FEDERAL RESERVE BANK OF ATLANTA | 1998 *annual report*

The Federal Reserve Bank of Atlanta is one of twelve regional Reserve Banks in the United States that, together with the Board of Governors in Washington, D.C., make up the Federal Reserve System—the nation's central bank. Since its establishment by an act of Congress in 1913, the Federal Reserve System's primary role has been to foster a sound financial system and a healthy economy.

To advance this goal, the Atlanta Fed helps formulate monetary policy, supervises and regulates banks and bank holding companies, and provides financial services to depository institutions and the federal government.

Through its six facilities in Atlanta, Birmingham, Jacksonville, Miami, Nashville, and New Orleans, the Federal Reserve Bank of Atlanta serves the Sixth Federal Reserve District, which comprises Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee.

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"We want to serve the general public."

So argued Joseph A. McCord, the Federal Reserve Bank of Atlanta's first governor, at the Federal Reserve's Fourth Conference of Governors in June 1915. In McCord's day, the Sixth Federal Reserve District was struggling, with money and credit in short supply. For McCord, therefore—and for the Atlanta Fed's nine-member board of directors—serving the public meant lowering interest rates. And in 1915, that would have meant lowering the discount rate.

Almost everything has changed since then. The Sixth Federal Reserve District is now among the nation's fastest growing regions. The discount rate is no longer the primary instrument of monetary policy. District governors are now called presidents. And the Federal Reserve Act—the 1913 legislation that created the Federal Reserve System and defined its duties—has been amended more than eight times.

Nevertheless, the Fed's three principal duties—monetary stabilization, payments processing, and bank supervision—remain. We continue to clear checks, but we also operate the Automated Clearinghouse and Fedwire and are pushing hard for innovations like electronic check presentment. We still regulate state-chartered banks that are members of the Federal Reserve System, but we also now regulate bank holding companies and supervise foreign banks operating in the United States. We educate banks and others about effective community development efforts. And at the broadest level, the Fed remains the central bank of the United States, though we now carry out this domestic mission in an environment where the dollar is the

Jack Guynn, Atlanta Fed president and CEO (left), and Pat Barron, first vice president and chief operating officer, in the Bank's boardroom

world's reserve currency. At the Atlanta Fed, in 1998 we processed more checks than any other Federal Reserve Bank. We became headquarters for the Federal Reserve System's Retail Payments Office. We supervised five of the nation's fifty largest banks. Our economists produced research focusing on the most innovative and rapidly changing aspects of the economy and the financial system. An expanded community service program demonstrated our strong commitment to the people of our district, and management worked to enhance our attractiveness as an employer.

Few of these activities would be familiar to Governor McCord. Still, he surely would recognize one thing that has not changed since 1914: the central role of Reserve Bank directors. The pages that follow examine a few manifestations of that role, a particularly important one in a region as rich in economic, industrial, and social diversity as ours. Some of those activities—economic intelligence, for example—are more obvious than others. But all contribute to the effective execution of our duties.

Governor McCord's views on monetary policy did not carry the day in 1915. Fortunately, however, his vision for the Federal Reserve System in general—and the Atlanta Fed in particular—did prevail. We still want to serve the general public. Our directors help ensure that we succeed in that mission, and this annual report looks at how they do so.

Jack Guynn

Federal Reserve Banks uniquely combine public and private elements. As Governor McCord declared long ago, the Federal Reserve System has serious public purposes. Yet Congress, in 1913, chose to organize each bank much like an ordinary private business, complete with a corporate charter, member banks that are shareholders, and a board of directors. In addition to this corporate board, Congress allowed Federal Reserve Banks' directors to designate directors at each Reserve Bank branch. These corporate parallels help shield the Federal Reserve System's decision making from the shifting winds of day-to-day political issues, a proper safeguard for an institution charged with stability of the U.S. monetary system.

Reserve Banks' unique structure also gives the Federal Reserve System several ways of fostering stability and efficiency in a world in which change rules the economy and the financial system. Each Reserve Bank and branch board and each Bank's advisory council on small business, agriculture, and labor plays an important role in accomplishing the Federal Reserve's mission. The directors and council members, who represent the broad interests of banking, business, labor, agriculture, and consumers, meet the world at their doorsteps every day and must meet its changing demands to be successful in their private pursuits. They bring their varied knowledge and insights to the Reserve Bank.

The Federal Reserve Bank of Atlanta particularly benefits from the involvement of these outside leaders. With its main office and five branches, the Atlanta Fed has more directors than any other Fed Bank. These leaders lend a business perspective to implementing the Bank's strategic plans. The Bank's advisory council brings focused attention to the specific concerns of small business, agriculture, and labor. Together, the experience and insights of the directors and council members, as well as their observations on current economic developments, give the bank a deeper, more forward-looking perspective into the work of serving the public in a changing economy.

The photos and stories that follow feature a small sample of Federal Reserve Bank of Atlanta directors and advisers, the diverse array of economic activities they represent, and the important place this representation has in helping the Atlanta Fed serve the public effectively.

INSIGHT INTO

Technology

At Martin Farm in Courtland, Alabama, autumn hails the cotton harvest, as it has for more than two centuries across the South. But for Larkin Martin, farming is not what it used to be. In industries from cotton farming to space technology and high finance, the southeastern economy faces the changes reverberating from breath-taking technological advances and shifting global dynamics. Indeed, these forces are felt worldwide.

Directors like Martin are essential to the Bank's success. Martin, like Miami branch director Mark Sodders, a sugarcane and sweet corn producer in south Florida, gives the Fed a window onto agriculture. As a cotton farmer, Martin has accompanied the South's oldest industry into the current environment of globalization and technological advances that have revolutionized the industry. Such experience in using technology to manage challenges—like increasing worker productivity to overcome tight labor markets—helps the Atlanta Fed understand the depth of these changes and the ways businesses are adapting.

Like Martin, who also oversees family interests in a ginning operation, an agricultural custom application business, and a tractor dealership, many of the Bank's directors wear more than one hat. The perspectives from a broad array of businesses, nonprofits, and financial institutions keep the Atlanta Bank mindful that it must not only respond to but also embrace and lead in dealing with the forces of change. In 1998 one of the biggest challenges the Federal Reserve System faced was leading changes in the

Technology helps Birmingham branch director V. Larkin Martin, managing partner of Martin Farm in Courtland, Alabama, manage the challenges of cotton farming in today's economy. Satellites and computer technology have contributed to new harvesting and planting methods and improvements in crop yield predictions and soil condition management.

country's retail payments system. To play a strategic part in these changes, the Federal Reserve Bank of Atlanta took on this charge for the entire Federal Reserve System, with the transfer of the System's Retail Payments Office to the Atlanta Fed.

INSIGHT INTO

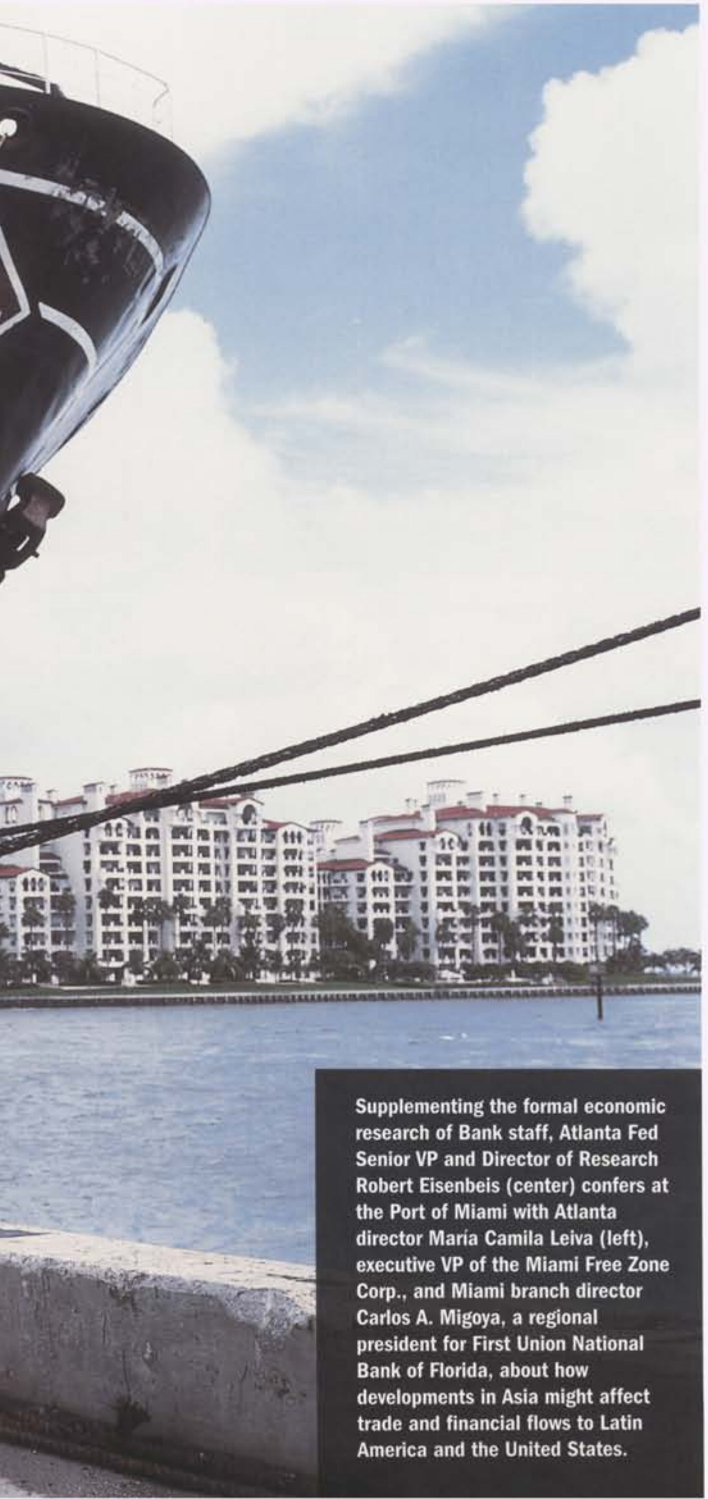
Globalization

While regional industries like cotton farming have long been a focus of Bank staff as they monitor economic and financial conditions, today's scope of analysis is unbounded by regional or national limits. Globalization is behind the way businesses—and the Fed—do almost everything because of the implications for financial systems, payments

systems, markets for goods, and information flows. Directors like María Camila Leiva and Carlos Migoya help the Federal Reserve make sound, informed decisions in the face of global concerns.

As the nation's eighth-largest seaport, Miami is both a point of entry for the world's largest market and a point of departure for the Southeast's textiles, paper, and produce. From her post at the Miami Free Zone Corporation, Leiva sees what cannot be conveyed in statistics. More than just the numbers of inbound containers, she knows what's in them, where they're from, and the impact they're likely to have on the economy at large. And in 1998, lower-priced imports made a very substantial contribution to the low-inflation environment.

Increased international trade through ports at Miami and the Gulf Coast is one feature of the southeastern economy today of keen interest to the Bank's regional research in support of monetary policy. But the implications of globalization are much broader than trade. The research arm of the Atlanta Fed, headed by Robert Eisenbeis, explores international issues with a view toward formulating effective monetary policy in today's dynamic and open environment, in which disruptions in exchange rates halfway around the world can send shock waves through U.S. financial markets and shake confidence in the domestic economy. In addition, the Atlanta Bank has the charge of examining banks with parent organizations in Latin America and the Caribbean and, generally, providing in-depth information on the region's financial systems. This information helps other Federal Reserve Banks and the Board of Governors determine whether banks seeking a U.S. charter have comprehensive and consolidated supervision in their home countries.



Supplementing the formal economic research of Bank staff, Atlanta Fed Senior VP and Director of Research Robert Eisenbeis (center) confers at the Port of Miami with Atlanta director María Camila Leiva (left), executive VP of the Miami Free Zone Corp., and Miami branch director Carlos A. Migoya, a regional president for First Union National Bank of Florida, about how developments in Asia might affect trade and financial flows to Latin America and the United States.

INSIGHT INTO

Financial Systems

Global and technological changes affect providers of financial services no less than industries like farming and shipping. Credit-scoring models allow loan applications to be approved in seconds. Risk portfolios can be managed with sophisticated computer trading strategies. Financial firms offer more products, serve more markets, and take and manage more risks. These broad transformations, combined with regulation, deregulation, and numbingly rapid advancements in the way ventures are financed and funds marshaled, offer particular challenges to financial leaders and the Federal Reserve today.

Because Federal Reserve Banks serve financial firms directly, supervise them, and depend on them as a path for the influence of monetary policy, leaders in banking and other kinds of financial activities make up the largest industry group on Reserve Bank boards. To secure insight from a variety of perspectives, banks that are members of the Federal Reserve System elect representatives of commercial banks of all sizes to the Bank's corporate board. Recognizing the need for a broader perspective on the financial services industry, however, the Atlanta Fed has also recruited directors from a variety of financial firms: Whitney Johns, a venture capitalist, Michael Poole, an investment banker, Terry West, a credit union CEO, and Kirk Landon and Hundley Batts, insurance executives, keep the Atlanta Fed up to date and looking ahead on current practices and products and on credit flows and quality.

One of the greatest challenges the Fed faces is to help formulate a modern approach to ensuring financial system safety and soundness, one that can prevent or at least contain systemic

Atlanta director Howard L. McMillan Jr. (right), chairman of the Jackson [Mississippi] Advisory Board of Deposit Guaranty National Bank, and Nashville branch director N. Whitney Johns (left), chairman and CEO of Whitney Johns & Co., discuss changes in the financial system and the challenges these pose to the current approach to regulation with Roger W. Ferguson Jr., a member of the Federal Reserve's Board of Governors.

breakdown without impeding the innovation that has become the hallmark of this industry. The interaction of directors like Johns and Howard McMillan with Federal Reserve Board Governor Roger Ferguson, a former banking consultant, and Bank staff helps the Fed understand issues like the impacts of deregulation.

Chairman of the Atlanta Fed board of directors David R. Jones (right), chairman of AGL Resources Inc. in Atlanta, and New Orleans branch director David Guidry, president and CEO of Guico Machine Works Inc. in Harvey, Louisiana, discuss changes in the energy industry as they watch assembly of a drilling platform at Production Management Companies Inc. in Harvey a few days before the platform headed for the coast of West Africa.

INSIGHT INTO

Deregulation

Directors David Jones and David Guidry each manage a business in the energy industry, where rapid changes in technology and industry economics have recently combined with deregulation to provide a challenging environment. As chairman of the natural gas utility AGL Resources Inc., Jones has witnessed the Georgia company's transition from a regulated monopoly to a price- and service-sensitive provider in a highly competitive market. Guidry's company, Guico Machine Works, fabricates metal parts for the oil extraction industry (among others). So when advanced horizontal drilling technologies arrived in the Gulf a few years ago, Guidry literally helped build the platform they stand on.

Along with other directors from the energy industry, like Glenn Pumpelly of Sulphur, Louisiana, Jones and Guidry inform the Atlanta Fed about their industry's experience with deregulation and technological change, which complements that of directors from financial firms. Their input also keeps the Fed close to developments in a part of the economy that has long been under global influences. Over the past three decades, the energy industry has been central to both recession and recovery in the nation's economy and a major influence on prices.

A single technological innovation or the deregulation of natural gas services to consumers in a single state may seem trivial in the grand scheme of monetary policy. But the cumulative impact of one innovation and one policy initiative, multiplied over fifty states and thousands of energy-consuming industries, is truly macroeconomic in its reach. When consumers spend less on energy and energy-consuming products, they're able to spend more on other things. Declines in energy prices can offset upward price pressures in the short run. These kinds of insights are vital to the Bank as it contributes to the formulation of monetary policy.

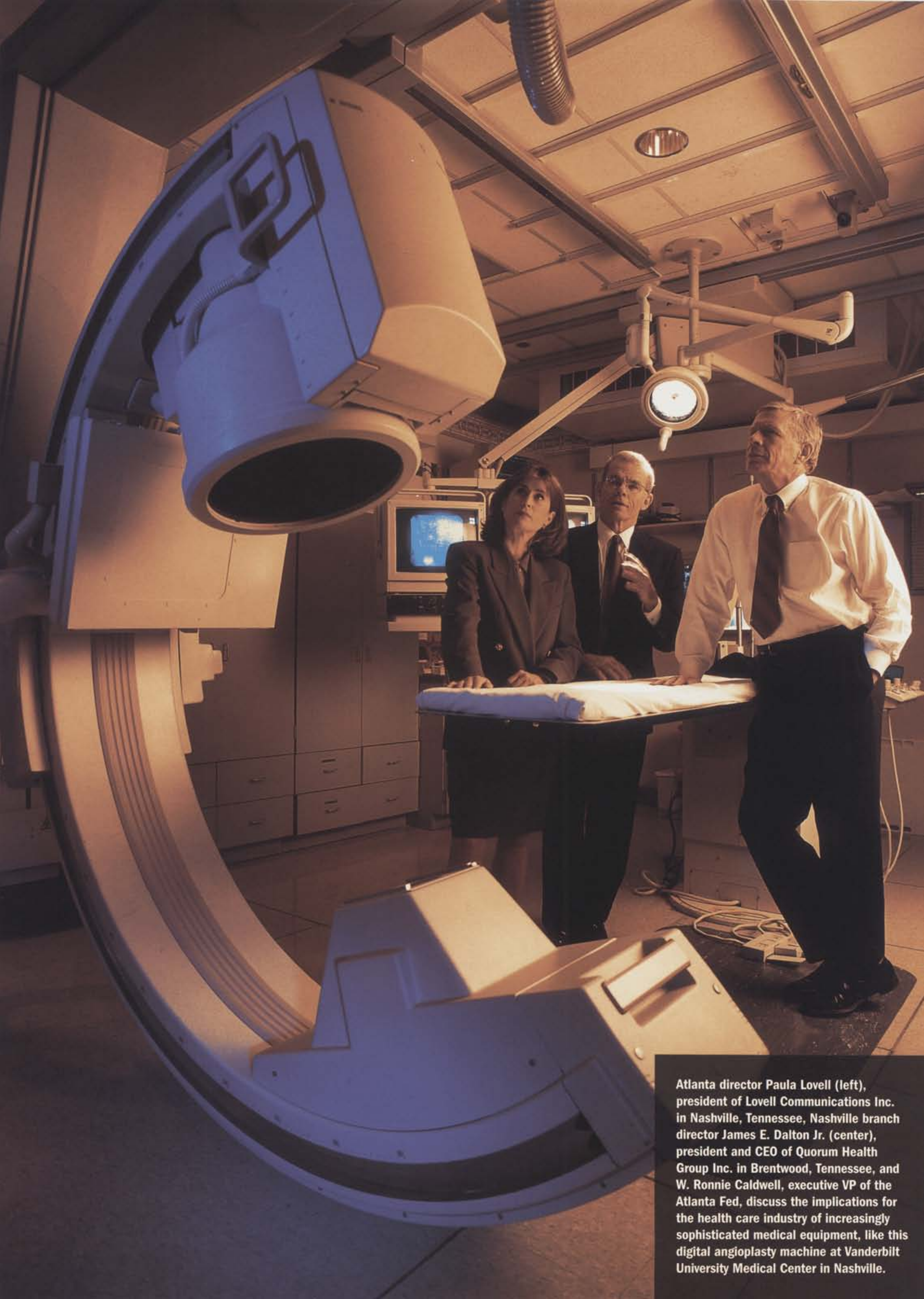
INSIGHT INTO

Health Care

As the impressive instrument towering over directors Paula Lovell and James Dalton and Atlanta Fed executive Ronnie Caldwell suggests, vast technological changes have made health care a major economic concern. While technological developments in telecommunications, transportation, and energy extraction have helped slow price increases or even reduce prices, such developments in the health care industry have not always done so. In assessing developments in the overall economy and in providing benefits to employees in businesses throughout the economy, it is essential to take health care issues into account.

Lovell's public relations firm, like other small companies, faces challenges of providing competitive benefits and working conditions in an evolving labor market. She brings that particular perspective as well as those of her large national clients to monetary policy discussions of the Atlanta board as it considers recommending discount rate changes. Dalton's company provides health services directly through acute-care hospitals. Through the monthly reports of branch directors, he offers an insider's perspective on technology's impact on the industry as well as the direction of managed care.

One of Caldwell's responsibilities is the Bank's human resources function. As it is for businesses everywhere, the issue of attracting competent and creative staff is of great concern to the Atlanta Fed. Both the costs and delivery of health care hold an important place in decisions on offering attractive employee benefits, so the Bank values the guidance that directors like Lovell and Dalton and others in health care–related organizations, like Florida Blue Cross/Blue Shield chief William Flaherty and Teri Fontenot of the Women's Health Foundation, can provide. If the Bank is to lead, it must also adjust to other labor force changes occurring all over the nation. Directors and advisory council members representing labor organizations, like Bruce Carr of the Alabama AFL-CIO and Saturn's Michael Bennett, help keep Bank managers informed on a variety of labor force issues.



Atlanta director Paula Lovell (left), president of Lovell Communications Inc. in Nashville, Tennessee, Nashville branch director James E. Dalton Jr. (center), president and CEO of Quorum Health Group Inc. in Brentwood, Tennessee, and W. Ronnie Caldwell, executive VP of the Atlanta Fed, discuss the implications for the health care industry of increasingly sophisticated medical equipment, like this digital angioplasty machine at Vanderbilt University Medical Center in Nashville.

INSIGHT INTO

Tourism

On the burgeoning Mississippi coast, Lucimarian Roberts, as past president of the Mississippi Coliseum Commission, has been a leader in another of the big changes in the southeastern economy. Over the past thirty years, developments in tourism and business travel have transformed pockets of the region. No longer content to see tourists only in New Orleans's French Quarter or on Florida's beaches, firms and governments throughout the Southeast have built attractions like theme parks, casinos, and convention centers to bring in visitors from the United States and abroad for recreation or meetings and trade shows. The convention trade, for example, now thrives in cities throughout the region, including Atlanta, Miami, Orlando, Nashville, and New Orleans, which have expanded aggressively beyond traditional tourism. Tourism includes an array of services, from food service, transportation, and lodging to entertainment. So in addition to attracting visitors, tourism also provides jobs across a wide range of skill levels.

This influx has brought rapid growth to places like the Mississippi coast. It has furthered the region's economic diversification by giving it another engine of growth. It has taught managers of businesses and financial institutions that deal with tourism about global developments. Recently, it has also generated lessons about problems arising from tight markets for labor in fast-growing industries and the sometimes negative effects that rapid growth in industries like gaming can have on consumer welfare. Directors who serve tourists and business travelers, like Roberts and Keith Cobb,

New Orleans branch board chairman Lucimarian T. Roberts, past president of the Mississippi Coast Coliseum and a community advocate, stands in front of the Mississippi Coast Coliseum, which she led in her efforts to promote long-term economic growth and change to an area long bypassed by development.

past vice chairman and CEO of Alamo Rent A Car Inc. in Fort Lauderdale, Florida, give the Atlanta Bank insights into both consumer and business behavior.

INSIGHT INTO

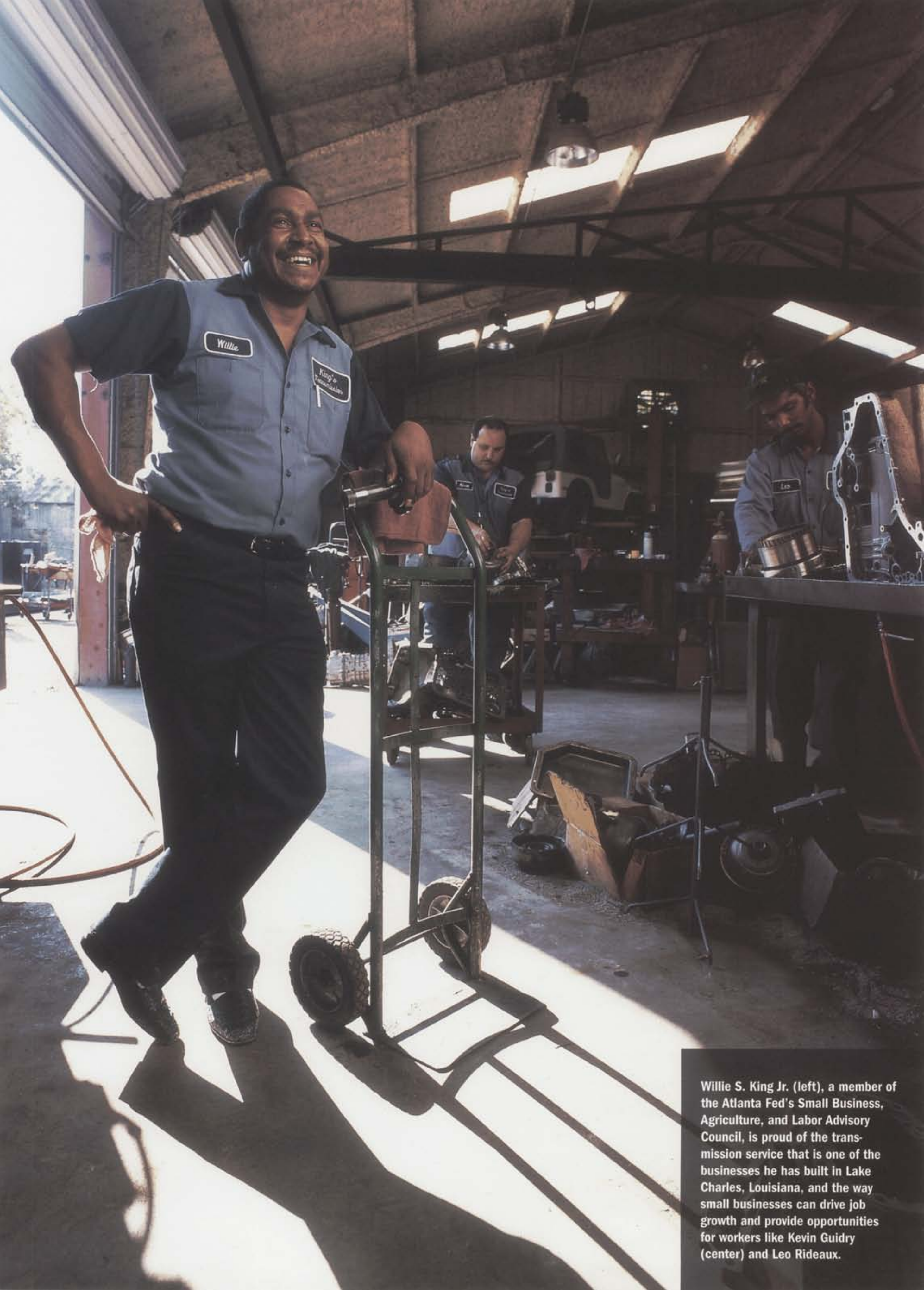
Consumers

Any public institution must turn to the ultimate user of its services for validation. Thus, the Federal Reserve must turn to the behavior of the general public—ultimately as consumers—to assess the economy in which it operates. Because purchases by U.S. consumers account for two-thirds of the country's gross domestic product, an understanding of consumer behavior is critical to effective monetary policy making, particularly in a year like 1998, when spending grew faster than income for several months. Director Suzanne Boas, president of the Consumer Credit Counseling Service of Greater Atlanta, gives particularly valuable insights from the consumer's perspective about the effects of changes in industry, employment, credit practices, and financial institutions generally. Success stories like that of Alpharetta, Georgia, entrepreneur Gordon Wadsworth, who paid off $30,000 of debt, contain the elements of problems consumers face in today's demanding society as well as solutions of which the Atlanta Fed can be a part. Wadsworth now helps CCCS educate consumers about overcoming problems and making wiser choices in the future.

Boas and other directors like automobile dealer Juanita Baranco, home builder John Wieland, and those from financial firms that serve individuals and families also contribute to the Atlanta Bank in another important way. Reserve Banks are charged with protecting consumers from bias and unfair practices when they apply for credit and from misinformation in the process of choosing financial products. Through its community affairs activities, the Bank fosters responsible programs for promoting economic development in low- and moderate-income communities. The experiences of directors who sell or lend to consumers or who


At the Consumer Credit Counseling Service of Greater Atlanta, Atlanta director Suzanne E. Boas (center), president of CCCS, and Dwayne Hartman (left), CCCS Atlanta branch manager, congratulate Alpharetta entrepreneur Gordon Wadsworth on his success in paying off $30,000 of debt and welcome his help in educating other consumers.

counsel them about credit help the Bank deal with this important responsibility. In addition, directors' connections with the public and consumers through their businesses or community service help the Atlanta Fed gauge new trends in the economy and public reactions to Federal Reserve policies and programs.



Willie S. King Jr. (left), a member of the Atlanta Fed's Small Business, Agriculture, and Labor Advisory Council, is proud of the transmission service that is one of the businesses he has built in Lake Charles, Louisiana, and the way small businesses can drive job growth and provide opportunities for workers like Kevin Guidry (center) and Leo Rideaux.

INSIGHT INTO

Small Business

Like the directors represented, Willie King is in his work environment, or one of them. He is owner of a transmission shop, a taxi service, a funeral home, and a service that reads gas and electric meters in the Lake Charles, Louisiana, area. In his role on the Bank's Small Business, Agriculture, and Labor Advisory Council, he specifically helps address small business concerns about economic developments, financial system changes, and Federal Reserve policy. Like other council members and directors, he brings something more than business expertise to the bank, however. Even as he successfully pursues his entrepreneurial goals, King is deeply dedicated to serving his community. He is a member of the boards of fourteen community service organizations that engage in activities like job training, health services, and treatment of substance abuse.

It is no accident that community service ranks high among priorities of the Bank's directors and advisory council members. The Federal Reserve System has been entrusted by Congress to do the people's business. With the daily challenge of anticipating and taking the next step in the various areas of business responsibilities, it would be easy to lose sight of whom the Bank really serves. Directors and advisory council members like King, leaders in community service as well as in their own fields, serve as role models as the Bank is increasing its own commitment to service in the communities where it operates.

In 1998 the District expanded its community relations programs through several new initiatives like Christmas in April, a multicity program to repair and paint houses in older inner city neighborhoods, and Each One Save One, a mentoring program for students in some of New Orleans's most impoverished schools. Directors and advisory council members help the Bank stay aware of community needs and true to the ideal that a model public institution must also be a model corporate citizen. Thus, they help the Federal Reserve Bank of Atlanta continue to pursue the vision James McCord expressed so simply so many years ago.

Federal Reserve Banks each have a board of nine directors. Directors provide economic information, have broad oversight responsibility for their Bank's operations, and, with Board of Governors approval, appoint the Bank's president and first vice president.

Six directors—three class A, representing the banking industry, and three class B—are elected by banks that are members of the Federal Reserve System. Three class C directors (including the chairman and deputy chairman) are appointed by the Board of Governors. Class B and C directors represent agriculture, commerce, industry, labor, and consumers in the District; they cannot be officers, directors, or employees of a bank; class C directors cannot be bank stockholders.

Branch banks' boards have five or seven directors; the majority are appointed by head-office directors and the rest by the Board of Governors.

David R. Jones
CHAIRMAN
Chairman
AGL Resources Inc.
Atlanta, Georgia

John Wieland
DEPUTY CHAIRMAN
Chief Executive Officer and Chairman
John Wieland Homes and Neighborhoods Inc.
Atlanta, Georgia

Juanita P. Baranco
Executive Vice President
Baranco Automotive Group
Morrow, Georgia

Suzanne E. Boas
President
Consumer Credit Counseling Service Inc.
Atlanta, Georgia

Waymon L. Hickman
Chairman and Chief Executive Officer
First Farmers and Merchants National Bank
Columbia, Tennessee

D. Paul Jones Jr.
Chairman and Chief Executive Officer
Compass Bancshares Inc.
Birmingham, Alabama

María Camila Leiva
Executive Vice President
Miami Free Zone Corp.
Miami, Florida

Paula Lovell
President
Lovell Communications Inc.
Nashville, Tennessee

Howard L. McMillan Jr.
Chairman
Jackson Advisory Board
Deposit Guaranty National Bank
Jackson, Mississippi

FEDERAL ADVISORY COUNCIL MEMBER

Stephen A. Hansel
President and Chief Executive Officer
Hibernia Corp. and Hibernia National Bank
New Orleans, Louisiana


HICKMAN

NOT PICTURED: McMILLAN


BOAS


LOVELL


BARANCO


WIELAND


D. PAUL JONES


LEIVA


DAVID R. JONES


HANSEL

BRANCH DIRECTORS: BIRMINGHAM

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CHAIRMAN
President
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Georgiana, Alabama

Hundley Batts Sr.
Owner and Managing Agent
Hundley Batts and Associates
Insurance Agency
Huntsville, Alabama

D. Bruce Carr
Labor-Relations Liaison
Laborers' District Council
of Alabama
Gadsden, Alabama

V. Larkin Martin
Managing Partner
Martin Farm
Courtland, Alabama

W. Charles Mayer III
Senior Executive Vice President
AmSouth Bancorporation
President, Alabama, Tennessee
and Georgia Banking Group
AmSouth Bank
Birmingham, Alabama

J. Stephen Nelson
Chairman and
Chief Executive Officer
First National Bank of Brewton
Brewton, Alabama

Roland Pugh
Chairman
Roland Pugh Construction Inc.
Northport, Alabama


COMPTON


MAYER

BRANCH DIRECTORS: JACKSONVILLE

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President
J. R. Jones and Associates
Tallahassee, Florida

William E. Flaherty
Chairman
Blue Cross and Blue Shield
of Florida Inc.
Jacksonville, Florida

Michael W. Poole
Principal
Poole Carbone Capital
Partners Inc.
Winter Park, Florida

Marsha G. Rydberg
Partner
Foley & Lardner
Tampa, Florida

William G. Smith Jr.
President and
Chief Executive Officer
Capital City Bank Group
Tallahassee, Florida

Royce B. Walden
President
Walden Enterprises Inc.
Orlando, Florida

Terry R. West
President and
Chief Executive Officer
Jax Navy Federal Credit Union
Jacksonville, Florida


RYDBERG


SMITH

NOT PICTURED: JONES


MARTIN


PUGH


BATTS


NELSON


CARR


POOLE


WEST


FLAHERTY


WALDEN

BRANCH DIRECTORS: MIAMI

R. Kirk Landon
CHAIRMAN
Chairman
American Bankers
Insurance Group
Miami, Florida

D. Keith Cobb
Past Vice Chairman and
Chief Executive Officer
Alamo Rent A Car Inc.
Fort Lauderdale, Florida

Kaaren Johnson-Street
Vice President of Minority
Business Development and
Urban Initiatives
Enterprise Florida
Coral Gables, Florida

Carlos A. Migoya
Regional President
Dade/Monroe Counties
First Union National Bank
of Florida
Miami, Florida

James W. Moore
Past President
Gulf Utility Co.
Fort Myers, Florida

E. Anthony Newton
Past President and
Chief Executive Officer
Island National Bank
and Trust Co.
West Palm Beach, Florida

Mark T. Sodders
President
Lakeview Farms Inc.
Pahokee, Florida


MIGOYA


NEWTON

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CHAIRMAN
Chairman and
Chief Executive Officer
Micro Craft Inc.
Tullahoma, Tennessee

Michael E. Bennett
UAW Manufacturing Advisor
UAW Local 1853
Saturn Corp.
Spring Hill, Tennessee

James E. Dalton Jr.
President and
Chief Executive Officer
Quorum Health Group Inc.
Brentwood, Tennessee

N. Whitney Johns
Chairman and
Chief Executive Officer
Whitney Johns & Co.
Nashville, Tennessee

Dale W. Polley
President
First American National Bank
Nashville, Tennessee

John E. Seward Jr.
President and
Chief Executive Officer
Paty Lumber Co.
Piney Flats, Tennessee

L. A. Walker Jr.
Chairman and
Chief Executive Officer
First National Bank
and Trust Co.
Athens, Tennessee


DALTON


JOHNS

NOT PICTURED: BENNETT, WALKER


LANDON


MOORE


SODDERS


JOHNSON-STREET


COBB


POLLEY


MARCUM


SEWARD

BRANCH DIRECTORS: NEW ORLEANS

Lucimarian T. Roberts
CHAIRMAN
Past President
Mississippi Coast Coliseum
Commission and
Community Advocate
Biloxi, Mississippi

Jacklyn H. Ducote
President
Public Affairs Research
Council of Louisiana
Baton Rouge, Louisiana

Teri G. Fontenot
President and
Chief Executive Officer
Woman's Health Foundation
Baton Rouge, Louisiana

Howell N. Gage
Chairman and
Chief Executive Officer
Merchants Bank
Vicksburg, Mississippi

Howard C. Gaines
President, Military Division
First USA Partners
New Orleans, Louisiana

David Guidry
President and
Chief Executive Officer
Guico Machine Works Inc.
Harvey, Louisiana

R. Glenn Pumpelly
President and
Chief Executive Officer
Pumpelly Oil Inc.
Sulphur, Louisiana

GUIDRY

PUMPELLY

NOT PICTURED: DUCOTE

SMALL BUSINESS, AGRICULTURE, AND LABOR ADVISORY COUNCIL

Stewart Acuff
President
Atlanta Labor Council
AFL-CIO
Atlanta, Georgia

Luis Ajamil
Principal
Bermello, Ajamil &
Partners Inc.
Miami, Florida

Peter E. Black
Chief Executive Officer
Kliklok Corp.
Decatur, Georgia

Benjamin F. Burkett
Owner
B & B Farms
Petal, Mississippi

Clark S. Coogan
Principal
Coogan & Associates, CPAs
Jacksonville, Florida

John Harris
President
Corporate Environments
Atlanta, Georgia

John Hendricks
President
Alabama Cryogenic
Engineering Inc.
Huntsville, Alabama

James A. Hughes
Hughes Family Farm
Cottonwood, Alabama

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Owner/Operator
King's Transmission Service
King's Funeral Home
King's Meter Reading Service
Lake Charles, Louisiana

Richard A. Machek
General Manager
Mazzoni Farms Inc.
Boynton Beach, Florida

Rita P. Mitchell
Investment Representative
Edward Jones
Nashville, Tennessee

Danny Rochelle
Owner
Royal Oaks Farms
Nunnelly, Tennessee

James E. Smith
Vice President
District 3 Communication
Workers of America
Decatur, Georgia

LaVergne L. Turpin
Owner/Manager
LaVergne's Telemessaging
Alexandria, Louisiana

GAINES

ROBERTS

GAGE

FONTENOT

Standing: Herr, Eisenbeis, Caldwell, Guynn, Hawkins
Seated: Estes, Barron, DeBeer, Brown

MANAGEMENT COMMITTEE

Jack Guynn
CHAIRMAN
President and
Chief Executive Officer

Patrick K. Barron
VICE CHAIRMAN
First Vice President and
Chief Operating Officer

W. Ronnie Caldwell
Executive Vice President

Anne M. DeBeer
Senior Vice President

Robert A. Eisenbeis
Senior Vice President and
Director of Research

William B. Estes III
Senior Vice President

James D. Hawkins
Senior Vice President

Frederick R. Herr
Senior Vice President

Richard R. Oliver
Senior Vice President

Christopher G. Brown
ADVISER
Vice President and
General Auditor

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Senior Vice President

Donald E. Nelson
Senior Vice President

Edmund Willingham
Senior Vice President and
General Counsel

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Vice President

Suzanna J. Costello
Vice President

Thomas J. Cunningham
Vice President

Gerald P. Dwyer
Vice President

Cynthia C. Goodwin
Vice President

Zane R. Kelley
Vice President

John R. Kerr
Vice President

B. Frank King
Vice President and
Associate Director
of Research

Bobbie H. McCrackin
Vice President and
Public Affairs Officer

John D. Pelick
Vice President

Mary S. Rosenbaum
Vice President

Larry J. Schulz
Vice President

Adrienne M. Wells
Vice President

Ronald N. Zimmerman
Vice President

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Assistant Vice President

Edward C. Andrews
Assistant Vice President

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John S. Branigin
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James L. Brown
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Joan H. Buchanan
Assistant Vice President

David F. Carr
Assistant Vice President

Roberto J. Chang
Research Officer

Chapelle D. Davis
Assistant Vice President

J. Courtney Dufries
Assistant Vice President and
Community Affairs Officer

J. Stephen Foley
Assistant Vice President

Jayne Fox
Assistant Vice President and
Corporate Secretary

Barry G. Hartin (resigned)
Assistant Vice President

Carolyn C. Healy
Assistant Vice President

Janet A. Herring
Assistant Vice President

Susan Hoy
Assistant General Counsel

Mary M. Kepler
Assistant Vice President

Reneé J. Leggett (resigned)
Assistant Vice President

Albert E. Martin III
Assistant General Counsel

Daniel A. Maslaney
Assistant Vice President

Mary M. McCormick
Assistant Vice President

Marie E. McNally
Assistant Vice President

Amelia A. Murphy (resigned)
Assistant Vice President

Alvin L. Pilkinton Jr.
Assistant General Auditor

Ted G. Reddy III
Assistant Vice President

Marion P. Rivers III
Assistant Vice President

William T. Roberds
Research Officer

Susan L. Robertson
Assistant Vice President

Melinda J. Rushing
Assistant Vice President

Robert M. Schenck
Assistant Vice President

Robert T. Sexton
Assistant Vice President

David W. Smith
Assistant Vice President

Aruna Srinivasan
Assistant Vice President

Edwina M. Taylor
Assistant Vice President

Larry D. Wall
Research Officer

Julius G. Weyman
Assistant Vice President

Kimberly K. Winstel
Assistant Vice President and
Community Relations Officer

BRANCH OFFICERS

ATLANTA

James M. McKee
Vice President and
Branch Manager

Marie C. Gooding
Assistant Vice President and
Assistant Branch Manager

Christopher N. Alexander
Assistant Vice President

Robert A. Love
Assistant Vice President

William R. Powell
Assistant Vice President

JACKSONVILLE

Robert J. Slack
Vice President and
Branch Manager

Christopher L. Oakley
Assistant Vice President and
Assistant Branch Manager

Darrin G. Finley
Assistant Vice President

Jeffrey L. Weltzien
Assistant Vice President

NASHVILLE

Melvyn K. Purcell
Vice President and
Branch Manager

Lee C. Jones
Assistant Vice President and
Assistant Branch Manager

Annita T. Moore
Assistant Vice President

Joel E. Warren
Assistant Vice President

BIRMINGHAM

Andre T. Anderson
Vice President and
Branch Manager

Margaret A. Thomas
Assistant Vice President and
Assistant Branch Manager

Fredric L. Fullerton
Assistant Vice President

Charles W. Prime
Assistant Vice President

MIAMI

James T. Curry III
Vice President and
Branch Manager

Juan del Busto
Assistant Vice President and
Assistant Branch Manager

Fred D. Cox
Assistant Vice President

Robert A. de Zayas
Assistant Vice President

Robert K. Morando
Assistant Vice President

NEW ORLEANS

Robert J. Musso
Vice President and
Branch Manager

Amy S. Goodman
Assistant Vice President and
Assistant Branch Manager

W. Jeffrey Devine
Assistant Vice President

Edward B. Hughes
Assistant Vice President

Patricia D. Van de Graaf
Assistant Vice President

FEDERAL RESERVE BANK OF ATLANTA

Financial Reports

MANAGEMENT'S ASSERTION

To the Board of Directors of the
Federal Reserve Bank of Atlanta

The management of the Federal Reserve Bank of Atlanta (FRB of Atlanta) is responsible for the preparation and fair presentation of the Statement of Financial Condition, Statement of Income, and Statement of Changes in Capital as of December 31, 1998 (the "Financial Statements"). The Financial Statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System and as set forth in the Financial Accounting Manual for the Federal Reserve Banks, and as such, include amounts, some of which are based on judgments and estimates of management.

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

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

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

Federal Reserve Bank of Atlanta

Jack Guynn
President and Chief Executive Officer

Patrick K. Barron
First Vice President and Chief Operating Officer

Anne M. DeBeer
Senior Vice President

December 31, 1998

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of the
Federal Reserve Bank of Atlanta

We have examined management's assertion that the Federal Reserve Bank of Atlanta ("FRB of Atlanta") maintained effective internal control over financial reporting and the safeguarding of assets as they relate to the Financial Statements as of December 31, 1998, included in the accompanying Management's Assertion.

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

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

In our opinion, management's assertion that the FRB of Atlanta maintained effective internal control over financial reporting and over the safeguarding of assets as they relate to the Financial Statements as of December 31, 1998, is fairly stated, in all material respects, based upon criteria described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 5, 1999
Atlanta, Georgia

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Governors of
The Federal Reserve System and
The Board of Directors of
The Federal Reserve Bank of Atlanta

We have audited the accompanying statements of condition of The Federal Reserve Bank of Atlanta (the "Bank") as of December 31, 1998 and 1997, and the related statements of income and changes in capital for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3, the financial statements were prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of The Federal Reserve System. These principles, policies, and practices, which were designed to meet the specialized accounting and reporting needs of The Federal Reserve System, are set forth in the "Financial Accounting Manual for Federal Reserve Banks" and constitute a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 1998 and 1997, and results of its operations for the years then ended, on the basis of accounting described in Note 3.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 5, 1999
Atlanta, Georgia

(in millions)	*As of December 31, 1998*	*As of December 31, 1997*
Assets		
Gold certificates	$ 717	$ 723
Special drawing rights certificates	602	602
Coin	44	45
Items in process of collection	1,050	1,287
Loans to depository institutions	4	163
U.S. government and federal agency securities, net	27,779	28,961
Investments denominated in foreign currencies	1,295	1,574
Accrued interest receivable	262	274
Interdistrict settlement account	4,780	793
Bank premises and equipment, net	137	132
Other assets	41	23
Total assets	**$ 36,711**	**$ 34,577**
Liabilities and capital		
Liabilities		
Federal Reserve notes outstanding, net	$ 33,103	$ 30,390
Deposits		
Depository institutions	1,769	2,081
Other deposits	16	17
Deferred credit items	821	1,210
Surplus transfer due U.S. Treasury	75	95
Accrued benefit cost	78	74
Other liabilities	13	12
Total liabilities	**$ 35,875**	**$ 33,879**
Capital		
Capital paid-in	$ 418	$ 359
Surplus	418	339
Total capital	**$ 836**	**$ 698**
Total liabilities and capital	**$ 36,711**	**$ 34,577**

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

STATEMENTS OF INCOME

(in millions)	For the years ended December 31, 1998	December 31, 1997
Interest income		
Interest on U.S. government securities	$ 1,657	$ 1,679
Interest on foreign currencies	29	35
Interest on loans to depository institutions	1	—
Total interest income	**$ 1,687**	**$ 1,714**
Other operating income (loss)		
Income from services	$ 108	$ 98
Reimbursable services to government agencies	18	11
Foreign currency gains (losses), net	122	(239)
Government securities gains, net	3	1
Other income	2	5
Total other operating income (loss)	**$ 253**	**$ (124)**
Operating expenses		
Salaries and other benefits	$ 128	$ 113
Occupancy expense	15	15
Equipment expense	22	20
Cost of unreimbursed Treasury services	—	2
Assessments by Board of Governors	39	38
Other expenses	68	72
Total operating expenses	**$ 272**	**$ 260**
Net income prior to distribution	**$ 1,668**	**$ 1,330**
Distribution of net income		
Dividends paid to member banks	$ 25	$ 23
Transferred to (from) surplus	79	(66)
Payments to U.S. Treasury as interest on Federal Reserve notes	558	—
Payments to U.S. Treasury as required by statute	1,006	1,373
Total distribution	**$ 1,668**	**$ 1,330**

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

STATEMENTS OF CHANGES IN CAPITAL

(in millions)	*For the years ended December 31, 1998, and December 31, 1997*		
	Capital Paid-In	Surplus	Total Capital
Balance at January 1, 1997			
(8.5 million shares)	$ 425	$ 415	$ 840
Net income transferred from surplus		(66)	(66)
Statutory surplus transfer to the U.S. Treasury		(10)	(10)
Net change in capital stock redeemed (1.3 million shares)	(66)		(66)
Balance at December 31, 1997			
(7.2 million shares)	$ 359	$ 339	$ 698
Net income transferred to surplus		79	79
Net change in capital stock issued (1.2 million shares)	59		59
Balance at December 31, 1998			
(8.4 million shares)	$ 418	$ 418	$ 836

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

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

The Federal Reserve Bank of Atlanta ("Bank") is part of the Federal Reserve System ("System") created by Congress under the Federal Reserve Act of 1913 ("Federal Reserve Act") which established the central bank of the United States. The System consists of the Board of Governors of the Federal Reserve System ("Board of Governors") and twelve Federal Reserve Banks ("Reserve Banks"). The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. Other major elements of the System are the Federal Open Market Committee ("FOMC"), and the Federal Advisory Council. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York ("FRBNY") and, on a rotating basis, four other Reserve Bank presidents.

Structure

The Bank and its branches in Birmingham, Alabama, Jacksonville, Florida, Nashville, Tennessee, New Orleans, Louisiana, and Miami, Florida serve the Sixth Federal Reserve District, which includes Georgia, Florida, Alabama, and portions of Louisiana, Tennessee, and Mississippi. In accordance with the Federal Reserve Act, supervision and control of the Bank is exercised by a Board of Directors. Banks that are members of the System include all national banks and any state chartered bank that applies and is approved for membership in the System.

Board of Directors

The Federal Reserve Act specifies the composition of the board of directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as Chairman and Deputy Chairman, are appointed by the Board of Governors, and six directors are elected by member banks. Of the six elected by member banks, three represent the public and three represent member banks. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

2. OPERATIONS AND SERVICES

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

The FOMC establishes policy regarding open market operations, oversees these operations, and issues authorizations and directives to the FRBNY for its execution of transactions. Authorized transaction types include direct purchase and sale of securities, matched sale-purchase transactions, the purchase of securities under agreements to resell, and the lending of U.S. government securities. Additionally, the FRBNY is authorized by the FOMC to hold balances of and to execute spot and forward foreign exchange and securities contracts in fourteen foreign currencies, maintain reciprocal currency arrangements ("F/X swaps") with various central banks, and "warehouse" foreign currencies for the U.S. Treasury and Exchange Stabilization Fund ("ESF") through the Reserve Banks.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles for entities with the unique powers and responsibilities of the nation's central bank have not been formulated by the Financial Accounting Standards Board. The Board of Governors has developed specialized accounting principles and practices that it believes are appropriate for the significantly different nature and function of a central bank as compared to the private sector. These accounting principles and practices are documented in the "Financial Accounting Manual for Federal Reserve Banks" ("Financial Accounting Manual"), which is issued by the Board of Governors. All Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the Financial Accounting Manual.

The financial statements have been prepared in accordance with the Financial Accounting Manual. Differences exist between the accounting principles and practices of the System and generally accepted accounting principles ("GAAP"). The primary differences are the presentation of all security holdings at amortized cost, rather than at the fair value presentation requirements of GAAP, and the accounting for matched sale-purchase transactions as separate sales and purchases, rather than secured borrowings with pledged collateral, as is required by GAAP. In addition, the Bank has elected not to present a Statement of Cash Flows or a Statement of Comprehensive Income. The Statement of Cash Flows has not been included as the liquidity and cash position of the Bank are not of primary concern to the users of these financial statements. The Statement of Comprehensive Income, which comprises net income plus or minus certain adjustments, such as the fair value adjustment for securities, has not been included because as stated above the securities are recorded at amortized cost and there are no other adjustments in the determination of Comprehensive Income applicable to the Bank. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income, and Changes in Capital. Therefore, a Statement of Cash Flows or a Statement of Comprehensive

Income would not provide any additional useful information. There are no other significant differences between the policies outlined in the Financial Accounting Manual and GAAP.

The preparation of the financial statements in conformity with the Financial Accounting Manual requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Unique accounts and significant accounting policies are explained below.

a. Gold Certificates

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks to monetize gold held by the U.S. Treasury. Payment for the gold certificates by the Reserve Banks is made by crediting equivalent amounts in dollars into the account established for the U.S. Treasury. These gold certificates held by the Reserve Banks are required to be backed by the gold of the U.S. Treasury. The U.S. Treasury may reacquire the gold certificates at any time and the Reserve Banks must deliver them to the U.S. Treasury. At such time, the U.S. Treasury's account is charged and the Reserve Banks' gold certificate accounts are lowered. The value of gold for purposes of backing the gold certificates is set by law at $42 2/9 a fine troy ounce. The Board of Governors allocates the gold certificates among Reserve Banks once a year based upon Federal Reserve notes outstanding in each District at the end of the preceding year.

b. Special Drawing Rights Certificates

Special drawing rights ("SDRs") are issued by the International Monetary Fund ("Fund") to its members in proportion to each member's quota in the Fund at the time of issuance. SDRs serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for United States participation in the SDR system, the Secretary of the U.S. Treasury is authorized to issue SDR certificates, somewhat like gold certificates, to the Reserve Banks. At such time, equivalent amounts in dollars are credited to the account established for the U.S. Treasury, and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDRs, at the direction of the U.S. Treasury, for the purpose of financing SDR certificate acquisitions or for financing exchange stabilization operations. The Board of Governors allocates each SDR transaction among Reserve Banks based upon Federal Reserve notes outstanding in each District at the end of the preceding year.

c. Loans to Depository Institutions

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

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

The FOMC has designated the FRBNY to execute open market transactions on its behalf and to hold the resulting securities in the portfolio known as the System Open Market Account ("SOMA"). In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes and directs the FRBNY to execute operations in foreign markets for major currencies in order to counter disorderly conditions in exchange markets or other needs specified by the FOMC in carrying out the System's central bank responsibilities.

Purchases of securities under agreements to resell and matched sale-purchase transactions are accounted for as separate sale and purchase transactions. Purchases under agreements to resell are transactions in which the FRBNY purchases a security and sells it back at the rate specified at the commencement of the transaction. Matched sale-purchase transactions are transactions in which the FRBNY sells a security and buys it back at the rate specified at the commencement of the transaction.

Reserve Banks are authorized by the FOMC to lend U.S. government securities held in the SOMA to U.S. government securities dealers and to banks participating in U.S. government securities clearing arrangements, in order to facilitate the effective functioning of the domestic securities market. These securities-lending transactions are fully collateralized by other U.S. government securities. FOMC policy requires the lending Reserve Bank to take possession of collateral in amounts in excess of the market values of the securities loaned. The market values of the collateral and the securities loaned are monitored by the lending Reserve Bank on a daily basis, with additional collateral obtained as necessary. The securities loaned continue to be accounted for in the SOMA.

Foreign exchange contracts are contractual agreements between two parties to exchange specified currencies, at a specified price, on a specified date. Spot foreign contracts normally settle two days after the trade date, whereas the settlement date on forward contracts is negotiated between the contracting parties, but will extend beyond two days from the trade date. The FRBNY generally enters into spot contracts, with any forward contracts generally limited to the second leg of a swap/warehousing transaction.

The FRBNY, on behalf of the Reserve Banks, maintains renewable, short-term F/X swap arrangements with authorized foreign central banks. The parties agree to exchange their currencies up to a pre-arranged maximum amount and for an agreed upon period of time (up to twelve months), at an agreed upon interest rate. These arrangements give the FOMC temporary access to foreign currencies that it may need for intervention operations to support the dollar and give the partner foreign central bank temporary access to dollars it may need to support its own currency. Drawings under the F/X swap arrangements can be initiated by either the FRBNY or the partner foreign central bank, and must be agreed to by the drawee. The F/X swaps are structured so that the party initiating the transaction (the drawer) bears the exchange rate risk upon maturity. The FRBNY will generally invest the foreign currency received under an F/X swap in interest-bearing instruments.

Warehousing is an arrangement under which the FOMC agrees to exchange, at the request of the Treasury, U.S. dollars for foreign currencies held by the Treasury or ESF over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury and ESF for financing purchases of foreign currencies and related international operations.

In connection with its foreign currency activities, the FRBNY, on behalf of the Reserve Banks, may enter into contracts which contain varying degrees of off-balance sheet market risk, because they represent contractual commitments involving future settlement, and counter-party credit risk. The FRBNY controls credit risk by obtaining credit approvals, establishing transaction limits, and performing daily monitoring procedures.

While the application of current market prices to the securities currently held in the SOMA portfolio and investments denominated in foreign currencies may result in values substantially above or below their carrying values, these unrealized changes in value would have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Reserve Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio from time to time involve transactions that can result in gains or losses when holdings are sold prior to maturity. However, decisions regarding the securities and foreign currencies transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, earnings and any gains or losses resulting from the sale of such currencies and securities are incidental to the open market operations and do not motivate its activities or policy decisions.

U.S. government and federal agency securities and investments denominated in foreign currencies comprising the SOMA are recorded at cost, on a settlement-date basis, and adjusted for amortization of premiums or accretion of discounts on a straight-line basis. Interest income is accrued on a straight-line basis and is reported as "Interest on U.S. government securities" or "Interest on foreign currencies," as appropriate. Income earned on securities lending transactions is reported as a component of "Other income." Gains and losses resulting from sales of securities are determined by specific issues based on average cost. Gains and losses on the sales of U.S. government and federal agency securities are reported as "Government securities gains, net." Foreign currency denominated assets are revalued monthly at current market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as "Foreign currency gains (losses), net." Foreign currencies held through F/X swaps, when initiated by the counter party, and warehousing arrangements are revalued monthly, with the unrealized gain or loss reported by the FRBNY as a component of "Other assets" or "Other liabilities," as appropriate.

Balances of U.S. government and federal agencies securities bought outright, investments denominated in foreign currency, interest income, amortization of premiums and discounts on securities bought outright, gains and losses on sales of securities, and realized and unrealized gains and losses on investments denominated in foreign currencies, excluding those held under an F/X swap arrangement, are allocated to each Reserve Bank. Securities purchased under agreements to resell and the related premiums, discounts and income, and unrealized gains and losses on the revaluation of foreign currency holdings under F/X swaps and warehousing arrangements are allocated to the FRBNY and not to other Reserve Banks. Income from securities lending transactions is recognized only by the lending Reserve Bank.

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

f. Interdistrict Settlement Account
At the close of business each day, all Reserve Banks and branches assemble the payments due to or from other Reserve Banks and branches as a result of transactions involving accounts residing in other Districts that occurred during the day's operations. Such transactions may include funds settlement, check clearing and automated clearinghouse ("ACH") operations, and allocations of shared expenses. The cumulative net amount due to or from other Reserve Banks is reported as the "Interdistrict settlement account."

g. Federal Reserve Notes
Federal Reserve notes are the circulating currency of the United States. These notes are issued through the various Federal Reserve agents to the Reserve Banks upon deposit with such Agents of certain classes of collateral security, typically U.S. government securities. These notes are identified as issued to a specific Reserve Bank. The Federal Reserve Act provides that the collateral security tendered by the Reserve Bank to the Federal Reserve Agent must be equal to the sum

of the notes applied for by such Reserve Bank. In accordance with the Federal Reserve Act, gold certificates, special drawing rights certificates, U.S. government and agency securities, loans allowed under Section 13, and investments denominated in foreign currencies are pledged as collateral for net Federal Reserve notes outstanding. The collateral value is equal to the book value of the collateral tendered, with the exception of securities, whose collateral value is equal to the par value of the securities tendered. The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the Federal Reserve notes. To satisfy its obligation to provide sufficient collateral for its outstanding Federal Reserve notes, the Reserve Banks have entered into an agreement that provides that certain assets of the Reserve Banks are jointly pledged as collateral for the Federal Reserve notes of all Reserve Banks. In the event that this collateral is insufficient, the Federal Reserve Act provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, as obligations of the United States, Federal Reserve notes are backed by the full faith and credit of the United States government.

The "Federal Reserve notes outstanding, net" account represents Federal Reserve notes reduced by cash held in the vaults of the Bank of $11,326 million, and $8,023 million at December 31, 1998 and 1997, respectively.

h. Capital Paid-in

The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6% of the capital and surplus of the member bank. As a member bank's capital and surplus changes, its holdings of the Reserve Bank's stock must be adjusted. Member banks are those state-chartered banks that apply and are approved for membership in the System and all national banks. Currently, only one-half of the subscription is paid-in and the remainder is subject to call. These shares are nonvoting with a par value of $100. They may not be transferred or hypothecated. By law, each member bank is entitled to receive an annual dividend of 6% on the paid-in capital stock. This cumulative dividend is paid semiannually. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

i. Surplus

The Board of Governors requires Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31. This amount is intended to provide additional capital and reduce the possibility that the Reserve Banks would be required to call on member banks for additional capital. Reserve Banks are required by the Board of Governors to transfer to the U.S. Treasury excess earnings, after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in. Payments made after September 30, 1998 represent payment of interest on Federal Reserve notes outstanding.

The Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66, Section 3002) codified the existing Board surplus policies as statutory surplus transfers, rather than as payments of interest on Federal Reserve notes, for federal government fiscal years 1998 and 1997 (which began on October 1, 1997 and 1996, respectively). In addition, the legislation directed the Reserve Banks to transfer to the U.S. Treasury additional surplus funds of $107 million and $106 million during fiscal years 1998 and 1997, respectively. Reserve Banks were not permitted to replenish surplus for these amounts during this time. The Reserve Banks made these transfers on October 1, 1997 and October 1, 1996, respectively. The Bank's share of the 1997 transfer is reported as "Statutory surplus transfer to the U.S. Treasury."

In the event of losses, payments to the U.S. Treasury are suspended until such losses are recovered through subsequent earnings. Weekly payments to the U.S. Treasury vary significantly.

j. Cost of Unreimbursed Treasury Services

The Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States. By statute, the Department of the Treasury is permitted, but not required, to pay for these services. The costs of providing fiscal agency and depository services to the Treasury Department that have been billed but will not be paid are reported as the "Cost of unreimbursed Treasury services."

k. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property, which are reported as a component of "Occupancy expense."

4. U.S. GOVERNMENT AND FEDERAL AGENCY SECURITIES

Securities bought outright and held under agreements to resell are held in the SOMA at the FRBNY. An undivided interest in SOMA activity, with the exception of securities held under agreements to resell and the related premiums, discounts and income, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of interdistrict clearings. The settlement, performed in April of each year, equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding. The Bank's allocated share of SOMA balances was approximately 6.083% and 6.673% at December 31, 1998 and 1997, respectively.

The Bank's allocated share of securities held in the SOMA at December 31, that were bought outright, were as follows (in millions):

	1998	1997
Par value		
Federal agency	$ 21	$ 46
U.S. government		
Bills	11,848	13,154
Notes	11,430	11,625
Bonds	4,226	3,964
Total par value	27,525	28,789
Unamortized premiums	449	413
Unaccreted discounts	(195)	(241)
Total allocated to Bank	$ 27,779	$ 28,961

Total SOMA securities bought outright were $456,667 million and $434,001 million at December 31, 1998 and 1997, respectively.

The maturities of U.S. government and federal agency securities bought outright, which were allocated to the Bank at December 31, 1998, were as follows (in millions):

	Par value		
Maturities of Securities Held	U.S. Government Securities	Federal Agency Obligations	Total
Within 15 days	$ 70	$ –	$ 70
16 days to 90 days	6,030	2	6,032
91 days to 1 year	8,738	4	8,742
Over 1 year to 5 years	6,553	4	6,557
Over 5 years to 10 years	2,727	11	2,738
Over 10 years	3,386	–	3,386
Total	$ 27,504	$ 21	$ 27,525

At December 31, 1998, and 1997, matched sale-purchase transactions involving U.S. government securities with par values of $20,927 million and $17,027 million, respectively, were outstanding, of which $1,273 million and $1,136 million were allocated to the Bank. Matched sale-purchase transactions are generally overnight arrangements.

5. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

The FRBNY, on behalf of the Reserve Banks, holds foreign currency deposits with foreign central banks and the Bank for International Settlements and invests in foreign government debt instruments. Foreign government debt instruments held include both securities bought outright and securities held under agreements to resell. These investments are guaranteed as to principal and interest by the foreign governments.

Each Reserve Bank is allocated a share of foreign-currency-denominated assets, the related interest income, and realized and unrealized foreign currency gains and losses, with the exception of unrealized gains and losses on F/X swaps and warehousing transactions. This allocation is based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. The Bank's allocated share of investments denominated in foreign currencies was approximately 6.545% and 9.230% at December 31, 1998 and 1997, respectively.

The Bank's allocated share of investments denominated in foreign currencies, valued at current exchange rates at December 31, were as follows (in millions):

	1998	1997
German Marks		
Foreign currency deposits	$ 684	$ 764
Government debt instruments including agreements to resell	155	297
Japanese Yen		
Foreign currency deposits	44	53
Government debt instruments including agreements to resell	406	452
Accrued interest	6	8
Total	$ 1,295	$ 1,574

Total investments denominated in foreign currencies were $19,769 million and $17,046 million at December 31, 1998 and 1997, respectively, which include $15 million and $3 million in unearned interest for 1998 and 1997 respectively, collected on certain foreign currency holdings that is allocated solely to the FRBNY.

The maturities of investments denominated in foreign currencies which were allocated to the Bank at December 31, 1998, were as follows (in millions):

Maturities of Investments Denominated in Foreign Currencies	
Within 1 year	$ 1,232
Over 1 year to 5 years	33
Over 5 years to 10 years	30
Total	$ 1,295

At December 31, 1998 and 1997, there were no open foreign exchange contracts or outstanding F/X swaps.

At December 31, 1998, the warehousing facility was $5,000 million, with zero outstanding.

6. BANK PREMISES AND EQUIPMENT

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

	1998	1997
Bank premises and equipment		
Land	$ 32	$ 39
Buildings	41	41
Building machinery and equipment	11	12
Construction in progress	17	5
Furniture and equipment	128	121
	229	218
Accumulated depreciation	(92)	(86)
Bank premises and equipment, net	$ 137	$ 132

Depreciation expense was $14 million and $13 million for the years ended December 31, 1998 and 1997, respectively.

The building at 1801 5th Avenue North, Birmingham, Alabama was sold to the Allright Corporation on June 18, 1998 with a loss of approximately $300 thousand. The building at 104 Marietta Street was sold to the State Bar Association on April 1, 1997 with a profit of approximately $1 million. The expansion block also located on Marietta Street was sold to Turner Enterprises on August 1, 1997 for a profit of approximately $1 million.

The Bank leases unused space to outside tenants. Those leases have terms ranging from 1 to 6 years. Rental income from such leases was $1 million in each of the years ended December 31, 1998 and 1997. Future minimum lease payments under agreements in existence at December 31, 1998, were (in thousands):

1999	$ 575
2000	192
2001	134
2002	100
2003	83
Thereafter	83
	$ 1,167

7. COMMITMENTS AND CONTINGENCIES

At December 31, 1998, the Bank was obligated under noncancelable leases for premises and equipment with terms ranging from 1 to approximately 6 years. These leases provide for increased rentals based upon increases in real estate taxes, operating costs or selected price indices.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance and maintenance when included in rent), net of sublease rentals, was $7 million and $3 million for the years ended December 31, 1998 and 1997, respectively. Certain of the Bank's leases have options to renew. Future minimum rental payments under noncancelable operating leases, net of sublease rentals, with terms of one year or more, at December 31, 1998, were (in millions):

	Operating
1999	$ 4.2
2000	2.7
2001	1.5
2002	0.2
	$ 8.6

At December 31, 1998, other commitments and long-term obligations in excess of one year were $79 million.

Under the Insurance Agreement of the Federal Reserve Banks dated as of June 7, 1994, each of the Reserve Banks has agreed to bear, on a per incident basis, a pro rata share of losses in excess of 1% of the capital of the claiming Reserve Bank, up to 50% of the total capital and surplus of all Reserve Banks. Losses are borne in the ratio that a Reserve Bank's capital bears to the total capital of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under such agreement at December 31, 1998 or 1997.

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

8. RETIREMENT AND THRIFT PLANS

Retirement Plans

The Bank currently offers two defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the Bank's employees participate in the Retirement Plan for Employees of the Federal Reserve System ("System Plan") and the Benefit Equalization Retirement Plan ("BEP"). The System Plan is a multi-employer plan with contributions fully funded by participating employers. No separate accounting is maintained of assets contributed by the participating employers. The Bank's projected benefit obligation and net pension costs for the BEP at December 31, 1998 and 1997, and for the years then ended, are not material.

Thrift plan

Employees of the Bank may also participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System ("Thrift Plan"). The Bank's Thrift Plan contributions totaled $4 million and $3 million for the years ended December 31, 1998 and 1997, respectively, and are reported as a component of "Salaries and other benefits."

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND POSTEMPLOYMENT BENEFITS

Postretirement benefits other than pensions

In addition to the Bank's retirement plans, employees who have met certain age and length of service requirements are eligible for both medical benefits and life insurance coverage during retirement.

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets. Net postretirement benefit cost is actuarially determined using a January 1 measurement date.

Following is a reconciliation of beginning and ending balances of the benefit obligation (in millions):

	1998	1997
Accumulated postretirement benefit obligation at January 1	$ 66.3	$ 60.6
Service cost-benefits earned during the period	1.7	1.8
Interest cost of accumulated benefit obligation	4.2	4.5
Actuarial loss	1.8	1.5
Contributions by plan participants	0.4	0.3
Benefits paid	(2.6)	(2.4)
Accumulated postretirement benefit obligation at December 31	$ 71.8	$ 66.3

Following is a reconciliation of the beginning and ending balance of the plan assets, unfunded postretirement benefit obligation, and the accrued postretirement benefit cost (in millions):

	1998	1997
Fair value of plan assets at January 1	$ –	$ –
Actual return on plan assets	–	–
Contributions by the employer	2.3	2.0
Contributions by plan participants	0.3	0.3
Benefits paid	(2.6)	(2.3)
Fair value of plan assets at December 31	$ –	$ –
Unfunded postretirement benefit obligation	$ 71.8	$ 66.3
Unrecognized initial net transition asset (obligation)	–	–
Unrecognized prior service cost	5.4	5.8
Unrecognized net actuarial loss	(7.1)	(5.2)
Accrued postretirement benefit cost	$ 70.1	$ 66.9

Accrued postretirement benefit cost is reported as a component of "Accrued benefit cost."

The weighted-average assumption used in developing the postretirement benefit obligation as of December 31 is as follows:

	1998	1997
Discount rate	6.25%	7.00%

For measurement purposes, an 8.5% annual rate of increase in the cost of covered health care benefits was assumed for 1999. Ultimately, the health care cost trend is expected to decrease gradually to 4.75% by 2006, and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 1998 (in millions):

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit cost	$ 2	$ (2)
Effect on accumulated postretirement benefit obligation	19	(16)

The following is a summary of the components of net periodic postretirement benefit cost for the years ended December 31 (in millions):

	1998	1997
Service cost-benefits earned during the period	$ 1.7	$ 1.8
Interest cost of accumulated benefit obligation	4.2	4.4
Amortization of prior service cost	(0.4)	(0.4)
Recognized net actuarial loss	–	–
Net periodic postretirement benefit cost	$ 5.5	$ 5.8

Net periodic postretirement benefit cost is reported as a component of "Salaries and other benefits."

Postemployment benefits

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined and include the cost of medical and dental insurances, survivor income, disability benefits, and self-insured workers' compensation expenses. Costs were projected using the same discount rate and health care trend rates as were used for projecting postretirement costs. The accrued postemployment benefit costs recognized by the Bank at December 31, 1998 and 1997, were $8 million in each year. This cost is included as a component of "Accrued benefit cost." Net periodic postemployment benefit costs included in 1998 and 1997 operating expenses were $2 million in each year.

Head Office and Atlanta Branch
104 Marietta Street, N.W.
Atlanta, Georgia 30303-2713

Birmingham Branch
1801 Fifth Avenue, North
Birmingham, Alabama 35203-2104

Jacksonville Branch
800 West Water Street
Jacksonville, Florida 32204-1616

Miami Branch
9100 N.W. 36th Street
Miami, Florida 33178-2425

Nashville Branch
301 Eighth Avenue, North
Nashville, Tennessee 37203-4407

New Orleans Branch
525 St. Charles Avenue
New Orleans, Louisiana 70130-3480

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Public Affairs Department
Federal Reserve Bank of Atlanta
104 Marietta Street, N.W.
Atlanta, Georgia 30303-2713
404.521.8020
www.frbatlanta.org

Federal Reserve Bank of Atlanta
104 Marietta Street, N.W.
Atlanta, Georgia 30303-2713
404/521-8020
www.frbatlanta.org