



**FEDERAL
RESERVE
BANK**
of ATLANTA

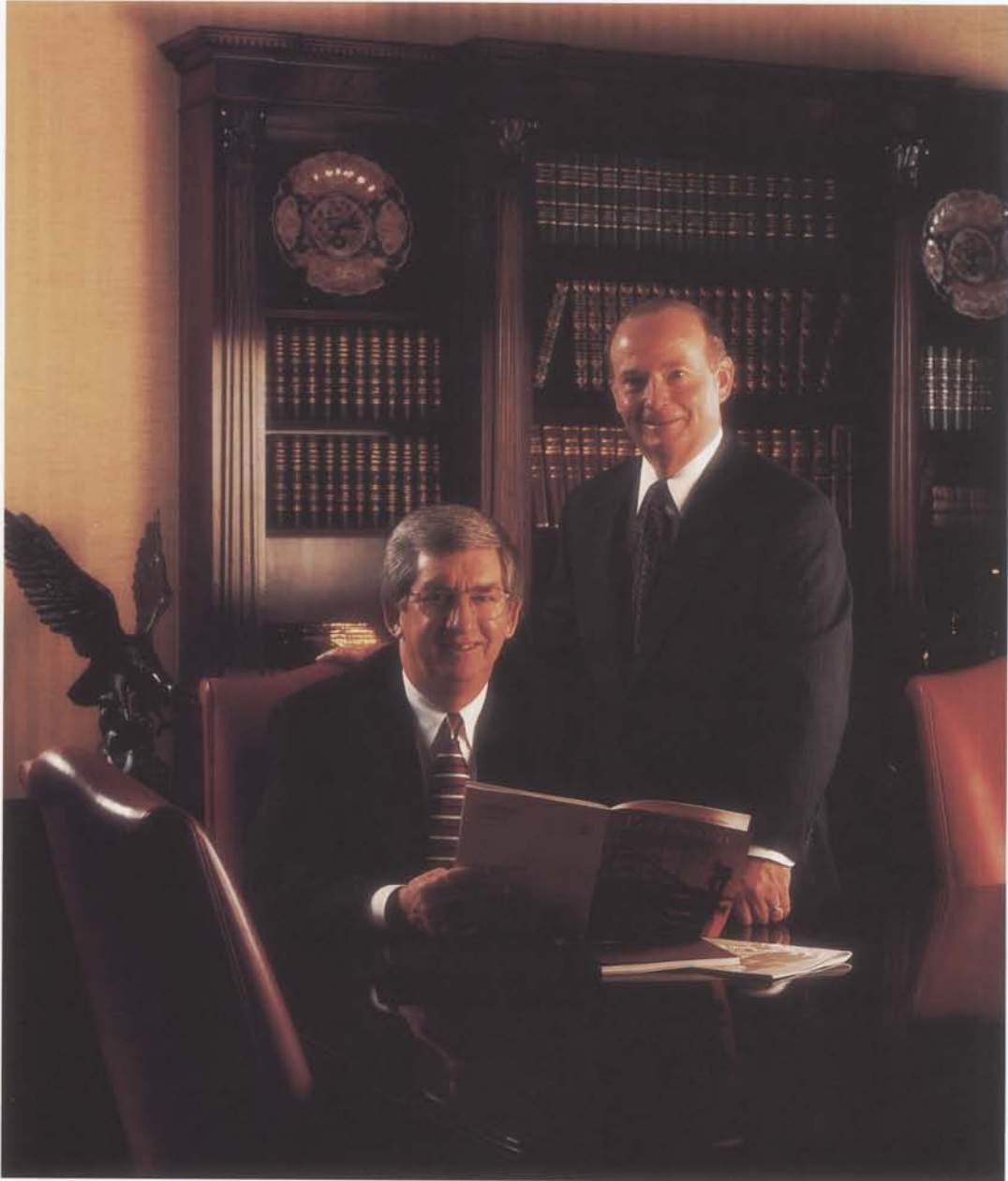
The Federal Reserve Bank of Atlanta is one of twelve regional Reserve Banks in the United States that, together with the Board of Governors in Washington, D.C., make up the Federal Reserve System—the nation's central bank. Since its establishment by an act of Congress in 1913, the Federal Reserve System's 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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JACK GYNN, ATLANTA FED PRESIDENT AND CEO (LEFT), AND PAT BARRON, FIRST VICE PRESIDENT AND CHIEF OPERATING OFFICER

MESSAGE FROM THE PRESIDENT

By any measure, 1999 was an exceptional year for the Federal Reserve Bank of Atlanta.

- We cleared more checks—3.1 billion—than any other Federal Reserve Bank.
- We processed more cash—\$62.2 billion—than ever before.
- We helped implement the Year 2000 changeover at 1,100 depository institutions and bank holding companies.
- And we contributed to the policies that are helping make the economic expansion that began in 1991 the longest in the post-World War II era.

As the nation's central bank, the Federal Reserve System must act, above all, with integrity and accountability. The year's results indicate that the Atlanta Fed does both, and we are proud of our accomplishments.

But more than that, we are proud of who we are. Because at the Federal Reserve Bank of Atlanta, we define who we are by how and whom we serve.

The Federal Reserve System operates payments systems, supervises banking institutions, and formulates economic policies. We share responsibility with other institutions in each of these areas, but the Fed is the only U.S. institution with responsibility for them all. It is this fact that makes the Federal Reserve central to the stability of the U.S. economy and therefore makes us unique—in the United States and the world.

Perhaps most significant, though, is the source of our authority: the people of the United States. Eighty-six years ago, an act of Congress created the Federal Reserve System. And while the law provides us an unusual degree of independence from the Congress that created us and from executive departments of the government, we must never forget that we are, fundamentally, a servant of the people.

Because our work is a function of a complex economy, the how of our job changes almost daily. But also, because our responsibilities have been entrusted to us by the people, we know that the spirit in which we work—the values we bring to our jobs—must remain steadfast. The 1999 annual report of the Federal Reserve Bank of Atlanta offers a closer look at the Atlanta Fed at work.



JACK GUYNN

THE FEDERAL RESERVE

AT WORK

SECURING THE PUBLIC TRUST

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PROTECTION OFFICER ERIC KIMBLE STANDS BY WHILE MICHELE ARMAND (LEFT) AND CATHY WILSON, CASH SERVICES, CHECK RECORDS ON BUNDLES OF CASH BEING BROUGHT INTO THE VAULT AT THE JACKSONVILLE BRANCH. WHILE ELECTRONIC TRANSACTIONS ARE ON THE RISE, HANDLING CHECKS AND CURRENCY—10 BILLION PIECES OF CURRENCY IN THE ATLANTA FED'S SIX OFFICES IN 1999—IS STILL A SIGNIFICANT PART OF SERVICE TO FINANCIAL INSTITUTIONS.



The vault at the Jacksonville Branch of the Federal Reserve Bank of Atlanta is secured by a hydraulically mounted, 21-ton door. Nearby, behind a bulletproof glass partition, is a control room from which access to the vault is granted through a series of doors called “mantraps.” High-resolution video cameras, capable of reading the serial number of any piece of currency, record every action in or near the vault. And protection officers are always in sight, on duty, en route, or maybe on their way to the shooting range.

The American people have entrusted the Federal Reserve with an unusual and unprecedented range of responsibilities. The millions of routine transactions that are the lifeblood of the economy cannot take place without a smoothly functioning, widely accessible payments system. Financial resources cannot be routed to their most efficient uses without a safe and sound banking system. And real economic growth cannot be sustained without effective monetary policies. Economic stability—a Fed mandate—requires that all of them exist, all the time.

The defining quality of the Federal Reserve System is stewardship—managing payments systems, supervising financial institutions, and conducting monetary policy. Even more fundamentally, however, stewardship requires that we earn the public trust. In the absence of public confidence, merchants wouldn't trust the processing of their transactions; markets wouldn't trust our oversight of financial institutions; and credibility—the sine qua non for effective monetary policy making—wouldn't exist at all.

Stewardship also requires that we hold ourselves to a higher standard. Above all, it demands integrity: fairness in relationships, soundness in judgment, and probity in appearances. And while maintaining integrity requires a high level of scrutiny—credit checks, security audits, and annual financial disclosures, among other things—we know that such scrutiny is worth it. Because ultimately, we can be only as effective as we are trustworthy.

ACCEPTING LEADERSHIP

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Four nights a week, between 8:00 P.M. and 6:00 A.M., a race against time begins at a freight terminal at Atlanta's Hartsfield International Airport. It's coordinated from the fourth floor of the Atlanta Fed's headquarters, where Tom Vaughan, network manager for the Check Relay office, monitors flight conditions across the United States and remains in contact with the 45 contract jets that ferry 23 tons of checks across the country. Meanwhile, from the next workstation, Transportation Coordinator Molly Kent supervises 27 cargo handlers on the ground.

The Federal Reserve System faces tight deadlines for making funds available to depositing institutions. Meeting those deadlines means getting checks from an initial Fed processing center to their home Fed by early morning the next day, usually no later than 8:00 A.M. Failure to do so causes float: dollars credited to one bank but not yet debited from the payor. Every night, then, hundreds of millions of dollars in float are at stake, subject to the vagaries of weather and vicissitudes of the nation's air transportation system. At the Atlanta Fed, our job is to work around the problems and get the checks where they belong on time, no matter what.

Needless to say, it is challenging enough for any Reserve Bank to handle its own check transfers. Beginning in 1998, however, the Atlanta Fed assumed Fed-to-Fed transportation responsibilities for the entire Federal Reserve System.

Why the Atlanta Fed? The district has a long-standing philosophy of providing leadership in financial services, historically in the cash and electronic payments areas and recently in overseeing the Fed's automated clearinghouse and check businesses, of which check relay is a pivotal part. In 1999 the Atlanta Fed processed nearly one-sixth of all checks cleared by the System. Still, we do not forget that leadership is more than a matter of numbers. Ultimately, it demands vision and execution—and a commitment to both.



WHILE MOST OF US SLEEP, CHECK
RELAY DEPARTMENT STAFF (FROM
LEFT, FOREGROUND) KAWASKI
SMITH, ANTHONY BEALE, JOHN
WASHINGTON, (BACKGROUND)
TIM STALLINGS, BRYAN BARBER,
AND A NUMBER OF COWORKERS
NOT PICTURED WORK IN THE
WEE HOURS OF THE MORNING
TO KEEP CHECKS MOVING
BETWEEN FEDERAL RESERVE PRO-
CESSING CENTERS ACROSS THE
COUNTRY. WITH MILLIONS OF
DOLLARS DEPENDING EVERY DAY
ON EVERYTHING RUNNING
SMOOTHLY THROUGHOUT THE
FINANCIAL SYSTEM, EFFICIENCY
IS NOT OPTIONAL.



STRIVING FOR QUALITY

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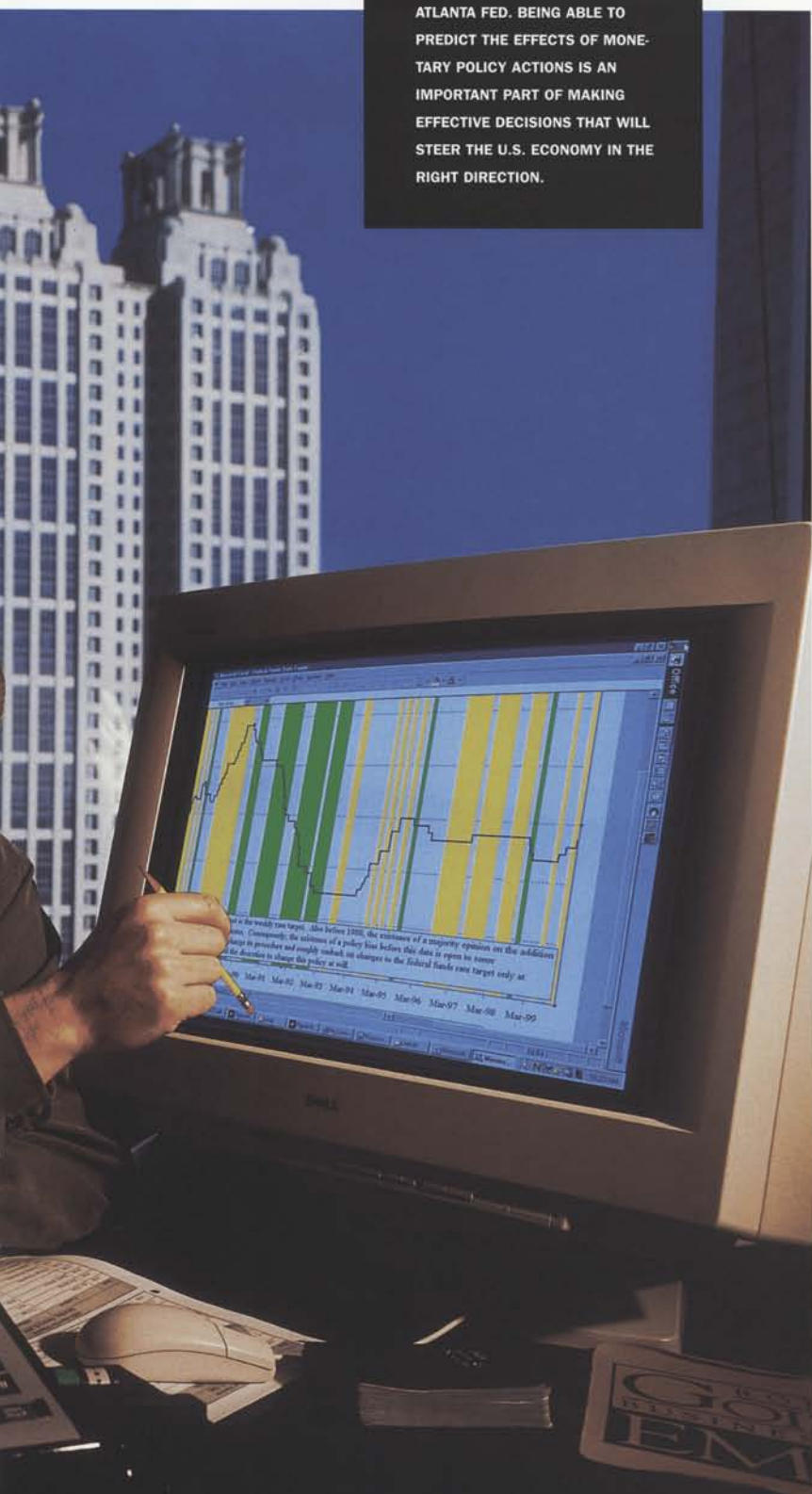
TAO ZHA (LEFT) AND JOHN ROBERTSON, SENIOR ECONOMISTS AND POLICY ADVISERS IN THE RESEARCH DEPARTMENT, DISCUSS THE FINER POINTS OF A PROMISING FORECASTING MODEL BEING DEVELOPED AT THE ATLANTA FED. BEING ABLE TO PREDICT THE EFFECTS OF MONETARY POLICY ACTIONS IS AN IMPORTANT PART OF MAKING EFFECTIVE DECISIONS THAT WILL STEER THE U.S. ECONOMY IN THE RIGHT DIRECTION.

Senior Economist Tao Zha's dynamic multivariate model demonstrated remarkable forecasting potential in 1999: its June 1998 GDP and CPI forecasts fell within 0.5 percent and 0.05 percent, respectively, of the actual results for 1999. And yet Tao, for one, remains unimpressed. "Anybody can be right once," he says. "If the model's going to be useful, it's got to be better."

Tao's model has been in development since his arrival at the Atlanta Fed in 1995. As one of a new class of forecasting tools, it incorporates and predicts only a few economic essentials. Just as important for policy-makers, it also self-assesses the probability that its forecast is in error. With the help of other Atlanta Fed economists, Tao has continued to refine the model and interpret the story it tells.

The Research Department's economic modeling and policy support initiatives are just a few examples of the Atlanta Fed's commitment to quality and innovation. Just as our economists are dedicated to producing research that informs the decisions of policy-makers throughout the Federal Reserve System, so our Financial Services and Supervision and Regulation staff seek to be creative in anticipating and responding to financial system and banking needs. For example, this year Supervision and Regulation developed a tool for monitoring ongoing exposure in real estate lending, and the system has been used as a model for other Federal Reserve districts.

At its most fundamental level, quality is the standard for measuring whether we're improving, how efficiently we're adding value, and, always, how effectively we serve. Whether and how much we succeed at each of these things requires openness to change and a commitment to practical results.



For employees in the Atlanta Fed's Systems Department, preparations for the year 2000 rollover were both extraordinary and routine. Extraordinary because the Y2K problem was utterly unprecedented. Routine because the stakes—the sustained and seamless functioning of the U.S. payments systems—were the same as they are every single day.

One of the Federal Reserve System's primary areas of responsibility—along with monetary policy and bank examination—is the nation's payments systems. From the purchase of a 50-cent newspaper to the closing of a billion-dollar acquisition, trillions of dollars change hands in the United States each day, and no institution processes more of those transactions than the Fed.

Through its check processing operations and its various electronic funds transfer systems, the Fed provides settlement for the nation's businesses, consumers, borrowers, lenders, and investors. It's a job that's as vital as it is taken for granted. Without it, however—and without the confidence that every single transaction will be completed every single time—the U.S. economy would hardly function.

At the Atlanta Fed, we never forget that the stakes are just as high on the other 364 days of the year as on January 1 of the Y2K rollover. Still, the behind-the-scenes work that makes something as important as payments systems routine enough to take for granted requires extraordinary dedication and hard work—not just in the Systems Department and not just on special occasions. At the Atlanta Fed it's a level of dedication that's put forth routinely, every single day—and night.

PEGGY HENDRIX (RIGHT) AND CINDY LOHR OF THE SYSTEMS DEPARTMENT GATHER THEIR THOUGHTS AT THE END OF ANOTHER LONG DAY AS Y2K DRAWS CLOSER. WORKING WITH THE LARGE NUMBER OF FINANCIAL INSTITUTIONS IN THE SOUTHEAST TO HELP ENSURE A SMOOTH TRANSITION WAS A MAJOR FOCUS IN 1999. SUCH ATTENTION TO THE MECHANICS OF THE FINANCIAL SYSTEM IS AS IMPORTANT FOR KEEPING THE ECONOMY RUNNING SMOOTHLY AS MONETARY POLICY ACTIONS THAT MAKE THE NEWS.



PERFORMING WITH DEDICATION

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Fifty years ago, on Monday mornings—and sometimes on Sunday afternoons, if the trip was long—bank examiners loaded briefcases, typewriters, and adding machines into bank cars and headed out across the Southeast to various Fed-supervised banks, some as far away as New Orleans. Once there they pored over ledgers and financial statements and loan files until the job was done.

Like banking itself, bank supervision in that era was relatively simple and straightforward. The financial services industry was divided into rigid sectors, and competition hardly existed. Safety and soundness meant ensuring that banks were cautious, prudent, and profitable.

In 1999 finance is a 24-hours-a-day business, with credit offered across state and national and industry boundaries and real competition for the accumulation of savings. Today, industrial conglomerates make consumer loans; brokerages offer interest-bearing checking accounts; and the biggest, most creditworthy customers raise funds directly in the capital markets. As technology has improved, the range of financial products and the vehicles for bringing them to market have proliferated as well.

And so have the sources of risk. For examiners, carrying out our responsibilities in this new era of finance has meant rethinking how we examine banks and bank holding companies. It has especially required flexibility in the way that we conceive of and conduct our jobs. And it has meant embracing duties that take us not only outside the region but beyond national borders.

It remains the task of bank supervision and regulation to help contain sources of risk. To do so effectively, the Atlanta Fed strives to be both efficient and market-oriented, changing as the times demand but holding firm to the seriousness of our charge to help ensure a healthy financial system.

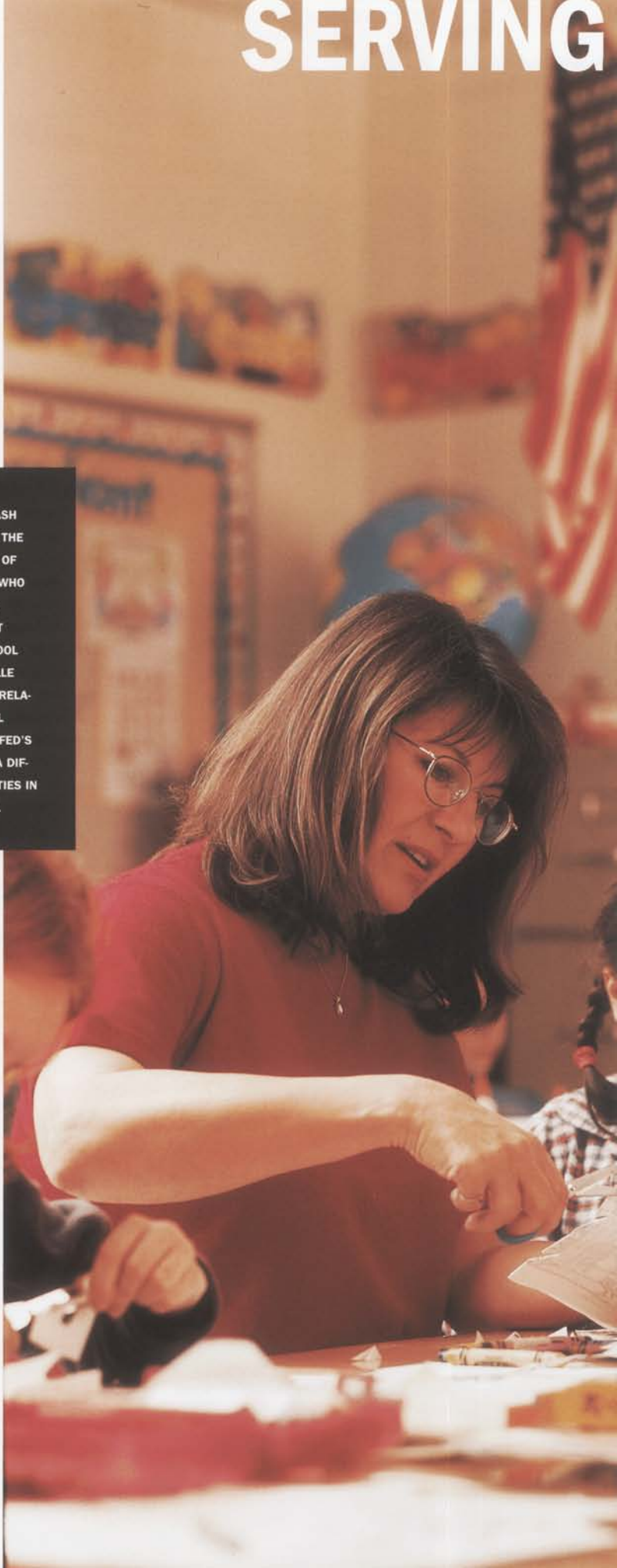
NANCY JAIMES (CENTER), A SENIOR EXAMINER IN SUPERVISION AND REGULATION IN THE MIAMI BRANCH, WORKS ON A LAPTOP TO MAKE THE MOST OF TIME SPENT WAITING AT THE MIAMI INTERNATIONAL AIRPORT FOR HER FLIGHT TO BOGOTA, COLOMBIA. FOR THE ATLANTA FED, GLOBALIZATION HAS MEANT INCREASED SUPERVISORY RESPONSIBILITY FOR CARIBBEAN AND LATIN AMERICAN BANKS WITH U.S. OFFICES. IN 1999, THAT INCLUDED HELPING THE BANKING SYSTEMS IN THOSE REGIONS GET READY FOR Y2K.



CHANGING WITH THE TIMES



RHONDA HARRIS OF THE CASH SERVICES DEPARTMENT OF THE NASHVILLE BRANCH IS ONE OF SEVERAL STAFF MEMBERS WHO PARTICIPATE IN THE JUNIOR ACHIEVEMENT PROGRAM AT JOELTON ELEMENTARY SCHOOL IN NASHVILLE. THE NASHVILLE BRANCH'S LONG-STANDING RELATIONSHIP WITH THE SCHOOL EXEMPLIFIES THE ATLANTA FED'S COMMITMENT TO MAKING A DIFFERENCE IN THE COMMUNITIES IN WHICH WE LIVE AND WORK.



Working at the Federal Reserve generally means minding “the aggregate.” We follow national GDP and regional unemployment. We process checks by the billions and transfer electronic funds by the trillions. We guard against risk spreading throughout the financial system. We even refer to ourselves in the aggregate: we work for the Fed.

To be sure, all this aggregation is essential. We are, after all, a public institution—a system, no less—with responsibilities for the national economy, and the Fed is far more than just the sum of its thousands of employees. But we are also, as an institution and as individuals, citizens. And at the Atlanta Fed, we help our 2,600 employees throughout the Southeast find opportunities to contribute to their communities.

For more than ten years, employees at the Atlanta Fed’s Nashville Branch have volunteered at Nashville’s Joelton Elementary School. In 1998, they helped start a Junior Achievement program that reinforces classroom lessons on business and economics with hands-on, entrepreneurial exercises. The program was launched schoolwide in 1999. Once again, Nashville Branch employees were asked to provide leadership.

At the Atlanta Fed, leadership includes very different kinds of service. Much of it is institution to institution. At the same time, through volunteer efforts our employees find channels to help individuals in need in our local communities in a highly personal way.

Serving our communities is an important part of being the kind of public organization we want to be. It is, perhaps, the best way we stay mindful that however much our day-to-day work involves dollars and cents, its ultimate importance is its connection to the people affected every day by the U.S. economy.



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.

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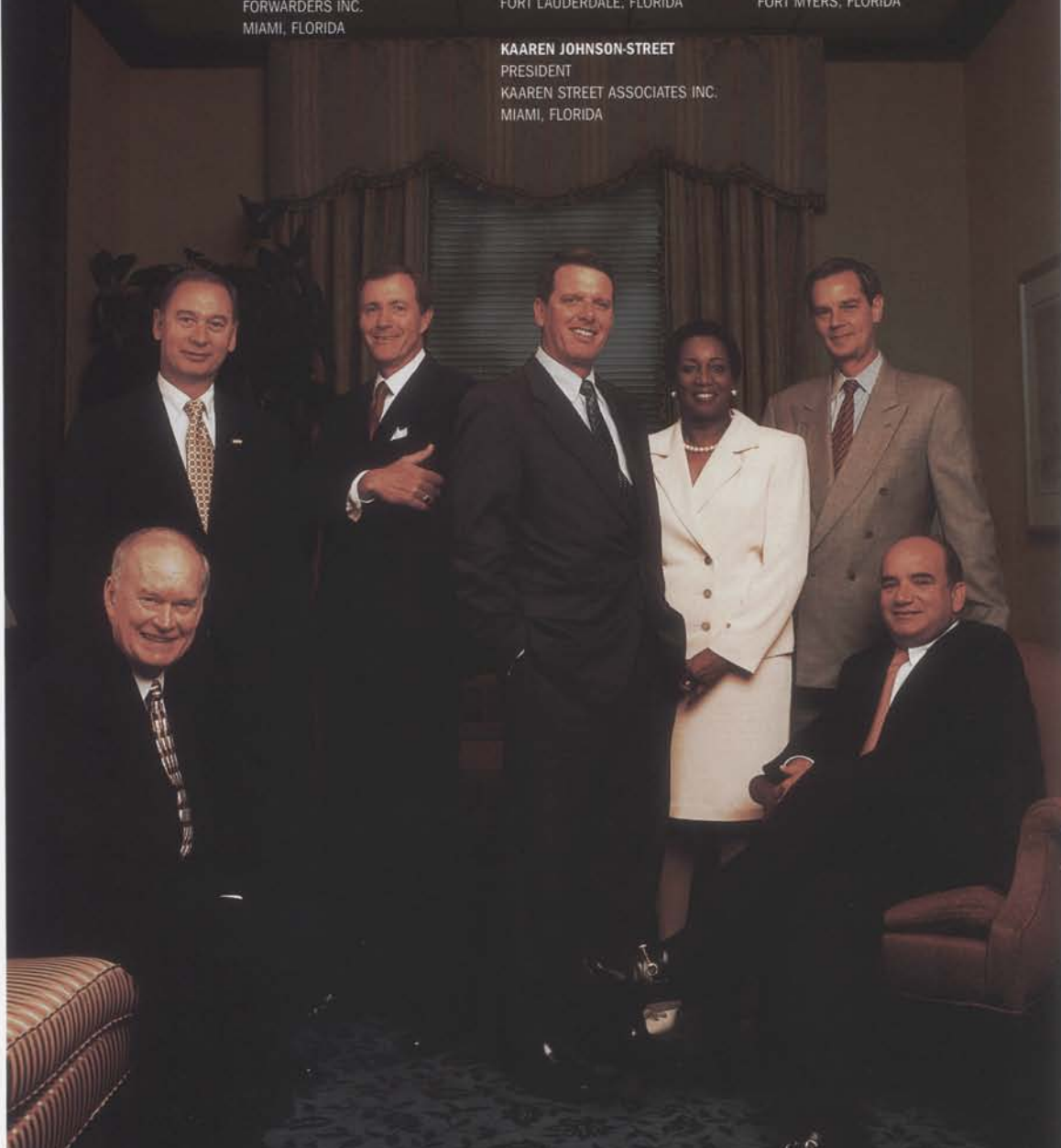
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FEDERAL RESERVE BANK OF ATLANTA

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 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, 1999 (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 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 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 Atlanta believes that the FRB 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

January 18, 2000

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, 1999, 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, 1999, 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.

The image shows a handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in black ink and is positioned above the printed name of the firm.

PricewaterhouseCoopers LLP

March 3, 2000
Atlanta, Georgia

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, 1999 and 1998, 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 auditing standards generally accepted in the United States. 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 accounting principles generally accepted in the United States.

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, 1999 and 1998, and results of its operations for the years then ended, on the basis of accounting described in Note 3.



PricewaterhouseCoopers LLP

March 3, 2000
Atlanta, Georgia

STATEMENTS OF CONDITION

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<i>(in millions)</i>	<i>As of December 31, 1999</i>	<i>As of December 31, 1998</i>
Assets		
Gold certificates	\$ 724	\$ 717
Special drawing rights certificates	450	602
Coin	20	44
Items in process of collection	603	1,050
Loans to depository institutions	14	4
U.S. government and federal agency securities, net	29,455	27,779
Investments denominated in foreign currencies	1,134	1,295
Accrued interest receivable	297	262
Interdistrict settlement account	13,643	4,780
Bank premises and equipment, net	200	137
Other assets	40	41
Total assets	\$ 46,580	\$ 36,711
Liabilities and capital		
Liabilities		
Federal Reserve notes outstanding, net	\$ 43,852	\$ 33,103
Deposits		
Depository institutions	899	1,769
Other deposits	4	16
Deferred credit items	772	821
Surplus transfer due U.S. Treasury	34	75
Accrued benefit cost	82	78
Other liabilities	17	13
Total liabilities	\$ 45,660	\$ 35,875
Capital		
Capital paid-in	\$ 460	\$ 418
Surplus	460	418
Total capital	\$ 920	\$ 836
Total liabilities and capital	\$ 46,580	\$ 36,711

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

STATEMENTS OF INCOME

<i>(in millions)</i>	<i>For the years ended</i>	
	<i>December 31, 1999</i>	<i>December 31, 1998</i>
Interest income		
Interest on U.S. government and federal agency securities	\$ 1,666	\$ 1,657
Interest on foreign currencies	16	29
Interest on loans to depository institutions	1	1
Total interest income	\$ 1,683	\$ 1,687
Other operating income (loss)		
Income from services	\$ 153	\$ 108
Reimbursable services to government agencies	15	18
Foreign currency (losses) gains, net	(35)	122
U.S. government securities (losses) gains, net	(1)	3
Other income	5	2
Total other operating income	\$ 137	\$ 253
Operating expenses		
Salaries and other benefits	\$ 142	\$ 128
Occupancy expense	16	15
Equipment expense	24	22
Assessments by Board of Governors	48	39
Other expenses	92	68
Total operating expenses	\$ 322	\$ 272
Net income prior to distribution	\$ 1,498	\$ 1,668
Distribution of net income		
Dividends paid to member banks	\$ 26	\$ 25
Transferred to surplus	42	79
Payments to U.S. Treasury as interest on Federal Reserve notes	1,430	558
Payments to U.S. Treasury as required by statute	—	1,006
Total distribution	\$ 1,498	\$ 1,668

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

STATEMENTS OF CHANGES IN CAPITAL

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<i>(in millions)</i>	<i>for the years ended December 31, 1999, and December 31, 1998</i>		
	Capital Paid-In	Surplus	Total Capital
Balance at January 1, 1998			
(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
Net income transferred to surplus		42	42
Net change in capital stock issued (0.8 million shares)	42		42
Balance at December 31, 1999			
(9.2 million shares)	\$ 460	\$ 460	\$ 920

The accompanying notes are an integral part of these 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 in the United States ("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.

The Board of Governors established a Special Liquidity Facility (SLF) to make discount window credit readily available to depository institutions in sound financial condition around the century date change (October 1, 1999, to April 7, 2000) in order to meet unusual liquidity demands and to allow institutions to confidently commit to supplying loans to other institutions and businesses during this period. Under the SLF, collateral requirements are unchanged from normal discount window activity and loans are made at a rate of 150 basis points above FOMC's target federal funds rate.

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.

Effective April 26, 1999, FRBNY was given the sole authorization 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 FRBNY 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 FRBNY on a daily basis, with additional collateral obtained as necessary. The securities loaned continue to be accounted for in the SOMA. Prior to April 26, 1999, all Reserve Banks were authorized to engage in such lending activity.

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 and federal agency 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 (losses), 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 (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. Effective April 26, 1999, income from securities lending transactions undertaken by FRBNY was also allocated to each Reserve Bank. Securities purchased under agreements to resell 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.

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, 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. The Reserve Banks have entered into an agreement which provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes of all Reserve Banks in order to satisfy their obligation of providing sufficient collateral for outstanding Federal Reserve notes. 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 \$18,237 million, and \$11,326 million at December 31, 1999 and 1998, 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.

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 ended on September 30, 1998 and 1997, 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. Payments to the U.S. Treasury made after September 30, 1998, represent payment of interest on Federal Reserve notes outstanding.

The Consolidated Appropriations Act of 1999 (Public Law 106-113, Section 302) directed the Reserve Banks to transfer to the U.S. Treasury additional surplus funds of \$3,752 million during the Federal Government's 2000 fiscal year. The Reserve Banks will make this payment prior to September 30, 2000.

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 may vary significantly.

j. Income and Cost Related to 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 not paid are immaterial and included in "Other expenses."

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 6.087% and 6.083% at December 31, 1999 and 1998, respectively.

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

	1999	1998
Par value		
Federal agency	\$ 11	\$ 21
U.S. government		
Bills	10,744	11,848
Notes	13,298	11,430
Bonds	5,051	4,226
Total par value	29,104	27,525
Unamortized premiums	554	449
Unaccreted discounts	(203)	(195)
Total allocated to Bank	\$ 29,455	\$ 27,779

Total SOMA securities bought outright were \$483,902 million and \$456,667 million at December 31, 1999 and 1998, respectively.

The maturities of U.S. government and federal agency securities bought outright, which were allocated to the Bank at December 31, 1999, were as follows (in millions):

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Maturities of Securities Held	Par value		Total
	U.S. Government Securities	Federal Agency Obligations	
Within 15 days	\$ 282	\$ —	\$ 282
16 days to 90 days	5,595	2	5,597
91 days to 1 year	8,513	1	8,514
Over 1 year to 5 years	7,558	1	7,559
Over 5 years to 10 years	3,111	7	3,118
Over 10 years	4,034	—	4,034
Total	\$ 29,093	\$ 11	\$ 29,104

At December 31, 1999 and 1998, matched sale-purchase transactions involving U.S. government securities with par values of \$39,182 million and \$20,927 million, respectively, were outstanding, of which \$2,385 million and \$1,273 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 7.027% and 6.545% at December 31, 1999 and 1998, 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):

	1999	1998
German Marks		
Foreign currency deposits	\$ —	\$ 684
Government debt instruments including agreements to resell	—	155
European Union Euro		
Foreign currency deposits	305	—
Government debt instruments including agreements to resell	178	—
Japanese Yen		
Foreign currency deposits	23	44
Government debt instruments including agreements to resell	625	406
Accrued interest	3	6
Total	\$ 1,134	\$ 1,295

Total investments denominated in foreign currencies were \$16,140 million and \$19,769 million at December 31, 1999 and 1998, respectively. The 1998 balance includes \$15 million in unearned interest 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, 1999, were as follows (in millions):

Maturities of Investments Denominated in Foreign Currencies	
Within 1 year	\$ 1,059
Over 1 year to 5 years	35
Over 5 years to 10 years	40
Total	\$ 1,134

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At December 31, 1999 and 1998, there were no open foreign exchange contracts or outstanding F/X swaps.

At December 31, 1999 and 1998, the warehousing facility was \$5,000 million, with nothing outstanding.

6. BANK PREMISES AND EQUIPMENT

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

	1999	1998
Bank premises and equipment		
Land	\$ 32	\$ 32
Buildings	42	41
Building machinery and equipment	13	11
Construction in progress	78	17
Furniture and equipment	134	128
	299	229
Accumulated depreciation	(99)	(92)
Bank premises and equipment, net	\$ 200	\$ 137

Depreciation expense was \$16 million and \$14 million for the years ended December 31, 1999 and 1998, respectively.

The Bank is constructing new buildings to replace the head office in Atlanta and the branch in Birmingham. At December 31, 1999, the contractual obligation for this construction totals \$144 million.

The Bank leases unused space to outside tenants. Those leases have terms ranging from 1 to 5 years. Rental income from such leases were \$1 million in each of the years ended December 31, 1999 and 1998. Future minimum lease payments under agreements in existence at December 31, 1999, were (in thousands):

2000	\$ 249
2001	135
2002	100
2003	83
2004	83
Thereafter	0
	\$ 650

7. COMMITMENTS AND CONTINGENCIES

At December 31, 1999, the Bank was obligated under noncancelable leases for premises and equipment with terms ranging from 1 to approximately 10 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 for each of the years ended December 31, 1999 and 1998. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases and capital leases, net of sublease rentals, with terms of one year or more, at December 31, 1999, were (in millions):

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	Operating
2000	\$ 4.4
2001	3.6
2002	0.5
2003	0.3
2004	0.3
Thereafter	1.4
	\$ 10.5

At December 31, 1999, other commitments and long-term obligations in excess of one year were \$98 million.

Under the Insurance Agreement of the Federal Reserve Banks dated as of March 2, 1999, 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 paid-in of the claiming Reserve Bank, up to 50% of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio that a Reserve Bank's capital paid-in bears to the total capital paid-in 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, 1999 or 1998.

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, 1999 and 1998, 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 for each year ended December 31, 1999 and 1998, 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):

	1999	1998
Accumulated postretirement benefit obligation at January 1	\$ 71.8	\$ 66.3
Service cost-benefits earned during the period	2.1	1.7
Interest cost of accumulated benefit obligation	4.1	4.2
Actuarial (gain)	(10.4)	1.8
Contributions by plan participants	0.3	0.4
Benefits paid	(2.0)	(2.6)
Accumulated postretirement benefit obligation at December 31	\$ 65.9	\$ 71.8

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

	1999	1998
Fair value of plan assets at January 1	\$ —	\$ —
Actual return on plan assets	—	—
Contributions by the employer	1.7	2.3
Contributions by plan participants	0.3	0.3
Benefits paid	(2.0)	(2.6)
Fair value of plan assets at December 31	\$ —	\$ —
Unfunded postretirement benefit obligation	\$ 65.9	\$ 71.8
Unrecognized prior service cost	5.0	5.4
Unrecognized net actuarial gain (loss)	3.3	(7.1)
Accrued postretirement benefit cost	\$ 74.2	\$ 70.1

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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, 1999 and 1998 was 7.50% and 6.25%, respectively.

For measurement purposes, an 8.75% annual rate of increase in the cost of covered health care benefits was assumed for 2000. Ultimately, the health care cost trend rate is expected to decrease gradually to 5.50% 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, 1999 (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	\$ 2.1	\$ (1.6)
Effect on accumulated postretirement benefit obligation	17.1	(13.0)

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

	1999	1998
Service cost-benefits earned during the period	\$ 2.1	\$ 1.7
Interest cost of accumulated benefit obligation	4.1	4.2
Amortization of prior service cost	(0.4)	(0.4)
Recognized net actuarial loss	—	—
Net periodic postretirement benefit cost	\$ 5.8	\$ 5.5

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 insurance, survivor income, and 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, 1999 and 1998, were \$9 million and \$8 million, respectively. This cost is included as a component of "Accrued benefit cost." Net periodic postemployment benefit costs included in 1999 and 1998 operating expenses were \$2 million in each year.

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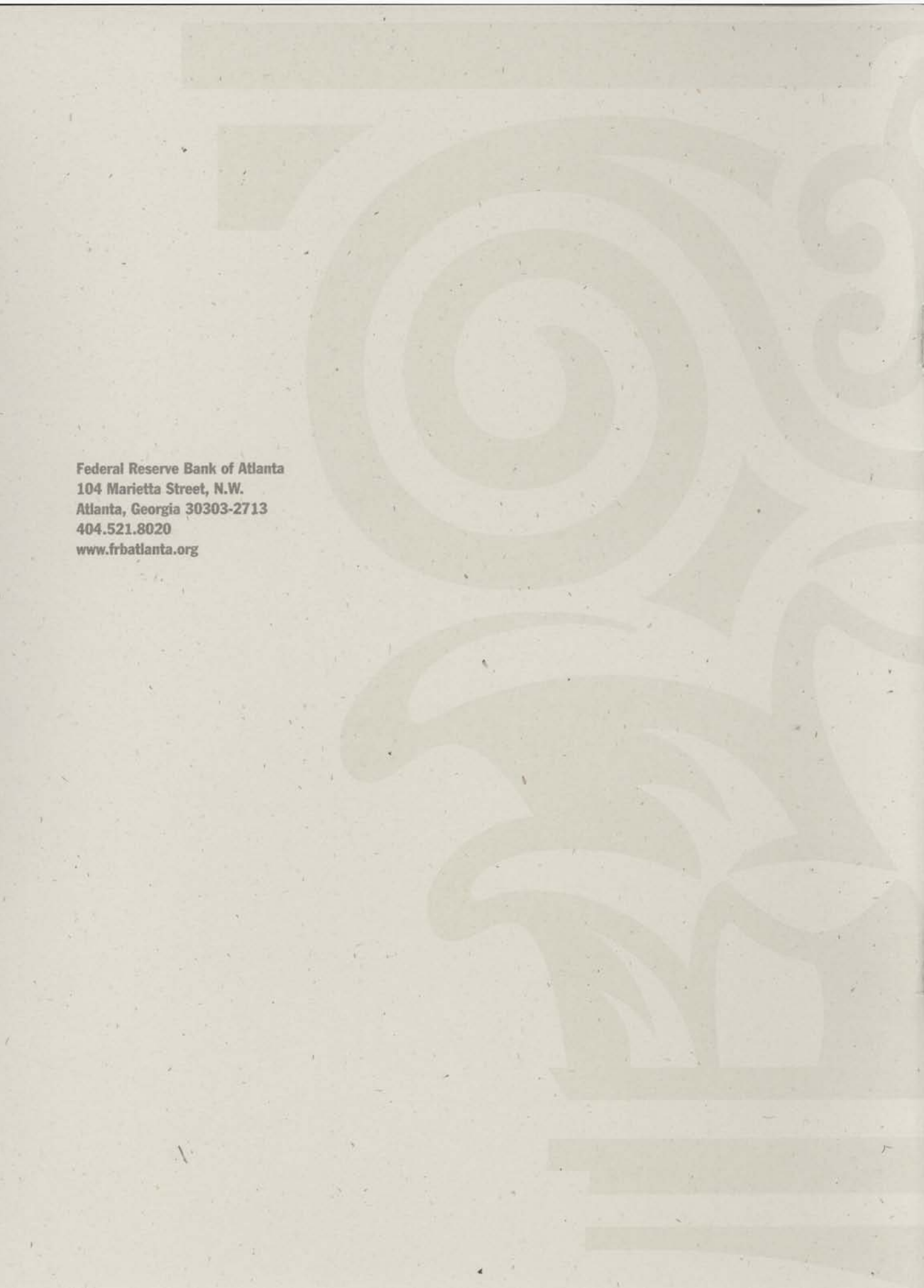
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