of common shares increased from 14,000,000 to 28,000,000 in 1985 and 28,000,000 to 56,000,000 in 1986. In 1985 and 1986, State Street distributed a two-for-one stock split in the form of a 100% stock dividend to stockholders resulting in an increase in common shares of 8,300,000 and 17,331,000, respectively. The par value of these additional shares was capitalized by a transfer from surplus to common stock.

Under the 1981 Stock Option and Performance Share Plan ("1981 Plan") for officers at the policy making level, an aggregate of 2,400,000 shares of common stock may be issued. The exercise price of non-qualified and incentive stock options may not be less than the fair market value of such shares at the date granted and expire no longer than ten years from date of grant. Stock appreciation rights (SARs) were granted under the 1981 Plan, whereby the grantee may surrender exercisable options and receive cash, common stock or a combination of both, measured by the difference between the option price and the fair market value of the stock on the date of surrender. Performance shares granted under the 1981 Plan are earned by the participants over a performance period, as defined by the 1981 Plan, in relation to the degree of attainment of performance between minimum and maximum performance targets. Payment for performance shares will be made in cash equal to the fair market value of the common stock after the conclusion of each performance period. No further grants will be made under the 1981 Plan which expired in April, 1986.

The 1985 Stock Option and Performance Shares Plan ("1985 Plan"), similar in terms to the 1981 Plan, was adopted by the Board of Directors and approved by the Stockholders in 1985. Under the 1985 Plan, options and SARs covering 1,000,000 shares of common stock and a maximum of 1,000,000 performance shares may be issued.

Compensation expense is recorded for performance shares equal to the fair market value of common stock of State Street for the estimated number of shares to be awarded. Compensation expense related to performance shares and SARs for 1986, 1985 and 1984 was $3,439,000, $3,779,000 and $1,832,000, respectively.

Under the 1984 Stock Option Plan ("1984 Plan") the maximum number of shares of common stock which may be issued is 1,400,000 shares. Stock options awarded under the 1984 Plan are intended to qualify as incentive stock options but may be granted as non-qualified stock options. Options may be accompanied by stock appreciation rights. The option price of incentive stock options may not be less than the fair market value of the common stock on the date of grant and the option price of non-qualified stock options may not be less than 50% of the fair market value of common stock on the date of the grant. No option may have a term greater than ten years. An option may be exercised by the payment of the option price in cash or by the delivery of shares of State Street common stock having a market value equal to the option price or by a combination of cash and stock.

State Street has granted non-qualified and incentive stock options to purchase shares of common stock to certain officers of State Street and its subsidiaries under a Long-Term Common Stock Incentive Program. Options become exercisable five years from date of grant and expire no longer than ten years from date of grant. Non-qualified options issued under this plan permit the optionee to resell to State Street not more than 50% of such options. Incentive stock options were granted at a price not less than the fair market value at the date of the grant. This plan expired in February, 1984.

Note H—Stockholders' Equity (continued)

Option activity during 1986 and 1985 was as follows:

(In thousands, except per share amounts)	Shares	Option Price Per Share	Option Price Total
Outstanding, January 1, 1985	2,224	$ 1.38- 8.54	$ 8,449
Granted	881	11.69-16.97	14,012
Exercised	(163)	1.38- 4.36	(378)
Cancelled or expired	(219)	2.57-12.85	(798)
Outstanding, December 31, 1985	2,723	1.38-16.97	21,285
Granted	111	22.47	2,488
Exercised	(125)	1.38- 2.57	(310)
Cancelled or expired	(83)	2.57-22.47	(740)
Outstanding, December 31, 1986	2,626	1.38-22.47	$22,723

At December 31, 1986, 1,152,316 options and 147,200 SARs were exercisable and 1,477,510 options and SARs were available for future grants. During 1984, 50,096 options were exercised at a price of $1.38 per share.

Note I—Restricted Net Assets

Federal and State banking regulations place certain restrictions on dividends paid and loans or advances made by subsidiary banks to State Street. At December 31, 1985, net assets of State Street Bank amounting to $184,039,000 were available for distribution to State Street in the form of dividends and loans or advances.

At December 31, 1986, consolidated retained earnings included $1,212,000 of undistributed earnings of Boston Financial Data Services, Inc., a 50% owned affiliate.

Note J—Disposition of Options

On March 21, 1984, a settlement was reached on the lawsuit by State Street to enforce the exercise of options acquired in 1980 to purchase common stock of a bank holding company. Under the terms of the settlement, State Street received cash and recognized a gain of $5,412,000. This increased net income $3,146,000 or $.08 per share fully diluted.

Note K—Other Operating Income

The following items are included in the "other" category of other operating income for the years ended December 31:

(Dollars in thousands)	1986	1985	1984
Foreign exchange trading	$14,299	$ 5,674	$ 2,175
Service fees	12,114	9,893	8,228
Correspondent service fees	8,534	8,293	9,048
Trading gains (losses), net	1,477	1,377	(265)
Securities gains (losses), net	738	706	72
Other	10,481	8,842	4,920
Total "other"	$47,643	$34,785	$24,178

Note L—Other Operating Expenses

The following items are included in the "other" category of other operating expenses for the years ended December 31:

(Dollars in thousands)	1986	1985	1984
External contract services	$18,398	$12,381	$10,274
Postage, stationery and supplies	11,416	9,505	7,717
Professional fees	9,876	7,156	6,896
Telecommunications	8,497	5,457	4,526
Advertising and customer contact	7,192	7,590	5,921
Insurance	6,789	3,737	2,188
Other	33,310	21,730	17,803
Total "other"	$95,478	$67,556	$55,325

Note M—Retirement and Salary Savings Plan

State Street and certain subsidiary companies participate in noncontributory retirement plans covering employees eligible as to age and length of service. Contributions to the plan are funded as accrued, and are limited to amounts that are currently deductible for tax reporting purposes.

Effective July 1, 1985, State Street changed its actuarial valuation method to the projected unit credit method from the entry age normal method. This new method results in an annual pension expense which more appropriately matches the cost of projected retirement benefits to the year in which such benefits are earned. Revisions were also made in the assumed weighted average rate of return on investments and the assumed rate of wage increases. These changes, combined with strong investment performance, have resulted in decreasing retirement expense since 1984.

Total retirement expense for each of the years ended December 31, actuarial assumptions, accumulated plan benefit information as estimated by consulting actuaries, and plan net assets at June 30 (the actuarial valuation dates), were as follows:

(Dollars in thousands)	1986	1985	1984
Total retirement expense	$ 1,532	$ 3,690	$ 4,736
Weighted average assumed rate of return	6%	6%	5%
Wage increase assumption	5	5	4
Actuarial present value of accumulated plan benefits:			
Vested	$44,532	$42,395	$43,881
Nonvested	3,012	2,134	1,922
Total	$47,544	$44,529	$45,803
Net assets available for benefits	$94,875	$75,477	$57,271

Employees of State Street and certain subsidiary companies with two or more years service are eligible to participate in State Street's salary savings plan. State Street's related expenses were $1,808,000, $1,476,300 and $1,359,000 in 1986, 1985 and 1984, respectively.

State Street and certain subsidiaries provide health care and life insurance benefits for retired employees. The cost of such benefits are not material and are expensed as claims are paid.

Note N—Income Taxes

The provision for taxes included in the Consolidated Statements of Income is comprised of the following:

(Dollars in thousands)	1986	1985	1984
Current:			
Federal	$21,911	$ 4,213	$ 7,176
State	10,926	8,660	7,179
Total current	32,837	12,873	14,355
Deferred:			
Federal	3,127	18,001	11,706
State	2,730	2,452	1,781
Total deferred	5,857	20,453	13,487
Total income taxes	$38,694	$33,326	$27,842

The provision for deferred income taxes, which result from the recognition of certain items in different years for financial and income tax reporting purposes, is comprised of the following:

(Dollars in thousands)	1986	1985	1984
Lease financing transactions	$15,168	$14,165	$ 7,201
Investment tax credit		9,966	5,906
Provision for loan losses	(2,800)	(2,721)	(330)
Other, net	(6,511)	(957)	710
Total deferred	$ 5,857	$20,453	$13,487

A reconciliation of income taxes to an income tax provision computed by applying the Federal statutory tax rate to income before income taxes is as follows:

(Dollars in thousands)	1986	1985	1984
Federal income taxes, at statutory rate	$50,641	$40,747	$35,317
Increase (decrease) in taxes resulting from:			
Tax exempt income	(12,186)	(10,957)	(9,309)
State taxes net of Federal benefit	7,374	6,000	4,837
Investment tax credit amortization	(2,672)	(2,973)	(2,198)
Leveraged leases—tax rate change	(4,715)		
Other, net	252	509	(805)
Total income taxes	$38,694	$33,326	$27,842

Deferred income taxes payable, included in accrued taxes and other expenses, were $44,951,000 and $40,466,000 at December 31, 1986 and 1985, respectively. Included in these amounts were deferred investment tax credits of $9,700,000 and $14,745,000, respectively.

Under Generally Accepted Accounting Principles, the lower tax rates in future years, which were brought about by the Tax Reform Act of 1986, required the Corporation to recalculate its net investment in leveraged leases and recognize the effect in 1986. This resulted in a $1,143,000 decrease in loan interest income, a $4,715,000 reduction in the provision for income taxes and a $3,572,000 increase to net income or $.09 per fully diluted share.

Note O—Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations. Certain 1986 and 1985 amounts have been reclassified to conform to the 1986 method of presentation. Where appropriate, number of shares and per share amounts have been restated to reflect stock splits (see Note H).

(In thousands, except per share amounts)	1986 Quarters			
	First	Second	Third	Fourth*
Interest income	$100,462	$100,174	$ 94,955	$ 96,714
Interest expense	57,143	56,347	49,380	48,422
Net interest income	43,319	43,827	45,575	48,292
Provision for loan losses	4,168	4,373	4,499	4,874
Net interest income after provision for loan losses	39,151	39,454	41,076	43,418
Other operating income	52,773	59,439	65,743	70,029
Other operating expenses	65,828	73,039	78,235	83,892
Income before taxes	26,096	25,854	28,584	29,555
Income taxes	9,867	9,673	11,300	7,854
Net income	$ 16,229	$ 16,181	$ 17,284	$ 21,701
Earnings Per Share:				
Primary	$.45	$.45	$.48	$.59
Fully diluted	.42	.41	.45	.56
Average shares outstanding:				
Primary	35,824	36,188	36,255	36,437
Fully diluted	39.526	39,686	39,584	39,543

**Includes a non-recurring gain on leveraged leases of $3,572,000 or $.09 per fully diluted share.*

(In thousands, except per share amounts)	1985 Quarters			
	First	Second	Third	Fourth
Interest income	$ 86,250	$ 91,224	$ 91,878	$ 97,760
Interest expense	49,330	53,534	53,974	54,697
Net interest income	36,920	37,690	37,904	43,063
Provision for loan losses	2,444	2,719	3,527	3,811
Net interest income after provision for loan losses	34,476	34,971	34,377	39,252
Other operating income	38,474	42,758	45,975	50,490
Other operating expenses	51,088	55,675	59,101	66,329
Income before taxes	21,862	22,054	21,251	23,413
Income taxes	8,203	8,531	7,864	8,728
Net income	$ 13,659	$ 13,523	$ 13,387	$ 14,685
Earnings Per Share:				
Primary	$.40	$.39	$.39	$.42
Fully diluted	.36	.36	.35	.38
Average shares outstanding:				
Primary	34,239	34,398	34,601	35,055
Fully diluted	39,048	39,236	39,115	39,276

Note P—Leases

Rental expense is as follows:

(Dollars in thousands)	1986	1985	1984
Minimum rentals	$20,016	$12,774	$10,187
Contingent rentals	817	781	773
Sublease rental income	(3,546)	(954)	(690)
Total rental expense	$17,287	$12,601	$10,270

Contingent rentals relating to leased equipment are based on usage in excess of specified minimums.

Future minimum payments by year and in the aggregate under noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1986:

(Dollars in thousands)

1987	1988	1989	1990	1991	Thereafter	Total
$15,838	$15,301	$12,500	$10,876	$9,860	$48,236	$112,611

Sublease rental commitments of $5,060,000 through 1993 have been deducted from premises commitments. Substantially all leases for premises and equipment include options to renew.

Note Q—Commitments and Contingent Liabilities

The financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business. These include commitments to extend credit, letters of credit, guarantees and foreign exchange contracts. At December 31, 1986, commitments under outstanding standby letters of credit aggregated $128,237,000.

On April 19, 1983, counsel for Union National Bank, a subsidiary of State Street which was sold to The Conifer Group, Inc. on December 30, 1983, received a letter from the Environmental Protection Agency stating the intention of the EPA to make expenditures under the federal so-called "Superfund" Act toward the cleanup of a site owned by Silresim Chemical Corporation, to which Union had made secured loans from 1970 to 1976. In its letter, the EPA stated that under the Act, responsible parties may be liable for money expended by the government to take necessary corrective actions at the site and asserted that the EPA had determined Union to be an owner or operator of the site and is therefore a responsible party. Under the "Superfund Act", an owner or operator may be liable for the total costs of the cleanup of the site and other damages which are indeterminate at this time. Union has denied that it ever was an owner or operator of the site. Under the terms of its agreement relating to the sale of Union, State Street agreed to indemnify The Conifer Group, Inc. for any costs which they may incur in this matter. In the opinion of management, this action can be successfully defended or resolved without material adverse effect on the financial position of State Street.

Note R—Financial Statements of State Street Boston Corporation (Parent only)

Statements of Condition

(Dollars in thousands) December 31,	1986	1985
Assets		
Cash and due from banks	$ 50	$ 7
Investment securities	16,009	
Securities purchased under resale agreements	20,986	47,268
Investment in consolidated subsidiaries:		
Bank	394,925	284,580
Nonbank	13,579	12,082
Capital notes of bank subsidiary	18,211	18,211
Notes receivable from nonbank subsidiaries	44,781	3,870
Investment in unconsolidated affiliate	10,337	5,079
Other assets	1,907	7,119
Total Assets	$520,776	$378,216
Liabilities		
Accrued taxes and other expenses	$ 16,689	$ 10,666
Other liabilities	4,864	3,715
Long-term debt	106,859	40,627
Total Liabilities	128,412	55,008
Stockholders' Equity	392,364	323,208
Total Liabilities and Stockholders' Equity	$520,776	$378,216

Statements of Income

(Dollars in thousands)	1986	1985	1984
Interest and dividend income	$ 6,353	$ 6,766	$ 8,457
Gain on disposition of options			5,412
Total income	6,353	6,766	13,869
Interest expense on long-term debt	3,915	3,708	3,964
Other expenses	1,116	1,751	1,643
Total expenses	5,031	5,459	5,607
Income taxes	645	363	3,099
Income before equity in undistributed income of subsidiaries	677	944	5,163
Equity in undistributed income of subsidiaries and affiliate:			
Consolidated bank	68,768	54,033	43,650
Consolidated nonbank	2,067	924	132
Unconsolidated affiliate	(117)	(647)	70
	70,718	54,310	43,852
Net income	$71,395	$55,254	$49,015

Note R—Financial Statements of State Street Boston Corporation (Parent only)

Statements of Changes in Financial Position

(Dollars in thousands)	1986	1985	1984
Source of Funds			
From operations:			
Net Income	$ 71,395	$ 55,254	$ 49,015
Equity in undistributed income of subsidiaries and affiliate	(70,718)	(54,3[illegible])	(43,852)
Total from operations	677	[illegible]	5,163
Issuance of long-term debt	75,000		
Issuance of common stock	10,159	614	125
Issuance of treasury stock		10,976	297
Increase in other liabilities	7,280	655	
Decrease in:			
Cash and due from banks		53	239
Investment securities			4,935
Investment in bank subsidiaries		72	
Investment in nonbank subsidiaries	570	456	
Securities purchased under resale agreements	26,282		24,931
Notes receivable from nonbank subsidiaries		1,649	416
Other assets	5,212	9,465	103
Total Source of Funds	$125,180	$ 24,884	$ 36,209
Use of Funds			
Cash dividends declared	$ 12,506	$ 9,907	$ 8,330
Conversions and payments of long-term debt	8,768	11,129	250
Common stock acquired		214	15,812
Increase in:			
Cash and due from banks	43		
Investment securities	16,000		
Investment in bank subsidiares	41,577		1,906
Investment in nonbank subsidiaries			2,828
Securities purchased under resale agreements		1,179	
Notes receivable from nonbank subsidiaries	40,911		
Investment in unconsolidated affiliate	5,375	2,455	
Decrease in other liabilities			7,083
Total Use of Funds	$125,180	$ 24,884	$ 36,209

Note 5—Foreign Activities

The following selected amounts related to foreign operations are included in the consolidated financial statements as of and for the years ended December 31:

(Dollars in thousands)	1986	1985	1984
Assets	$1,483,010	$1,438,280	$1,085,369
Interest and other operating income	98,215	97,634	96,341
Income before income taxes	3,314	3,244	1,812
Net income	1,225	1,113	827

Interest costs allocated to international operations for domestic funds are based on domestic money market rates. The allocation of administrative expenses is based upon services provided or received.

Accountants' Report

To the Stockholders and Board of Directors
State Street Boston Corporation
Boston, Massachusetts

We have examined the consolidated statements of condition of State Street Boston Corporation and subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of State Street Boston Corporation and subsidiaries at December 31, 1986 and 1985, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Boston, Massachusetts
January 13, 1987

Condensed Average Statements of Condition with Net Interest Income Analysis
(Taxable equivalent basis)

(Dollars in millions)	1986 Balance	1986 Interest	1986 Rate
Assets			
Due from banks	$ 859	$ 65.0	7.56%
Investment securities:			
U.S. Treasury and Federal agencies	1,004	90.5	9.01
State and municipal	311	31.9	10.24
Other investments	186	14.2	7.63
Trading account assets	63	4.6	7.27
Loans, net of unearned income:			
Commercial and financial	1,071	87.0	8.13
Real estate construction	192	17.8	9.30
Real estate mortgage	80	7.7	9.67
Consumer	336	42.8	12.76
Foreign	170	12.8	7.55
Leases	89	7.9	8.89
Total loans	1,938	176.0	9.09
Federal funds sold and securities purchased under resale agreements	606	41.2	6.80
Total interest-earning assets	4,967	423.4	8.59
Cash and due from banks	747		
Allowance for loan losses	(41)		
Premises and equipment, net	93		
Customers' acceptance liability	305		
Other assets	217		
Total assets	$6,288		
Liabilities and Stockholders' Equity			
Interest-bearing deposits:			
Savings and NOW	$ 163	9.1	5.52
Insured money market accounts	516	30.9	5.94
Certificates of $100,000 or more	436	31.5	7.21
Other time	36	2.4	6.68
Foreign	597	43.3	7.25
Total interest-bearing deposits	1,748	117.2	6.71
Short-term debt	1,396	87.2	6.25
Long-term debt	81	6.9	8.47
Total interest-bearing liabilities	3,225	211.3	6.55
Deposits	2,241		
Acceptances outstanding	306		
Other liabilities	158		
Stockholders' equity	358		
Total liabilities and stockholders' equity	$6,288		
Net interest income		$212.1	
Excess of rate earned over rate paid			2.04%
Net interest margin*			4.34%

**Net interest margin is taxable equivalent net interest income divided by average interest earning assets.*

Average rates for 1986 exclude the effect of the non-recurring gain on leveraged leases.

Interest income on non-taxable investment securities and loans includes the effect of taxable equivalent adjustments, using a Federal tax rate of 46% adjusted for applicable state income taxes net of the related Federal tax benefit. Loan fees included in interest income are not material. Non-accrual loans are included in interest-earning assets.

1985			1984			1983			1982		
Balance	Interest	Rate	Balance	Interest	Rate	Balance	Interest	Rate	Balance	Interest	Rate
$ 803	$ 76.1	9.47%	$ 725	$ 82.0	11.30%	$ 556	$ 54.5	9.81%	$ 480	$ 68.8	14.35%
745	78.6	10.55	522	57.6	11.05	704	84.5	12.00	507	66.7	13.17
236	24.6	10.44	197	21.9	11.13	194	20.8	10.74	182	23.5	12.94
48	5.4	11.21	43	5.6	12.81	18	1.7	9.68			
73	6.0	8.22	36	3.6	9.96	36	3.2	8.68	44	5.2	11.59
1,030	103.4	10.03	877	108.9	12.42	711			670		
126	13.4	10.64	85	10.8	12.57	80			84		
67	7.4	11.04	51	6.9	13.49	181			163		
236	31.3	13.28	191	27.7	14.44	203			184		
136	11.2	8.24	79	9.4	11.79	59			72		
65	7.3	10.48	49	6.2	12.33	45			34		
1,660	174.0	10.48	1,332	169.9	12.76	1,279	148.9	11.65	1,207	170.7	14.14
392	31.9	8.14	223	22.1	9.94	360	32.7	9.07	297	36.8	12.37
3,957	396.6	10.02	3,078	362.7	11.79	3,147	346.3	11.01	2,717	371.7	13.68
543			486			491			572		
(33)			(28)			(29)			(26)		
66			58			61			60		
238			191			149			93		
164			117			119			119		
$4,935			$3,902			$3,938			$3,535		
$ 157	9.1	5.89	$ 119	7.6	6.33	$ 182	10.7	5.94	$ 173	10.0	5.77
357	25.9	7.29	228	20.6	9.05	192	16.1	8.37	7	.4	6.50
529	44.0	8.31	580	59.9	10.33	626	56.9	9.09	652	84.0	12.87
33	2.6	7.99	26	2.7	10.21	84	8.5	10.10	108	13.4	12.42
535	45.8	8.56	333	36.0	10.82	222	21.0	9.44	222	31.2	14.08
1,611	127.4	7.91	1,286	126.8	9.85	1,306	113.2	8.67	1,162	139.0	11.97
1,018	77.6	7.62	785	76.5	9.75	889	77.1	8.67	750	85.9	11.45
79	6.5	8.27	82	6.8	8.32	69	5.8	8.40	65	5.6	8.55
2,708	211.5	7.81	2,153	210.1	9.76	2,264	196.1	8.66	1,977	230.5	11.66
1,550			1,184			1,176			1,056		
239			192			149			93		
145			122			125			230		
293			251			224			179		
$4,935			$3,902			$3,938			$3,535		
	$185.1			$152.6			$150.2			$141.2	
		2.21%			2.03%			2.35%			2.02%
		4.68%			4.96%			4.77%			5.20%

Executive Officers

William S. Edgerly
Chairman

Peter E. Madden
President

Howard H. Fairweather
Executive Vice President

George J. Fenus
Executive Vice President

Ronald A. Colz
Executive Vice President

David A. Spina
Executive Vice President

Bradford S. Tripp
Senior Vice President

Directors

James F. Conway, Jr.
Chairman of the Board and Chief Executive Officer, Courier Corporation

William S. Edgerly
Chairman

William F. Glavin
Vice Chairman, Xerox Corporation

John B. Gray
President, Dennison Manufacturing Company

Charles H. Hood
President, Charles H. Hood Foundation

Charles F. Kaye
Chairman of the Board and Chief Executive Officer, XTRA Corporation

Albert J. Kelley
Chairman, Arthur D. Little Program Systems Management Company

Nannerl O. Keohane
President, Wellesley College

George H. Kidder
Hemenway & Barnes

Peter E. Madden
President

David B. Perini
Chairman, President and Chief Executive Officer, Perini Corporation

Arthur M. Sackler, M.D.
International Publisher, Medical Tribune Group

Norton Q. Sloan
Executive Vice President, Cabot Corporation

John K. Spring
Welch & Forbes

Edward B. Stevens
President, Ames Textile Corporation

Henry S. Streeter
Ropes & Gray

Morris Tanenbaum
Vice Chairman, AT&T

William R. Thurston
President and Chief Executive Officer, GenRad, Inc.

Phyllis A. Wallace
Professor, Alfred P. Sloan School of Management, Massachusetts Institute of Technology

Offices of State Street Boston Corporation

State Street Bank and Trust Company
225 Franklin Street
Boston, Massachusetts 02110

London Branch
State Street House
12/13 Nicholas Lane
London EC4N 7BN England

Cayman Islands Branch
P.O. Box 501
Georgetown, Grand Cayman
British West Indies

Cape Cod Personal Trust Office
297 North Street
Hyannis, Massachusetts 02601

Florida Representative
1200 North Federal Highway
Suite 200
Boca Raton, Florida 33432

State Street Bank and Trust Company, N.A.
61 Broadway
New York, New York 10005

State Street Bank International
20 Broad Street
New York, New York 10004

State Street Bank and Trust Company of California, N.A.
515 South Figueroa Street
Los Angeles, California 90071

State Street Boston Capital Corporation
225 Franklin Street
Boston, Massachusetts 02110

State Street Boston Leasing Company, Inc.
225 Franklin Street
Boston, Massachusetts 02110

SSB Investments, Inc.
225 Franklin Street
Boston Massachusetts 02110

Boston Financial Data Services, Inc.
2 Heritage Drive
Quincy, Massachusetts 02171

State Street London Limited
State Street House
12/13 Nicholas Lane
London EC4N 7BN, England

Brussels Branch
c/o Ketteridge - St. Quintin
36-38 Rue Joseph II
1040 Brussels, Belgium

State Street Bank (Switzerland)
Stadelhoferstrasse 22
8024 Zurich/Switzerland

State Street GmbH
Montgelas-Palais
Kardinal-Faulhaber-Str. 14a
8000 München 2
Federal Republic of Germany

State Street Australia Limited
83 Clarence Street
Sydney NSW 2000
Australia

State Street Asia Limited
3802, Gloucester Tower
11, Pedder Street
Central
Hong Kong

Corporate Information

Annual Meeting:
The Corporation's annual meeting will be held on Wednesday, April 15, 1987, at 10:00 a.m. at 225 Franklin Street, Boston, Massachusetts.

Transfer Agent:
State Street Bank and Trust Company
Box 366
Boston, Massachusetts 02101
(617) 328-5000, Ex. 2705

Stock Listing:
The common stock is traded over-the-counter on the National Market System.
NASDAQ symbol: STBK

General Inquiries:
State Street Boston Corporation
Box 351
Boston, Massachusetts 02101
(617) 786-3000

Form 10K and Other Reports:
Our annual report to the Securities and Exchange Commission (Form 10K), additional copies of this report, quarterly reports, and call reports may be obtained from the Marketing Division, State Street Boston Corporation, Box 351, Boston, Massachusetts 02101; (617) 654-3383.

Financial Information:
Analysts, stockholders, and investors interested in additional financial information may call or write Susanne G. Clark, Vice President, (617) 654-3477.

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

0-5108

For the Quarter Ended June 30, 1987 Commission File Number ~~1-7511~~

STATE STREET BOSTON CORPORATION
(Exact name of registrant as specified in its charter)

Commonwealth of Massachusetts
(State or other jurisdiction of incorporation)

04-2456637
(I.R.S. Employer Identification Number)

225 Franklin Street, Boston, Massachusetts
(Address of principal executive offices)

02110
(Zip Code)

Registrant's telephone number, including area code (617) 786-3000.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days.

YES X NO____

Number of shares of registrant's common stock outstanding on July 31, 1987 was 36,430,717.

STATE STREET BOSTON CORPORATION AND SUBSIDIARIES

Table of Contents

STATE STREET BOSTON CORPORATION AND SUBSIDIARIES
Consolidated Statements of Condition
(Dollars in thousands)

	June 30, 1987 (Unaudited)	December 31, 1986 (*)
ASSETS		
Cash and due from banks	$ 683.982	$1,323,412
Interest-bearing deposits with banks	1,036,848	1,047,435
Investment securities	1,891,463	1,622,477
Trading account assets	19,244	33,740
Federal funds sold and securities purchased under resale agreements	713,000	455,000
Loans (net of unearned income of $2,599 and $3,342)	2,131,509	2,169,490
Allowance for loan losses	(46,019)	(42,355)
Net loans	2,085,490	2,127,135
Premises and equipment, net	137,334	131,190
Customers' acceptance liability	207,615	216,852
Accrued income receivable	135,901	111,503
Other assets	151,264	121,074
Total Assets	$7,062,141	$7,189,818
LIABILITIES		
Deposits:		
Noninterest-bearing:		
Domestic	$2,513,362	$3,382,715
Foreign	23,877	23,540
Interest-bearing:		
Domestic	1,171,618	1,321,887
Foreign	775,867	541,450
Total deposits	4,484,724	5,269,596
Federal funds purchased	319,390	277,100
Securities sold under repurchase agreements	1,139,473	624,353
Other short-term debt	75,523	66,575
Acceptances outstanding	208,197	218,158
Accrued taxes and other expenses	112,761	113,592
Other liabilities	161,202	92,087
Long-term debt	126,050	135,993
Total Liabilities	6,627,320	6,797,454
STOCKHOLDERS' EQUITY		
Preferred stock, no par:		
Shares authorized, 3,500,000; none issued		
Common stock, $1 par:		
Shares authorized, 56,000,000		
Shares issued, 35,967,000 and 35,078,000	35,967	35,078
Surplus	47,680	38,671
Retained earnings	351,174	318,615
Total Stockholders' Equity	434,821	392,364
Total Liabilities and Stockholders' Equity	$7,062,141	$7,189,818

*From audited financial statements.
See notes to consolidated financial statements.

STATE STREET BOSTON CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income
Three months ended June 30,
(Dollars in thousands, except per share data)
(Unaudited)

	1987	1986
INTEREST INCOME		
Loans, including fees	$ 41,118	$ 40,690
Investment securities:		
U.S.Treasury and Federal agencies	23,599	23,000
State and municipal	4,197	4,301
Other investments	5,998	3,096
Trading account assets	393	1,257
Deposits with banks	17,236	17,487
Federal funds sold and securities purchased under resale agreements	11,480	10,343
Total interest income	104,021	100,174
INTEREST EXPENSE		
Deposits	30,085	31,684
Short-term borrowings	22,627	23,242
Long-term debt	2,784	1,421
Total interest expense	55,496	56,347
Net Interest Income	48,525	43,827
Provision for loan losses	5,842	4,373
Net interest income after provision for loan losses	42,683	39,454
OTHER OPERATING INCOME		
Fiduciary compensation	56,849	42,330
Bank card fees	5,739	6,008
Other	11,461	11,101
Total other operating income	74,049	59,439
Income before other operating expenses	116,732	98,893
OTHER OPERATING EXPENSES		
Compensation	40,282	35,199
Other personnel costs	6,040	5,658
Occupancy, net	6,590	5,486
Equipment	7,208	5,752
Other	25,774	20,944
Total other operating expenses	85,894	73,039
Income before income taxes	30,838	25,854
Income taxes	10,818	9,673
Net Income	$20,020	$16,181
Earnings per Share:		
Primary	$ .54	$ .45
Fully diluted	.51	.41
Average Shares Outstanding (in thousands)		
Primary	36,960	36,188
Fully diluted	39,713	39,686
Cash dividends declared per share	$.11	$.09

See notes to consolidated financial statements.

STATE STREET BOSTON CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income
Six Months Ended June 30,
(Dollars in thousands, except per share data)
(Unaudited)

	1987	1986
INTEREST INCOME		
Loans, including fees	$82,154	$82,639
Investment securities:		
U.S. Treasury and Federal agencies	46,018	44,677
State and municipal	8,238	8,969
Other investments	11,026	5,169
Trading account assets	834	3,142
Deposits with banks	34,208	35,383
Federal funds sold and securities purchased under resale agreements	26,687	20,657
Total interest income	209,165	200,636
INTEREST EXPENSE		
Deposits	59,440	64,382
Short-term borrowings	43,902	46,248
Long-term debt	5,688	2,860
Total interest expense	109,030	113,490
Net interest Income	100,135	87,146
Provision for loan losses	11,450	8,541
Net interest income after provision for loan losses	88,6[illegible]5	78,605
OTHER OPERATING INCOME		
Fiduciary compensation	108,472	78,648
Bank card fees	11,461	10,923
Other	27,816	22,641
Total other operating income	147,749	112,212
Income before other operating expenses	236,434	190,817
OTHER OPERATING EXPENSES		
Compensation	83,102	67,355
Other personnel costs	11,924	10,950
Occupancy, net	14,004	11,003
Equipment	13,808	10,763
Other	50,841	38,796
Total other operating expenses	173,679	138,867
Income before income taxes	62,755	51,950
Income taxes	22,818	19,540
Net Income	$39,937	$32,410
EARNINGS PER SHARE:		
Primary	$1.08	$0.90
Fully diluted	1.02	0.83
EARNINGS PER SHARE:		
Primary	36,889	36,008
Fully diluted	39,715	39,676
Cash dividends declared per share	0.21	0.17

See notes to consolidated financial statements

STATE STREET BOSTON CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Financial Position
Six months ended June 30,
(Dollars in thousands)
(Unaudited)

	1987	1986
SOURCE OF FUNDS		
From Operations:		
Net Income	$ 39,937	$ 32,410
Provision for loan losses	11,450	8,541
Deferred taxes	5,191	6,578
Depreciation and amortization	7,624	5,892
Total funds from Operations	64,202	53,421
Issuance of common stock	9,898	5,494
Increase in:		
Short-term borrowings	566,358	417,094
Other liabilities	62,461	
Decrease in:		
Cash and due from banks	639,430	
Interest-bearing deposits with banks	10,587	89,333
Trading account assets	14,496	113,929
Loans, net	30,195	114,096
Total Source of Funds	$1,397,627	$793,367
USE OF FUNDS		
Cash dividends declared	$ 7,469	$ 5,878
Conversions and payments of long-term debt	9,943	3,839
Increase in:		
Cash and due from banks		77,134
Investment securities	270,098	202,009
Federal funds sold and securities purchased under resale agreements	258,000	210,013
Premises and equipment	12,620	27,722
Other assets	54,625	13,857
Decrease in:		
Deposits	784,872	222,480
Other liabilities		30,435
Total Use of Funds	$1,397,627	$ 793,367

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note A - Basis of Presentation

The consolidated financial statements include the accounts of State Street Boston Corporation ("State Street") and its subsidiaries, including its principal subsidiary, State Street Bank and Trust Company. All significant intercompany transactions have been eliminated upon consolidation. State Street's investment in its 50% owned affiliate, Boston Financial Data Services, Inc., is accounted for on the equity method.

In the opinion of management, all adjustments consisting of normal recurring accruals which are necessary for a fair presentation of the financial position of State Street at June 30, 1987, and December 31, 1986, and the results of its operations for the three and six month periods ended June 30, 1987 and 1986 have been made. These statements should be read in conjunction with the financial statements, notes and other information included in the Company's latest annual report on form 10-K. Certain amounts have been reclassified to conform to the 1987 method of presentation. Average number of shares and per share amounts for prior periods have been restated to reflect the two-for-one common stock split distributed on August 5, 1986.

Note B - Investment Securities

Investment securities consisted of the following:

(Dollars in thousands)	June 30, 1987		December 31, 1986	
	Cost	Market	Cost	Market
U.S. Treasury and Federal agencies	$1,269,892	$1,265,405	$1,046,230	$1,065,117
State and municipal	275,371	275,647	287,354	290,334
Other	346,200	338,159	288,893	288,865
	$1,891,463	$1,879,211	$1,622,477	$1,644,316

Note C - Allowance for Loan Losses

The adequacy of the allowance for loan losses is evaluated on a regular basis by management. Factors considered in evaluating the adequacy of the allowance include previous loss experience, current economic conditions and their effect on borrowers, and the performance of individual credits in relation to contract terms. The provision for loan losses charged to operating expense is based upon management's judgement of the amount necessary to maintain the allowance at levels adequate to absorb probable losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note C - Allowance for Loan Losses (continued)

Changes in the allowance for loan losses, including amounts applicable to bank and non-bank subsidiaries, for the three and six month periods ended June 30, 1987 and 1986, were as follows:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	1987	1986	1987	1986
Beginning Balance	$44,273	$37,917	$42,355	$36,214
Provision for loan losses	5,842	4,373	11,450	8,541
Loans charged off	(5,046)	(4,388)	(10,067)	(8,208)
Recoveries previously charged off	925	1,092	2,096	2,315
Foreign currency translation	25	174	185	306
Ending Balance	$46,019	$39,168	$46,019	$39,168

Note D - Income Taxes

The provision for income taxes in the accompanying consolidated statements of income include deferred income taxes arising as a result of reporting certain items of income and expense in different years for tax and financial reporting purposes. Investment tax credits are accounted for on the deferral method, under which tax benefits are recognized ratably over the lives of the assets acquired. Tax expense of $38,000 and $ 71,000 from securities gains and losses, net for the three month periods ending June 30, 1987 and 1986, respectively, and tax expense of $101,000 and $ 84,000 for the six month periods ending June 30, 1987 and 1986, respectively, are included in the provision for income taxes. State Street and its domestic subsidiaries file a consolidated federal income tax return.

The provision for income taxes is comprised of the following for the three month and six month periods ended June 30:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	1987	1986	1987	1986
Current	$ 8,349	$7,065	$17,627	$12,962
Deferred	2,469	2,608	5,191	6,578
	$10,818	$9,673	$22,818	$19,540

The provision for income taxes for the three month and six month periods ended June 30, 1987 and 1986 is less than the amounts computed by applying the U.S. Federal income tax rates of 40% and 46% to income before taxes for 1987 and 1986, respectively. This is due primarily to the effects of tax exempt interest income, and the amortization of investment tax credits. These reductions in the provision for income taxes are partially offset by state income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note E - Other Income

The following items are included in the "other" category of other operating income for the three and six month periods ended June 30, 1987 and 1986:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	1987	1986	1987	1986
Service fees	$ 3,829	$ 3,534	$ 8,244	$ 6,892
Foreign exchange trading	3,172	3,189	8,196	6,570
Correspondent service fees	2,173	2,214	4,275	4,311
Trading gains (losses), net	135	(253)	1,089	269
Securities gains(losses), net	106	136	239	160
Other	2,046	2,281	5,773	4,439
	$11,461	$11,101	$27,816	$22,641

Note F - Other Expenses

The following items are included in the "other" category of other operating expenses for the three and six month periods ended June 30, 1987 and 1986:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	1987	1986	1987	1986
External contract services	$ 5,037	$ 3,907	$10,459	$ 7,558
Postage, stationery and supplies	2,940	2,827	5,749	5,546
Telecommunications	2,632	2,161	5,046	3,653
Professional fees	3,326	2,334	5,739	4,035
Insurance	1,925	1,343	4,018	2,697
Advertising and customer contact	2,404	2,072	4,385	3,562
Other	7,510	6,300	15,445	11,745
	$25,774	$20,944	$50,841	$38,796

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note G - Commitments and Contingent Liabilities

The financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business. These include commitments to extend credit, letters of credit, guarantees and foreign exchange contracts.

On April 19, 1983, counsel for Union National Bank, a subsidiary of State Street which was sold to The Conifer Group, Inc. on December 30, 1983, received a letter from the Environmental Protection Agency stating the intention of the EPA to make expenditures under the federal so-called "Superfund" Act toward the cleanup of a site owned by Silresim Chemical Corporation, to which Union had made secured loans from 1970 to 1976. In its letter, the EPA states that under the Act responsible parties may be liable for money expended by the government to take necessary corrective actions at the site and asserted that the EPA had determined Union to be an owner or operator of the site and is therefore a responsible party. Under the "Superfund" Act, an owner or operator may be liable for the total costs of the cleanup of the site and other damages which are indeterminate at this time. Union has denied that it is or ever was an owner or operator of the site. Under the terms of the agreement relating to the sale of Union, State Street agreed to indemnify The Conifer Group, Inc. for any costs which they may incur in this matter. In the opinion of management, this action can be successfully defended or resolved without material adverse effect on the financial position of State Street.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note H - Earnings Per Common Share

The computation of earnings per common share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during each period. The computation of fully diluted earnings per share is based on the assumption that the convertible capital notes and debentures had been converted as of the beginning of each year with the elimination of related interest expense less income tax effect. The computation of earnings per share is as follows:

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	1987	1986	1987	1986
Primary				
Average shares outstanding	39,960,031	36,187,520	36,889,159	36,008,248
Net income	$20,020	$16,181	$39,937	$32,410
Earnings per share	.54	.45	1.08	.90
Fully Diluted				
Average shares outstanding	36,964,934	36,261,400	36,889,276	36,143,816
Assuming conversion of 5% convertible capital notes due 1994 and 7 3/4% convertible subordinated debentures due 2008	2,748,487	3,424,876	2,825,611	3,532,008
Average shares fully diluted basis	39,713,421	39,686,276	39,714,887	39,675,824
Net income	$20,020	$16,181	$39,937	$32,410
Elimination of interest on 5% convertible capital notes due 1994 and 7 3/4% convertible subordinated debentures due 2008 less related income tax effect	267	353	599	715
Net income on fully diluted basis	$20,287	$16,534	$40,536	$33,125
Earnings per share	.51	.41	1.02	.83

Ernst & Whinney

200 Clarendon Street
Boston, Massachusetts 02116

617/266-2000

To the Stockholders and
Board of Directors
State Street Boston Corporation
Boston, Massachusetts

We have made a review of the consolidated statement of condition of State Street Boston Corporation and subsidiaries as of June 30, 1987, and the consolidated statements of income for the three-month and six-month periods ended June 30, 1987 and 1986, and the consolidated statements of changes in financial position for the six-month periods ended June 30, 1987 and 1986, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We previously examined, in accordance with generally accepted auditing standards, the consolidated statement of condition as of December 31, 1986 (presented herein) and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the year then ended (not presented herein); and in our report dated January 13, 1987, we expressed an unqualified opinion on those consolidated financial statements.

Ernst & Whinney
ERNST & WHINNEY

Boston Massachusetts
July 15, 1987

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Summary

Second quarter earnings per share were $.51 on a fully diluted basis, up 24% from $ .41 per share in the second quarter of 1986. Net income for the quarter was $20.0 million, up from $16.2 million in 1986's second quarter. The earnings gain resulted primarily from strong growth in fee income, partially offset by increased operating expenses and a higher provision for loan losses. Fee income increased to 60% of taxable equivalent income before operating expenses. Return on average stockholders' equity was 19.1%.

The following table sets forth the components of the income statement, with net interest income expressed on a taxable equivalent basis:

Condensed Income Statements
Taxable equivalent basis
(in millions of dollars, except per share data)

	Three Months Ended June 30				Six Months Ended June 30			
	1987	1986	Change	%	1987	1986	Change	%
Net interest income	$55.4	$52.4	$ 3.0	6	$113.5	$105.1	$ 8.3	8
Provision for loan losses	5.8	4.4	1.5	34	11.5	8.5	2.9	34
Other operating income	74.0	59.4	14.6	25	147.7	112.2	35.5	32
Other operating expense	85.9	73.0	12.9	18	173.7	138.9	34.8	25
Income before income taxes	37.7	34.4	3.3	10	76.1	69.9	6.2	9
Income taxes	10.8	9.7	1.1	12	22.8	19.5	3.3	17
Taxable equivalent adjustment	6.9	8.5	(1.7)	(20)	13.3	18.0	(4.7)	(26)
Net income	$20.0	$16.2	$ 3.8	24	$ 39.9	$ 32.4	$ 7.5	23
Per Share Primary	$ .54	$ .45	$ .09	20	$ 1.08	$ .90	$ .18	20
Per Share Fully Diluted	.51	.41	.10	24	1.02	$ .83	.19	23

($ and % change based on dollars in thousands)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net Interest Income

Taxable equivalent net interest income of $55.4 million was up $3.0 million, or 6% over 1986's second quarter. The improvement resulted from growth of assets and liabilities. Noninterest-bearing deposits increased 14%, principally due to the activity and growth in the securities processing businesses. The benefits of balance sheet growth were partially offset by the negative effect of lower interest rates and a narrower spread between interest rates earned and paid.

During the six month period ending June 30, taxable equivalent net interest income was $113.5 million, up $8.3 million or 8% over 1986, for the same reasons.

Other Operating Income

Other operating income of $74.0 million, was up $14.6 million or 25% over the second quarter of 1986. The largest component of other operating income, fiduciary compensation, was $56.8 million, up 34%. Fiduciary compensation includes fee income from mutual fund, master trust, global custody and personal trust services, and from investment management for institutions. Global custody and mutual fund services provided particularly large dollar increases. Fee income for global custody services was more than twice that of a year ago as a result of new business and additional assets from current clients.

Substantial new business was installed during the second quarter. Domestic master trust/master custody assets rose 22% in the quarter to $133.1 billion, due in large part to the installation of California State Teachers' Retirement System in early April. During the quarter, the number of mutual funds serviced increased by 85, bringing the total to 978.

For the six month period ending June 30, other operating income was $147.7 million, up $35.5 million or 32% over 1986. Fiduciary compensation was $108.5 million, up 38%. As of June 30, total assets under custody were $531.2 billion, up from $440.8 billion at year-end.

Other Operating Expenses

Other operating expenses of $85.9 million were up $12.9 million, or 18% over 1986's second quarter. The increase was mainly from additional people, services, computer equipment, and office space supporting business growth.

For the six month period ending June 30, other operating expenses were up 25%, for the same reasons.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

Loan Quality

The provision for loan losses charged to income was $5.8 million, an increase of $1.5 million from the second quarter of 1986. Net charge-offs during the quarter were $4.1 million reflecting in part the expansion of the credit card portfolio which began in May of 1985. The allowance for loans losses increased to $46.0 million, equal to 2.16% of loans at June 30, 1987. Non-performing loans declined to $11.0 million, or .52% of ending loans.

During the quarter, the company s loans to Chile were sold, reducing the Latin American credit exposure to $10.8 million. The credit quality of State Street's Latin American loans had already been recognized in setting the level of the allowance for loan losses. Accordingly, no special provision was made for Latin American debt during the second quarter.

Loan Ratios	1987		1986			
	2Q	1Q	4Q	3Q	2Q	1Q
Net charge-offs to average loans	0.79%	0.78%	0.73%	0.58%	0.70%	0.55%
Allowance to ending loans	2.16	2.23	1.95	2.10	2.05	1.95
Non-performing loans to ending loans	0.52	0.60	0.43	0.26	0.35	0.35

Capital and Liquidity

The Corporation is well capitalized for its current operations and continues to generate capital internally at a high rate. On average during the second quarter of 1987, State Street's primary capital ratio increased to 6.7%, which compares favorably with the minimum regulatory requirement of 5.5%. In the same period, the Corporation's total capital ratio was 8.1%. Equity capital continues to grow primarily from the retention of earnings. In the second quarter of 1987 capital was generated internally at 15.3%.

Liquidity is provided from maturing investments, the large portfolio of marketable investments, payments on loans, and through access to borrowed funds and deposits. Money market instruments and investment securities were 63% of average interest-earning assets for the second quarter, providing substantial liquidity. These assets have less credit risk and more marketability than loan assets. The relatively short maturity structure of State Street's assets also enhances its liquidity.

Part II - Other Information

Legal Proceedings

Reference is made to Note G to Consolidated Financial Statements on page 7.

Changes in Securities

None

Defaults Upon Senior Securities

None

Other Information

None

Exhibits and Reports on Form 8-K

No reports on Form 8K were filed during the quarter.

Additional Exhibits

Exhibit 28

Filed herewith: 28.1 Acknowledgement letter for report on unaudited financial information.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STATE STREET BOSTON CORPORATION

Date: August 12, 1987 By: ______________________
David A. Spina
Executive Vice President & Treasurer

Date: August 12, 1987 By: ______________________
Rex S. Schuette
Senior Vice President & Comptroller

Ernst & Whinney

200 Clarendon Street
Boston, Massachusetts 02116
Exhibit 28.1
617/266-2000

State Street Boston Corporation

We acknowledge the use of our report on the interim financial statements of State Street Boston Corporation for the interim period ended June 30, 1987, which is incorporated by reference in Registration Statement Number 33-9499 on Form S-3 dated October 24, 1986, in Registration Statement Number 33-2882 on Form S-8 dated January 23, 1986, in Registration Statement Number 2-93157 on Form S-8 dated September 7, 1984, in Registration Statement Number 2-88641 on Form S-8 dated December 22, 1983, in Registration Statement Number 2-68698 on Form S-8 dated July 30, 1980 and in Post-Effective Amendment Number 2 to Registration Statement Number 2-68696 on Form S-8 dated July 26, 1983.

Ernst & Whinney
ERNST & WHINNEY

Boston, Massachusetts
July 15, 1987

T R A N S U N I O N L E A S I N G

CONSOLIDATING BALANCE SHEET ASSETS - US$
JUNE 1987

	TULC	LEPESKA	TUVLC	ELIMINATIONS	TOTAL	LAST YEAR
CURRENT ASSETS						
Cash	17,089,667.67	.00	88,471.42	.00	17,178,139.09	30,111,865.41
Accounts Receivable	2,315,714.66	.00	525,041.87	.00	2,840,756.53	4,201,530.71
Interco Receivable-TUFC/TULC	5,150,850.95	5,867,002.96	10,590,326.36	(16,162,170.23)	5,446,010.04	7,938,101.57
Interco Receivable	5,251,513.16	.00	.00	.00	5,251,513.16	9,110,658.86
Interco Rec-ITC Deferred	2,493,680.69	.00	.00	.00	2,493,680.69	2,493,680.69
Farm Out, Net	508,624.09	.00	.00	.00	508,624.09	903,526.06
Total Current Assets	32,810,051.22	5,867,002.96	11,203,839.65	(16,162,170.23)	33,718,723.60	54,759,363.30
EQUIP UNDER LEASE OR CONTRACT						
Cost of Equipment-Finance	79,569,904.68	.00	1,104,190.00	.00	80,674,094.68	121,196,709.33
Accumulated Depreciation	(49,016,133.29)	.00	(591,379.71)	.00	(49,607,513.00)	(72,692,898.82)
Net	30,553,771.39	.00	512,810.29	.00	31,066,581.68	48,503,810.51
Cost of Equipment-Operating	4,430,850.92	.00	1,924,992.06	.00	6,355,842.98	8,663,711.03
Accumulated Depreciation	(672,212.62)	.00	(371,055.64)	.00	(1,043,268.26)	(37,687.33)
Net	3,758,638.30	.00	1,553,936.42	.00	5,312,574.72	8,626,023.70
Cost of Equipment-Renewals	2,264,197.42	.00	.00	.00	2,264,197.42	2,809,634.90
Accumulated Depreciation	(1,855,993.69)	.00	.00	.00	(1,855,993.69)	(2,045,077.62)
Net	408,203.73	.00	.00	.00	408,203.73	764,557.28
Install Sales Contract Rec'ble	16,793,920.59	.00	6,975,419.10	.00	23,769,339.69	37,546,049.78
Install Sale Unearned Income	(4,564,332.61)	.00	(2,399,127.37)	.00	(6,963,459.98)	(11,696,359.58)
Net	12,229,587.98	.00	4,576,291.73	.00	16,805,879.71	25,849,690.20
Residual Value, Disc. Leases	.00	.00	.00	.00	.00	.00
Net Equity, Leveraged Leases	94,623.71	.00	.00	.00	94,623.71	332,690.10
Notes Receivable	130,379.39	.00	4,844,567.45	.00	4,974,946.84	156,382.39
Equipment at Cost-In Process	.00	.00	.00	.00	.00	1,126.22
Off-lease Equipment, NBV	809,537.76	.00	250,000.00	.00	1,059,537.76	1,870,794.72
Total Net Equipment	47,984,742.26	.00	11,737,605.89	.00	59,722,348.15	86,105,075.12
OTHER ASSETS						
Prepaid Expenses	31,875.00	.00	.00	.00	31,875.00	4,034.41
Investment in Subsidiaries	6,736,174.28	.00	.00	(6,736,174.28)	.00	.00
Unamortized Debt Expense	42,706.41	.00	.00	.00	42,706.41	192,946.64
Total	6,810,755.69	.00	.00	(6,736,174.28)	74,581.41	196,981.05
Office Equipment, at Cost	425,593.86	.00	.00	.00	425,593.86	429,196.57
Accumulated Depreciation	(404,444.28)	.00	.00	.00	(404,444.28)	(384,206.28)
Net Book Value	21,149.58	.00	.00	.00	21,149.58	44,990.29
TOTAL ASSETS	87,626,698.75	5,867,002.96	22,941,445.54	(22,898,344.51)	93,536,802.74	141,106,409.76

TRANS UNION LEASING

CONSOLIDATING BALANCE SHEET — LIABILITIES & EQUITY - US$
JUNE 1987

	TULC	LEPESKA	TUVLC	ELIMINATIONS	TOTAL	LAST YEAR
CURRENT LIABILITIES						
Accounts Payable	797,058.64	.00	485.76	.00	797,544.40	1,391,807.89
Accrued Expenses	210,727.03	.00	.00	.00	210,727.03	342,329.51
Intercompany Payables	290,390.07	.00	.00	.00	290,390.07	41,694.89
Interest Payable-External	354,070.03	.00	.00	.00	354,070.03	1,732,452.64
Federal Income Taxes-Current	895,010.00	.00	(213,850.13)	.00	681,159.87	.25
Total Current Liabilities	2,547,255.77	.00	(213,364.37)	.00	2,333,891.40	3,508,285.18
BORROWED DEBT						
Commercial Paper	.00	.00	.00	.00	.00	.00
Bank Line	.00	.00	.00	.00	.00	.00
Other Senior	10,413,000.00	.00	.00	.00	10,413,000.00	36,605,999.73
Subordinated	2,000,000.00	.00	.00	.00	2,000,000.00	16,500,000.00
Total Outside Debt	12,413,000.00	.00	.00	.00	12,413,000.00	53,105,999.73
Intercompany-TUFC/TULC	.00	.00	16,162,170.23	(16,162,170.23)	.00	.00
Total Intercompany	.00	.00	16,162,170.23	(16,162,170.23)	.00	.00
Total Borrowed Debt	12,413,000.00	.00	16,162,170.23	(16,162,170.23)	12,413,000.00	53,105,999.73
RESERVES						
Insurance	76,432.66	.00	13,281.37	.00	89,714.03	239,809.60
Valmont Bonus Commissions	229,923.75	.00	.00	.00	229,923.75	234,306.39
Allowance For Losses	10,757,898.26	.00	6,749,059.89	.00	17,506,958.15	20,643,714.40
Total Reserves	11,064,254.67	.00	6,762,341.26	.00	17,826,595.93	21,117,830.39
DEFERRED ITEMS						
Federal Income Taxes	(2,427,138.00)	.00	(737,068.44)	.00	(3,164,206.44)	466,179.99
State Income Taxes - Deferred	791,952.39	54,465.76	11,335.42	.00	857,753.57	667,199.09
Investment Tax Credit	145,231.74	.00	32,392.13	.00	177,623.87	382,162.12
Security Deposits	1,380,555.78	.00	.00	.00	1,380,555.78	1,791,747.54
Total Deferred Items	(109,398.09)	54,465.76	(693,340.89)	.00	(748,273.22)	3,307,288.74
EQUITY						
Common Stock	100.00	66,000.00	1,000.00	(67,000.00)	100.00	100.00
Additional Capital	57,193,510.24	4,537,439.09	3,399,434.09	(7,936,873.18)	57,193,510.24	57,193,510.24
Retained Earnings	4,517,976.16	1,209,098.11	(2,476,794.78)	1,267,698.90	4,517,978.39	2,873,395.48
Total Equity	61,711,586.40	5,812,537.20	923,639.31	(6,736,174.28)	61,711,588.63	60,067,005.72
TOTAL LIABILITIES & EQUITY	87,626,698.75	5,867,002.96	22,941,445.54	(22,898,344.51)	93,536,802.74	141,106,409.76

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T R A N S   U N I O N   L E A S I N G

CONSOLIDATING INCOME STATEMENT - YEAR TO DATE
JUNE 1987
US$

	CAPTIVE	C&I	AGRICULTURAL	MEDICAL	CONTROLLERS	TULC
OPERATING REVENUE						
Lease Rental Revenue	174,416.40	4,217,532.52	2,733,336.61	695,104.69	.00	7,820,390.22
I.T.C. Amortization	.00	12,024.46	73,590.18	408.53	.00	86,023.17
Installment Sales Revenue	165,370.05	1,594,481.19	189,178.29	28,904.16	.00	1,977,933.69
Interest Income	.00	346,424.71	.00	.00	.00	346,424.71
No Income	.00	982,050.67	(284,571.07)	7,894.42	.00	705,374.02
Total Revenue	339,786.45	7,152,513.55	2,711,534.01	732,311.80	.00	10,936,145.81
Depreciation on Leased Equip.	113,570.08	2,661,091.84	2,161,857.52	479,885.38	.00	5,416,404.82
Principal Repayments on I/S	89,097.99	902,512.80	220,812.62	19,619.27	.00	1,232,042.68
FASB #17 Amortization	.00	32,966.20	8,474.01	.00	.00	41,440.21
Total	202,668.07	3,596,570.84	2,391,144.15	499,504.65	.00	6,689,887.71
Earned Income	137,118.38	3,555,942.71	320,389.86	232,807.15	.00	4,246,258.10
OTHER INCOME						
Gain(Loss) Early Terminations	.00	181,703.92	20,286.45	12,288.91	.00	214,279.28
Gain(Loss) Lease Expirations	.00	(20,532.72)	293,392.51	4,950.34	.00	277,810.13
Provision for Losses	.00	(507,023.24)	(99,401.98)	(698.01)	.00	(607,123.23)
Miscellaneous	(2,005.68)	688.50	44,896.58	35,658.15	.00	79,237.55
Total	(2,005.68)	(345,163.54)	259,173.56	52,199.39	.00	(35,796.27)
Gross Revenue	135,112.70	3,210,779.17	579,563.42	285,006.54	.00	4,210,461.83
OPERATING EXPENSES						
Interest Expense	19,737.08	356,[illegible].34	110,673.94	16,706.17	.00	504,005.53
Commissions	.00	5,[illegible].88	42,502.45	.00	.00	47,991.33
Total	19,737.08	362,377.22	153,176.39	16,706.17	.00	551,996.86
Gross Income	115,375.62	2,848,401.95	426,387.03	268,300.37	.00	3,658,464.97
INDIRECT EXPENSES						
Salaries & Fringes	.00	.00	.00	.00	485,337.17	485,337.17
Other G & A	.00	163,418.97	98,002.24	4,686.16	413,487.36	679,594.73
Total	.00	163,418.97	98,002.24	4,686.16	898,824.53	1,164,931.90
Income Before Tax	115,375.62	2,684,982.98	328,384.79	263,614.21	(898,824.53)	2,493,533.07
PROVISION FOR INCOME TAXES						
Current - FIT	44,208.00	1,018,399.00	83,629.00	99,113.00	(350,339.00)	895,010.00
Deferred - FIT	.00	.00	.00	.00	148,967.47	148,967.47
Deferred - SIT	4,869.00	120,962.00	45,954.00	15,192.00	(22,977.00)	164,000.00
Total	49,077.00	1,139,361.00	129,583.00	114,305.00	(224,348.53)	1,207,977.47
NET INCOME	66,298.62	1,545,621.98	198,801.79	149,309.21	(674,476.00)	1,285,555.60

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TRANS UNION LEASING

CONSOLIDATING INCOME STATEMENT - YEAR TO DATE
JUNE 1987

US$

	LEPESKA	TUVLC	ELIMINATIONS	TOTAL	LAST YEAR
OPERATING REVENUE					
Lease Rental Revenue	.00	303,565.81	.00	8,123,956.03	12,534,739.77
I.T.C. Amortization	.00	7,333.33	.00	93,356.50	129,225.18
Installment Sales Revenue	.00	(428,754.77)	.00	1,549,178.92	4,095,340.74
Interest Income	.00	.00	.00	346,424.71	894,955.84
No Income	.00	13,227.71	.00	718,601.73	(2,457,653.43)
Total Revenue	.00	(104,627.92)	.00	10,831,517.89	15,196,608.10
Depreciation on Leased Equip.	.00	269,059.85	.00	5,685,464.67	8,823,909.09
Principal Repayments on I/S	.00	(202,219.53)	.00	1,029,823.15	2,466,871.85
FASB #17 Amortization	.00	.00	.00	41,440.21	78,217.71
Total	.00	66,840.32	.00	6,756,728.03	11,368,998.65
Earned Income	.00	(171,468.24)	.00	4,074,789.86	3,827,609.45
OTHER INCOME					
Gain(Loss) Early Terminations	.00	.00	.00	214,278.28	(104,890.32)
Gain(Loss) Lease Expirations	.00	.00	.00	277,810.13	273,357.24
Provision for Losses	.00	(710,242.39)	.00	(1,317,365.62)	753,549.45
Miscellaneous	.00	623,914.59	.00	703,152.14	227,331.83
Total	.00	(86,327.80)	.00	(122,124.07)	1,149,348.20
Gross Revenue	.00	(257,796.04)	.00	3,952,665.79	4,976,957.65
OPERATING EXPENSES					
Interest Expense	.00	114,461.18	.00	618,466.71	2,745,739.10
Commissions	.00	.00	.00	47,991.33	62,093.81
Total	.00	114,461.18	.00	666,458.04	2,807,832.91
Gross Income	.00	(372,257.22)	.00	3,286,207.75	2,169,124.74
INDIRECT EXPENSES					
Salaries % Fringes	.00	.00	.00	485,337.17	415,193.53
Other G & A	.00	155,033.71	.00	834,628.44	536,018.39
Total	.00	155,033.71	.00	1,319,965.61	951,211.92
Income Before Taxes	.00	(527,290.93)	.00	1,966,242.14	1,217,912.82
PROVISION FOR INCOME TAXES					
Current - FIT	.00	(213,850.13)	.00	681,159.87	466,179.99
Deferred - FIT	.00	(34,667.16)	.00	114,300.31	(3,443.15)
Deferred - SIT	.00	.00	.00	164,000.00	82,734.20
Total	.00	(248,517.29)	.00	959,460.18	545,471.04
NET INCOME	.00	(278,773.64)	.00	1,006,781.96	672,441.78

TRANS UNION LEASING

CONSOLIDATING INCOME STATEMENT - CURRENT MONTH
JUNE 1987
US$

	CAPTIVE	C&I	AGRICULTURAL	MEDICAL	CONTROLLERS	TULC
OPERATING REVENUE						
Lease Rental Revenue	42,193.48	676,637.20	161,197.53	117,091.39	.00	997,119.60
I.T.C. Amortization	.00	1,722.05	11,386.50	48.47	.00	13,157.02
Installment Sales Revenue	40,534.43	234,764.86	3,600.00	4,817.36	.00	283,716.65
Interest Income	.00	85,602.94	.00	.00	.00	85,602.94
No Income	.00	577,513.75	31,373.93	(1,128.49)	.00	607,759.19
Total Revenue	82,727.91	1,576,240.80	207,557.96	120,828.73	.00	1,987,355.40
Depreciation on Leased Equip.	31,297.89	412,262.23	78,740.80	70,209.27	.00	592,510.19
Principal Repayments on I/S	22,337.56	143,402.56	36,529.56	3,404.61	.00	205,674.29
FASB #17 Amortization	.00	4,685.04	1,302.41	.00	.00	5,987.45
Total	53,635.45	560,349.83	116,572.77	73,613.88	.00	804,171.93
Earned Income	29,092.46	1,015,890.97	90,985.19	47,214.85	.00	1,183,183.47
OTHER INCOME						
Gain(Loss) Early Terminations	.00	6,896.03	8,424.03	.00	.00	16,634.21
Gain(Loss) Lease Expirations	.00	.00	(3,605.07)	7,665.63	.00	4,060.56
Provision for Losses	.00	(557,733.58)	(78,186.49)	(93.41)	.00	(636,013.48)
Miscellaneous	(2,190.08)	344.17	20,137.84	8,616.18	.00	26,908.11
Total	(2,190.08)	(550,493.38)	(53,229.69)	16,188.40	.00	(588,410.60)
Gross Revenue	26,902.38	465,397.59	37,755.50	63,403.25	.00	594,772.87
OPERATING EXPENSES						
Interest Expense	6,014.64	51,260.56	15,883.60	2,314.31	.00	75,473.11
Commissions	.00	856.98	6,691.06	.00	.00	7,548.04
Total	6,014.64	52,117.54	22,574.66	2,314.31	.00	83,021.15
Gross Income	20,887.74	413,280.05	15,180.84	61,088.94	.00	511,751.72
INDIRECT EXPENSES						
Salaries & Fringes	.00	.00	.00	.00	78,879.27	78,879.27
Other G & A	.00	8,024.11	26,588.81	57.25	54,050.98	88,721.15
Total	.00	8,024.11	26,588.81	57.25	132,930.25	167,600.42
Income Before Taxes	20,887.74	405,255.94	(11,407.97)	61,031.69	(132,930.25)	344,151.30
PROVISION FOR INCOME TAXES						
Current - FIT	7,547.00	137,862.00	(24,076.00)	20,997.00	(53,172.00)	89,158.00
Deferred - FIT	.00	.00	.00	.00	(55,715.22)	(55,715.22)
Deferred - SIT	2,034.00	52,879.00	37,626.00	9,152.00	.00	101,691.00
Total	9,581.00	190,741.00	13,550.00	30,149.00	(108,887.22)	135,133.78
NET INCOME	11,306.74	214,5[illegible].94	(24,957.97)	30,882.69	(24,043.03)	209,017.52

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TRANS UNION LEASING

CONSOLIDATING INCOME STATEMENT - CURRENT MONTH
JUNE 1987

US$

	LEPESKA	TUVLC	ELIMINATIONS	TOTAL	LAST MONTH
OPERATING REVENUE					
Lease Rental Revenue	.00	41,823.16	.00	1,038,942.76	1,218,820.47
I.T.C. Amortization	.00	1,171.06	.00	14,328.08	14,817.29
Installment Sales Revenue	.00	74,990.51	.00	358,707.16	(767,727.84)
Interest Income	.00	.00	.00	85,602.94	70,683.74
No Income	.00	.00	.00	607,759.19	485,936.79
Total Revenue	.00	117,984.73	.00	2,105,340.13	1,022,530.45
Depreciation on Leased Equip.	.00	40,663.01	.00	633,173.20	896,818.51
Principal Repayments on I/S	.00	67,253.78	.00	272,928.07	(558,325.76)
FASB #17 Amortization	.00	.00	.00	5,987.45	6,343.01
Total	.00	107,916.79	.00	912,088.72	344,835.76
Earned Income	.00	10,067.94	.00	1,193,251.41	677,694.69
OTHER INCOME					
Gain(Loss) Early Terminations	.00	.00	.00	16,634.21	157,590.86
Gain(Loss) Lease Expirations	.00	.00	.00	4,060.56	54,841.56
Provision for Losses	.00	(2,910.23)	.00	(638,923.71)	(709,416.23)
Miscellaneous	.00	50.00	.00	26,958.11	494,954.95
Total	.00	(2,860.23)	.00	(591,270.83)	(2,028.86)
Gross Revenue	.00	7,207.71	.00	601,980.58	675,665.83
OPERATING EXPENSES					
Interest Expense	.00	18,565.80	.00	94,038.91	94,045.73
Commissions	.00	.00	.00	7,548.04	7,770.01
Total	.00	18,565.80	.00	101,586.95	101,815.74
Gross Income	.00	(11,358.09)	.00	500,393.63	573,850.09
INDIRECT EXPENSES					
Salaries & Fringes	.00	.00	.00	78,879.27	75,309.45
Other G & A	.00	6,942.44	.00	95,663.59	96,950.77
Total	.00	6,942.44	.00	174,542.86	172,260.22
Income Before Taxes	.00	(18,300.53)	.00	325,850.77	401,589.87
PROVISION FOR INCOME TAXES					
Current - FIT	.00	(7,789.00)	.00	81,369.00	158,849.16
Deferred - FIT	.00	57,715.22	.00	2,000.00	62,300.31
Deferred - SIT	.00	.00	.00	101,691.00	(9,857.11)
Total	.00	49,926.22	.00	185,060.00	211,292.36
NET INCOME	.00	(68,226.75)	.00	140,790.77	190,297.51

TRANS UNION LEASING CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1986 AND 1985

with

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Arthur Young

One IBM Plaza
Chicago, Illinois 60611
Telephone: (312) 645-3000
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The Board of Directors
Trans Union Leasing Corporation

We have examined the accompanying consolidated balance sheet of Trans Union Leasing Corporation and Subsidiaries at December 31, 1986 and 1985, and the related consolidated statements of operations and retained earnings and changes in financial position for the year then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Trans Union Leasing Corporation and Subsidiaries at December 31, 1986 and 1985 and the consolidated results of operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

February 28, 1987

TRANS UNION LEASING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31, 1986 and 1985

(Dollars in thousands)

	1986	1985
Earned income on direct financing leases and instalment contracts (Note 1C)	$ 6,922	12,728
Other operating income:		
Operating lease rental revenue (Note 1C)	894	568
Gains on disposition of residuals and on early terminations	911	2,288
Other	1,461	586
Gross operating income	10,188	16,170
Costs and expenses:		
Interest expense	4,229	5,258
Provision for possible losses (Note 1C)	1,274	23,454
Administrative expense	2,085	1,923
Depreciation expense (Note 1C)	787	896
	8,375	31,531
Income (loss) before income taxes	1,813	(15,361)
Allocation of income tax provision (benefit) (Note 1D):		
Current	4,081	5,347
Deferred	(3,236)	(12,646)
	845	(7,299)
Net income (loss)	968	(8,062)
Retained earnings at beginning of year	2,201	18,263
Cash dividend	-	(8,000)
Retained earnings at end of year	$ 3,169	2,201

See accompanying notes.

TRANS UNION LEASING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1986 and 1985

(Dollars in thousands)

	1986	1985
Source of funds:		
Operations -		
Net income (loss)	$ 968	(8,062)
Provision for losses on leases and instalment contracts	1,274	23,454
Principal repayments on leased equipment and instalment contracts	18,892	26,059
Deferred income taxes recoverable and investment tax credits	856	(4,354)
Disposition of equipment at book value	13,349	12,050
Total from operations	35,339	49,147
Proceeds from sale of reconstructed equipment	-	24,400
Decrease (increase) in advance to affiliates	927	(6,677)
Total sources of funds	36,266	66,870
Use of funds:		
Dividend paid	-	8,000
Expenditures for leased equipment and instalment contracts	1,862	716
Decrease in notes payable	44,493	28,693
Increase in cost of reconstructed equipment	-	6,112
Decrease in deposits	255	385
Other, net	4,279	4,694
Total uses of funds	50,889	48,600
(Decrease) increase in cash and equivalents	(14,623)	18,270
Cash and equivalents at beginning of year	19,671	1,401
Cash and equivalents at end of year	$ 5,048	19,671

See accompanying notes.

TRANS UNION LEASING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 1986 and 1985

(Dollars in thousands)

ASSETS	1986	1985
Cash and equivalents (Note 2)	$ 5,048	19,671
Investment in direct financing leases and instalment contracts (Notes 1C and 3):		
Total minimum payments to be received from -		
Direct financing leases	52,988	74,993
Instalment contracts	25,726	45,942
	78,714	120,935
Reserve for possible losses	(17,122)	(21,534)
Net minimum payments receivable	61,592	99,401
Unearned income	(18,705)	(33,138)
Estimated residual value	7,114	10,330
Net investment in direct financing leases and instalment contracts	50,001	76,593
Net investment in operating leases	5,634	9,086
Due from affiliates (Note 1D)	13,959	14,886
Deferred income taxes recoverable (Note 1D)	2,926	4,022
Other assets	1,210	1,095
	$ 78,778	125,353

LIABILITIES AND SHAREHOLDER'S EQUITY	1986	1985
Accounts payable and accrued expenses	$ 2,353	4,908
Deposits	1,544	1,799
Notes payable (Note 4)	14,247	58,740
Deferred investment tax credits (Note 1D)	271	511
Shareholder's equity (Note 4):		
Common stock, $1 par value; 1,000 shares authorized, 100 shares issued and outstanding	1	1
Additional capital	57,193	57,193
Retained earnings	3,169	2,201
Total shareholder's equity	60,363	59,395
	$78,778	125,353

See accompanying notes.

TRANS UNION LEASING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal accounting policies and related party transactions

A. Principles of consolidation and related party transactions:

Trans Union Leasing Corporation (TULC) is a wholly-owned subsidiary of GL Sub Co., a wholly-owned subsidiary of Marmon Holdings Inc. (MHI). The accompanying consolidated financial statements include the accounts of TULC and its wholly-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions of TULC have been eliminated.

The Company charged certain finance/lease affiliates $84,000 in both 1986 and 1985 for services provided to such companies. In addition to income taxes (see below), "Due from affiliates" includes non-interest bearing advances made to various affiliated companies.

The Company also entered into several lease transactions during 1986 which serviced the sales of affiliates.

B. Classification:

Certain 1985 items previously included in liabilities have been netted against "total minimum payments to be received from direct financing leases" to conform to the 1986 classification.

C. Accounting for leases and instalment contracts:

Direct financing leases -

The majority of the leases entered into by the Company are classified as direct financing leases. Unearned income at the inception of these leases is equal to the minimum lease payments plus estimated residual values less costs of the equipment.

When a lease becomes effective, a portion of this unearned income, equivalent to a "provision for possible losses" and "initial direct costs," is recognized in income. The remainder of unearned income is recognized in income over the life of the lease based upon the "constant yield" method or similar methods which generally results in a level rate of return on the net investment.

Instalment contracts and operating leases -

Instalment contacts are similar to direct financing leases, except that the Company does not retain legal ownership of the equipment or its residual value, and are accounted for similar to direct financing leases. The Company has rewritten certain instalment contracts basing the payment schedule on the lessees' equipment usage. In such situations, the carrying value of the instalment contract is capitalized as "net investment in operating leases" and is depreciated over the remaining useful life of the equipment. Revenues for operating leases are recognized as rentals are billed based on equipment usage or the passage of time.

Provision for possible losses -

In addition to the loss provisions recorded at the inception of leases, the Company makes periodic provisions for additional losses as deemed appropriate based on management's review of the portfolio. In 1986, this review resulted in a provision of $1.3 million. In 1985, the changing economic environment of the industries which the Company leased to, coupled with the change in composition of the Company's lease portfolio, caused the Company to make an extensive review of its portfolio resulting in a provision for possible losses of $23.4 million.

D. Federal income tax provision (benefit):

Deferred income taxes are provided on the difference between taxable and financial statement income or loss resulting from the use of different tax and financial statement accounting methods for lease transactions. For income tax purposes, direct financing leases are accounted for as operating leases, and accordingly, the asset costs are capitalized and depreciated and income is recognized as rentals are billed. In addition, deferred income taxes are recognized on the difference between financial statement and tax depreciation of the Company's assets accounted for as operating leases and certain losses.

Investment tax credits are deferred and amortized into income as "earned income" ($240,000 and $327,000 in 1986 and 1985, respectively) over the terms of the leases using the constant yield method. For tax purposes, the credits are used to reduce the Company's tax liability to the extent allowable.

The Company is included in MHI's consolidated Federal income tax return. An agreement between the Company and MHI provides that the Company will be reimbursed for investment tax credits and tax deductions utilized in MHI's consolidated income tax return. To the extent that consolidated investment tax credits and tax deductions available exceed those usable in any year, the agreement provides that the allocation of the benefits from such tax credits and deductions among the affiliated group shall be determined at the discretion of MHI. The adjustment to reflect the allocation as determined by MHI is recorded as an adjustment to the components of the Company's tax provision in the year that the allocation is made. The tax benefits of all losses recorded by the Company, other than amounts reflected in the consolidated balance sheet as "Deferred income taxes recoverable," have been allocated to the Company by MHI and the benefit of investment tax credits earned by the Company have been allocated to the Company by MHI except for $2,494,000, which amount is included in "Due from affiliates" in the 1986 consolidated balance sheet.

The agreement also provides that MHI will be paid for the Company's Federal income tax liability that is currently payable or deferred, whereupon the Company has no further obligation with respect to the deferred liability.

In 1986, certain costs previously charged against financial statement income became deductible for Federal income tax purposes, thereby reducing current Federal income taxes by $1,096,000. A charge equal to this reduction has been included in the deferred income tax amount in the 1986 consolidated statement of operations and "Deferred income taxes recoverable" in the 1986 consolidated balance sheet reflect this reduction resulting from this realized tax benefit. Also, certain timing differences, which produced reductions in prior years' Federal income taxes, reversed in 1986 resulting in a provision for current income taxes of $4,332,000. As amounts equal to prior year tax benefits had been paid to MHI, as provided for in the agreement discussed above, a like amount was credited to the deferred income tax amount in the 1986 consolidated statement of operations.

The Company's effective income tax rate of 46.6% in 1986 and 47.5% in 1985 differs from the 46% statutory rate due primarily to state income taxes net of investment tax credits.

As a member of a consolidated Federal income tax group, the Company is contingently liable for the Federal income taxes of the other members of the group.

2. Cash and equivalents

Cash and cash equivalents at December 31, 1986 and 1985 include $3.0 million and $16.7 million, respectively, of short-term investments carried at cost which approximates market. Interest income of approximately $1,320,000 and $307,000 was earned in 1986 and 1985, respectively.

3. Receivables under direct financing leases and instalment contracts

Direct financing leases and instalment contracts receivable at December 31, 1986 are due as follows (dollars in thousands):

1987	$26,811
1988	18,848
1989	15,053
1990	8,725
1991	4,549
After 1991	4,728
	$78,714

4. Notes payable

Notes payable at December 31, 1986 and 1985 consisted of the following (dollars in thousands):

	1986	1985
Senior notes payable in periodic instalments through 1992 with interest at 105% of prime rate to 10.125%, (weighted average rate of 9.57% at December 31, 1986 and 9.50% at December 31, 1985)	$11,247	40,240
Senior subordinated notes payable in periodic instalments through 1992 with interest at 9.25% (weighted average rate of 10.57% at December 31, 1985)	3,000	18,500
	$14,247	58,740

Annual maturities of notes payable during each of the next five years ending December 31 are $3,747,000 in 1987, $2,500,000 in 1988, $2,500,000 in 1989, $2,500,000 in 1990 and $2,500,000 in 1991.

In July 1986, the Company gave notice of optional prepayment under the note payable agreements to all noteholders. As a result, TULC retired $33.4 million of outstanding notes with maturity dates through 1995. No premiums or penalties were paid on retirement.

Note payable agreements contain provisions which, among other things, prohibit pledging of certain leased assets, restrict the amount of notes payable, as defined, and limit the payment of dividends and restrict other payments. At December 31, 1986, consolidated retained earnings was not restricted as to dividends. In addition, the senior subordinated debt agreement specifies that this debt is junior in right of repayment to all senior debt.

5. Retirement plans

The Company participates in a discretionary contribution retirement plan sponsored by The Marmon Corporation (a subsidiary of MHI). The retirement expense was $19,701 in 1986 and $8,258 in 1985.

6. Lease commitment

The Company leases office space under an agreement expiring in 1992. The annual base rent ($95,230) is subject to escalation as provided for in the lease. Rental expense for 1986 and 1985 was $123,700 and $137,151, respectively.