

The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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From the Boardroom
Looking Forward*
Looking Backward*
Executive Committee
Highlights of 1998*
Branch Operations
Summary of Operations
Bank Officers
Branch Officers
Boards of Directors
1999 Advisory Council
12th Federal Reserve District
Financial Statements

The Federal Reserve Bank of San Francisco is one of 12 regional Reserve Banks which, together with the Board of Governors in Washington, D.C., comprise the nation's central bank.

As the nation's central bank, the Federal Reserve is responsible for making and carrying out our nation's monetary policy. It also is a bank regulatory agency, a provider of wholesale priced banking services, and the fiscal agent for the United States Treasury.

The Federal Reserve Bank of San Francisco serves the Twelfth Federal Reserve District, which includes the nine western states -- Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington -- Guam, American Samoa, and the Northern Mariana Islands.

To serve this expansive region, the San Francisco Reserve Bank has five offices: our headquarters in San Francisco and offices in Los Angeles, Portland, Salt Lake City, and Seattle. Each office provides financial services to the banking institutions in its locale.

**Note: These articles are best viewed with a 4.x browser.*

Previous Annual Reports:

- [2004 Annual Report](#)
 - [2003 Annual Report](#)
 - [2002 Annual Report](#)
 - [2001 Annual Report](#)
 - [2000 Annual Report](#)
 - [1999 Annual Report](#)
 - [1998 Annual Report](#)
 - [1997 Annual Report](#)
 - [1996 Annual Report](#)
 - [1995 Annual Report](#)
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The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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Last year was an important one for the Federal Reserve Bank of San Francisco in that we both celebrated our history and looked toward our future. The year 1998 marked the 85th anniversary of the establishment of the Federal Reserve System. It was December 23, 1913, when President Woodrow Wilson signed into law the Federal Reserve Act. The Federal Reserve Act stated that its purposes were "to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." Further legislation has clarified and supplemented these original purposes through the years, but our underlying goals remain.

This Bank has a long history of outstanding accomplishments. During 1998 we once again reached important milestones that you will read about in this Report, and we assured our operational readiness to enter the next century.

Our directors provided us with invaluable information and leadership throughout the year. Their independent assessment and knowledge of economic and financial conditions throughout our District are essential to the formulation of monetary policy. We thank them all for their contributions.

In particular, we want to express our sincere thanks and appreciation to those directors and advisory council members who retired from Federal Reserve service at 1998 year end: on the Head Office Board, its Deputy Chairman, Cynthia A. Parker (Executive Director, Anchorage Neighborhood Housing Services, Inc., Anchorage, Alaska), and Stanley T. Skinner (Chairman and CEO [Retired], Pacific Gas and Electric Co., San Francisco, CA); on the Los Angeles Branch Board, its Chairman, Anne L. Evans (Chairman, Evans Hotels, San Diego, CA), and Stephen G. Carpenter (Director, California United Bank, Encino, CA); on the Portland Branch Board, its Chairman, Carol A. Whipple (Proprietor, Rocking C Ranch, Elkton, OR), and Thomas C. Young (Chairman, Northwest National Bank, Vancouver, WA); on the Salt Lake City Branch Board, its Chairman, Richard E. Davis (President and CEO, Salt Lake Convention and Visitors Bureau, Salt Lake City, UT), and Roy C. Nelson (President [Retired], Bank of Utah, Ogden, Utah); on the Seattle Branch Board, Constance L. Proctor (Partner, Alston, Courtage, Proctor & Bassetti, LLP, Seattle, WA); and the Twelfth District Member of the Federal Advisory Council, David A. Coulter (Chairman and CEO [Retired], BankAmerica Corporation, San Francisco, CA).



From left, Nelson C. Rising, Deputy Chairman (1999); Cynthia A. Parker, Deputy Chairman (1998); Robert T. Parry, President; John F. Moore, First Vice President; and Gary G. Michael, Chairman.

Gary G. Michael
Chairman

Robert T. Parry
President

The Federal Reserve Bank of San Francisco

ABOUT THE FED

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The countdown is on for 01/01/2000 -- the start of the new century. On the last day of 1999 celebrants around the world will wait for the stroke of midnight with a mixture of excitement, curiosity, and trepidation. Some will greet the new year at parties planned years in advance, while others will be sitting in their offices wondering whether they started planning far enough in advance. Will the much-ballyhooed Y2K computer meltdown occur?

For the Federal Reserve the concern is not only to be certain that our internal systems are Y2K compliant, but also that we fulfill our charter as a regulator of financial institutions and as the nation's money manager. Some critical tasks spelled out in the Federal Reserve's charter are to ensure safety and soundness in the operation of financial institutions, to provide stability in financial markets, and to maintain the smooth functioning of the nation's payments system. It's hard to imagine that back in 1913, when members of Congress empowered the Federal Reserve System with these responsibilities, they could have envisioned a day when the financial system would be threatened more by outdated computer code than by banking panics.

Basically, it's just that -- outdated computer code -- that sits at the root of the Y2K problem which, depending on the newspaper you read, may cost as much as \$860 billion worldwide to fix. Until recently, computers have traditionally used two-digit numbers, rather than four-digit, to represent years -- "98" for 1998 instead of "1998" -- to optimize space on very expensive mainframe processors. Thus, 2000 may be miscalculated by the electronic brain as 1900. In that case the software would not be able to perform certain functions or would produce erroneous results. This has the potential to affect not only mainframe and personal computers, but also machinery, appliances, security systems, and other devices with embedded microchips.



2000 AD:
Y2K Computer
Glitch

1901 AD:
First
Transatlantic
Wireless
Message

1900 AD

We think of calendars as factual and scientific. In truth, they are merely a socially agreed upon system of keeping account of time. Calendars form a basis for planning agricultural, hunting, and migration cycles; for divination and prognostication; and for maintaining cycles of religious and civil events.

The fix is not simple, obvious, or inexpensive but can be done successfully. It requires tedious searching through computer code, much of it written in outdated languages by programmers who may have long since retired.

Planning for the year 2000 began throughout the Federal Reserve System in 1995, when tasks were defined and a timeline was established to ensure that any necessary modifications would be made to our internal systems to enable them to function normally over the century date change. Key steps in the process include assessing the scope of changes and resources needed to reach compliance, modifying program code, testing all systems (including contingency plans), and, finally, implementing the updated systems. A critical phase of the project is testing -- internally and externally with customers, vendors, and other service suppliers such as utilities, transportation providers, and environmental systems.

The Reserve Banks now have completed the renovation and testing of our internal systems, and we are satisfied that all financial service applications of the Federal Reserve are Y2K ready. Testing applications with depository institutions will continue throughout 1999.

In addition to readying its own systems, the Federal Reserve System is working closely with other regulators and depository institutions to oversee the preparations of the banking industry as a whole. To facilitate this process, the System has spearheaded an extensive awareness and educational process.

Communication is a key element of the Federal Reserve effort to ensure banking industry readiness for Y2K. Fed representatives meet regularly with other regulators and trade associations to assess progress, share information, and facilitate information dissemination. A Century Date Change (CDC) web site at www.frbsf.org/fiservices/cdc/ provides immediate, up-to-date communication regarding the project. The Fed regularly communicates with financial institutions in the United States via newsletters designed to guide constituents through a maze of data on the subject and provides updates and information about resources, problems, and solutions. A booklet, "Small Business and the Year 2000," was produced for depository institutions to distribute to their customers. Institutions which have electronic relationships with the Fed receive regular bulletins alerting them to information such as timelines, details of testing, and information resources.

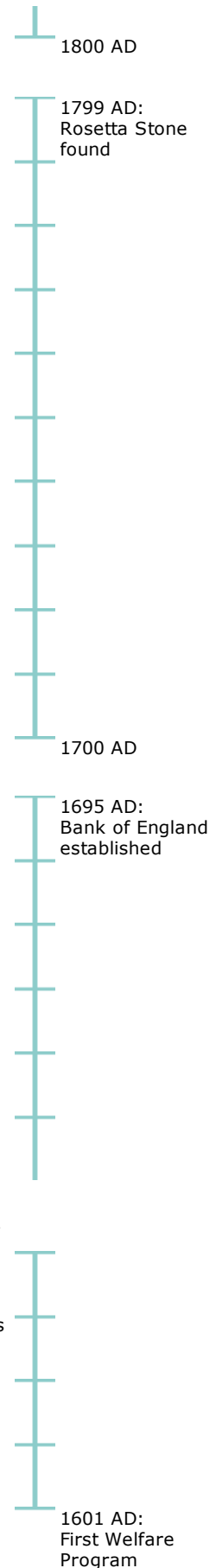
United States legal code does not specify an official national calendar -- use of the Gregorian calendar in the U.S. stems from an Act of the British Parliament in 1751, which specified use of the Gregorian calendar in England and her colonies.

The Chinese calendar names years by pairing one of 10 signs related to the Chinese constellations with one of 12 animals of the Chinese zodiac. This pairing creates a 60-year cycle. January 1, 2000, will fall in the Chinese year of the Earth Rabbit.

Outreach efforts reached a peak in mid-1998 with a series of seminars offered throughout the country for depository institutions. In the Twelfth District alone more than 1,200 participants attended 16 seminars in 10 locations to receive updates and ask questions regarding regulatory and readiness issues. Later in the year, the Federal Reserve scheduled a national satellite teleconference, which reached viewers gathered in more than 200 locations nationwide to learn more about testing, liquidity issues, and contingency planning and to have their questions answered.

As part of our regulatory role, the Federal Reserve is concerned with making sure that Y2K problems don't adversely affect the safety and soundness of the country's financial system. In conjunction with interagency guidelines, we review Y2K readiness of banks, bank holding companies, and other financial institutions. We have established testing and readiness requirements and regularly review institutions' project plans and progress as part of our examination of risk management and sound business practices.

Contingency planning is a crucial part of our Y2K readiness plan. This contingency planning involves looking beyond automated systems and developing a way to keep operating without customary resources. It requires testing, more testing, and refining various



scenarios. The Fed's contingency and event management plans are dedicated to being able to respond quickly to unforeseen circumstances.



accounts.

Another key responsibility of the Federal Reserve is ensuring that enough currency and coin are in circulation to meet the public's demand. This demand typically changes with the level of economic activity and with the seasons of the year. For example, during holiday seasons additional coin and currency are placed into circulation and then eventually returned to depository institutions by merchants. Depository institutions, in turn, ship the excess to their regional Reserve Bank, where it is credited to their

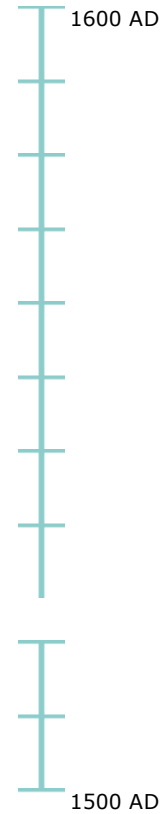
The word "calendar" comes from the Roman term "kalendae," which refers to the first day of each month. Kalendae is derived from the Latin "calare" -- to announce solemnly, to call out.

Time is the most valuable thing a man can spend.

**Theophrastus(d.278 B.C.)
From Diogenes Laertius, Lives of Eminent Philosophers.**

It is expected that the holiday season, coupled with the turn of the century, will cause the demand for coin and currency to increase at the end of 1999. Some individuals may choose to hold extra cash during the century rollover in case operating problems should affect any retail payment system. Also, since about two-thirds of U.S. currency is held outside the United States, there may be increased foreign demand. To meet this demand, the Federal Reserve has increased substantially its fiscal year 1999 print order from the Bureau of Engraving & Printing over the 1998 level. This increased amount of currency either in circulation or in vaults at the Federal Reserve and the Bureau will enable us to fill our customers' currency orders quickly.

As 1999 continues, the Fed will continue to test, anticipate, plan, and do everything possible to provide for the smooth operation of the payments sector and the safety and soundness of the nation's banking system. We have taken prudent actions to make sure that 01/01/2000 is truly the first day of a happy new year and new century.



The Federal Reserve Bank of San Francisco

ABOUT THE FED

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What was the country like the last time people were waiting for the calendar to turn to a new century? What was it like to live in America on New Year's eve 1899, and what was on the minds of people as they waited to welcome 1900?



December 31, 1899, was a snowy Sunday night in New York City, but that couldn't put a chill on the optimism and eagerness many residents felt as they anticipated the new century. Times were good. Prosperity had returned to the country after the election of President William McKinley of Ohio in 1896. Even the government was prosperous with the Treasury showing a \$46 million surplus of income over expenditures. Thus, the period came to be referred to variously as the Age of Optimism, the Age of Confidence, and the Age of Innocence. There were 45 states, and the population of the nation was 76 million and growing rapidly. America was already becoming the "melting pot" with one-third of its residents foreign born or children of foreign born. The center of the country was still definitely eastward with nearly 3,500,000 people living in New York. San Francisco had only 342,700 residents and Los Angeles had 102,000. Portland was not far behind with 90,400. Seattle and

Salt Lake City boasted populations of 80,700 and 53,500, respectively.

An editorial in the January 1, 1900, *New York Times* proclaimed, "The year 1899 was a year of wonders...in business and production. It would be easy to speak of the 12 months just passed as the banner year were we not already confident that the distinction of highest records must presently pass to the year 1900....The outlook on the threshold of the new year is extremely bright."

There is some debate whether the 21st century actually begins in 2000 or 2001. Because there is no year "0" in the Gregorian calendar, the 1st century began in A.D. 1. Following the mathematics, each century begins with '01 (1801, 1901) and ends with '00 (1900, 2000), indicating that the 21st century actually begins January 1, 2001.

The view into the 20th century from the West Coast was equally hopeful. The *San Francisco Chronicle*, in its December 31, 1899, issue, reported, "The financial strength and stability of San Francisco, the money center of the Pacific Coast, are seen to be better than ever before. The banks have increased their resources wonderfully, the gain in the last four months being over \$8,800,000."

Most people -- more than 60 percent -- lived on farms or in rural areas. But the move both to the cities and westward was underway. Although most workers were still employed in agriculture, manufacturing employment was increasing quickly. In 1898, for the first time the U.S. exported more manufactured goods than it imported. "Big business" was beginning as smaller companies were being acquired by industry giants such as Amalgamated Copper, and U.S. Steel.

1492 AD:
Columbus'
Voyage

1407 AD:
Public Banking

1400 AD

1302 AD:
First Mariner's
Compass

There were vast differences in lifestyle between those on the farm and those in the city. And it wasn't easy to travel between the two. Few were adventuresome or wealthy enough to spend about \$1,500 for an automobile. The bus and truck were not yet invented. The railroad and the horse and wagon were still the main forms of transportation. Some 193,000 miles of railroad track crisscrossed the country while there were only about 150 miles of paved highway. A town not on the railroad was virtually remote. City dwellers could take the electric trolley, which expanded the radius of the city to outlying residential areas and made its center somewhat more accessible.

If you wanted to ride a subway, you would have to go to Boston, while New York and Chicago offered elevated railroads. Once you got to the city, you might see some incandescent lights, but, most likely, gas street lights, and city homes of only the most wealthy were electrified. The tallest building in the country was the Iwins Syndicate Building in New York, rising 29 stories. New York, Chicago, and Philadelphia each had more than a million residents.

In addition to the disparity between rural and city life, there were vast differences between the wealthy and the poor, and social problems such as child labor, slums, and disease were emerging as industry and immigration boomed. The average American worker earned 22 cents an hour -- less than \$500 a year. But you could buy eggs for 12 cents a dozen, a sirloin steak for 24 cents a pound, and stop by the soda fountain for a 5-cent root beer float, 10-cent sundae, or 5-cent lemon phosphate.

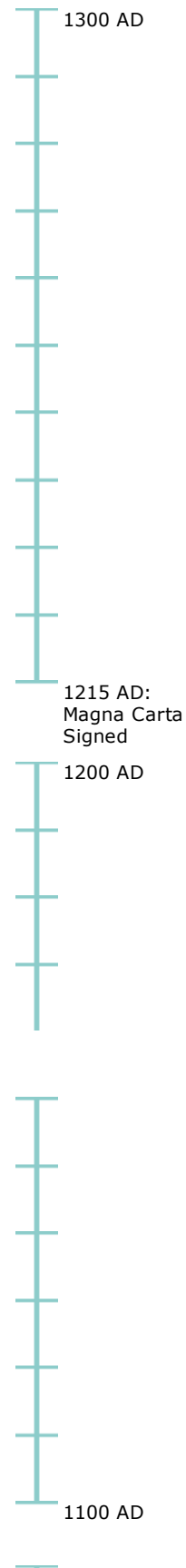
The International Date Line is an imaginary line located halfway around the globe from the Prime Meridian. East of the line it is one day earlier than to the west, so that a person crossing the line east to west gains, or repeats, one day, while a person crossing west to east loses one day. Without this date change, persons traveling around the globe in a consistent direction would be off local time by exactly one day upon return to their starting point.

The "tropical year" consists of a fractional number of days, the exact number of which remains unknown (approximately 365.24219). While most other measurements allow larger units to contain exact numbers of smaller units (a dollar is exactly 100 cents), time measurement is based upon a pre-defined, though indeterminable, number.

Medical problems were a great concern. Influenza, pneumonia, tuberculosis, diphtheria, and typhoid were among the leading causes of death. The average life expectancy for men was 46.3 years and for women, 48.3 years. Wealthy people in the heart of a city might have running water, but those outside probably did not. The

American diet suffered since transportation of fresh food was highly impractical. Most people were without fresh fruit and vegetables during the winter months. Railroads had refrigerator cars, but the home electric refrigerator was yet to be invented.

Public education was becoming more available, especially through the high school level. Nearly all states outside the South had compulsory education laws by 1900, and the national rate of illiteracy had declined from 20 percent in 1870 to 10.7 percent in 1900. Wages for the average teacher were \$325 per year.

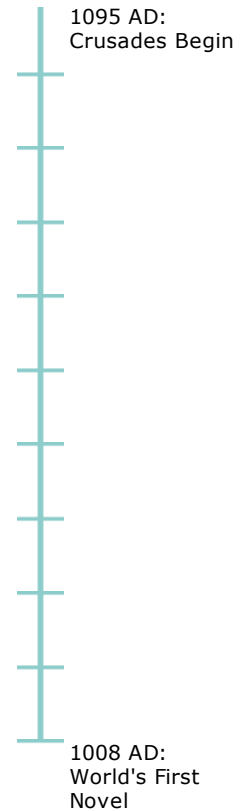




Communication was difficult. The telephone was not yet in widespread use, typewriters were scarce, and there was no such thing as a radio. Magazines and newspapers comprised what then served as mass communication. There were about 5,000 magazines, most with small circulation. But the daily circulation of Joseph Pulitzer's New York *World* newspaper regularly exceeded one million. Traveling lecturers and Chautauquas -- camp-like centers for education and entertainment -- were popular sources of learning, as were libraries. By 1900 there were more than 1,700 libraries in the United States with collections of more than 5,000 volumes.

At the dawn of the 20th century, most Americans were filled with optimism, delight, and fascination with the new inventions that opened worlds and made tasks easier, and confidence that opportunities for success would continue to be offered. In the words of New York Senator Chauncey

Depew, "There is not a man here who does not feel 400 percent bigger in 1900 than he did in 1896, bigger intellectually, bigger hopefully, bigger patriotically."



The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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From left, John F. Moore, First Vice President; Jack H. Beebe, Senior Vice President and Director of Research; (seated) Robert T. Parry, President; Terry S. Schwakopf, Senior Vice President; and Gordon R. G. Werkema, Executive Vice President.

The Federal Reserve Bank of San Francisco

ABOUT THE FED

H As you have read elsewhere in this Report, preparing for the century date change is a top
I priority which all of our operating departments addressed in addition to conducting their normal
G business in 1998. The modifications and testing of our internal systems are complete, and we
H are now focused on testing and retesting both our contingency and event management plans.

Financial Services

L Providing cost-effective and innovative services to the financial services industry, the public, and
I the U.S. Treasury is a key element of the San Francisco Reserve Bank's mission. From paper-
G based payment services like cash distribution and check collection to electronic payment
H systems like the Automated Clearing House (ACH) and the large-dollar Funds Transfer and Book-
T Entry Securities Systems, the Bank plays a key role in ensuring that the nation's payment
S systems are reliable, efficient, and responsive to changing needs.

O F An important initiative in 1998 was ensuring that banks with interstate branch networks could
1 manage their reserve account and financial services relationships with the Reserve Banks on a
9 coordinated, nationwide basis through the new Interstate Branch Banking account structure. Also
9 in an effort to enhance the accessibility and functionality of its services, the Bank piloted two
8 "web-based" services during the year: Check Image, which enables financial institutions to view
digitized images of their cleared items online, and Cash Order and Deposit Notification.

One of the Bank's ongoing objectives is to promote the growth of electronic payments and electronic collection of checks. In 1998 the Bank expanded its innovative Automatic Bill Payment Program that involves major utility companies and their banks in encouraging their customers to sign up for ACH debit as a means of bill payment. On the Check side, the Bank introduced Front-End MICR, a family of electronic products that enables depository institutions to take advantage of the full benefits of electronic check collection and eliminate physical item processing, thus improving overall efficiency in the payments system.

The Twelfth District is also leading a Systemwide effort to improve error resolution and customer service by implementing a common check adjustment processing system nationwide. Among other features, Enterprise-Wide Adjustments will facilitate consistent service levels across the System and streamline cross-district adjustments processing. When this project is fully implemented, it will be the largest distributed application in place in the Federal Reserve System.

The Mayan calendar is actually based on several calendars that, meshed together, mark the movement of the Sun, the Moon, and Venus. The Mayan divine calendar, the Tzolkin, pairs numbers one through 13 with 20 day names to create mixtures similar to our days of the week pairing with dates in a months: 1-Imix, 2-Ik, etc., being similar to Sunday the 1st, Monday the 2nd.

The Mayan civil calendar, the Haab, consists of 18 20-day months, plus a short month of five days.

The combined Tzolkin-Haab cycle, known as the Calendar Round, covers approximately 52 years before all of the cycles come back to the same alignment. It is still used

The Bank also spearheaded the Treasury Offset Program (TOP) for the U.S. Treasury. The goal of TOP is to develop an automated system to enable creditor agencies to locate delinquent debtors and assist those agencies in withholding offsetting government payments to those debtors. The potential financial benefit of this initiative is substantial; in limited

implementation, the debt collected by TOP is already \$5 million.

All offices of this Bank played a key role in informing and educating the public about the redesigned Series 1996 \$20 bill for several months prior to its September unveiling. Media events, school programs, speeches, and community partnerships served to promote the redesigned bill, which incorporates the latest anti-counterfeiting and low-vision features.

by people in the Mexican highlands. The Mayan Long Count records periods longer than 52 years.

In another milestone involving currency -- in this case historical -- the Bank's premiere collection of American Currency, which was put on view in an exhibit in the lobby of the San Francisco office in 1997, was made available to visitors worldwide on the Bank's web site at www.frbsf.org/currency/. The audience for this magnificent collection can now include currency experts, historians, students, and the general public, regardless of location; they can take a virtual tour of the exhibit -- 24 hours a day, seven days a week -- and explore the U.S. history which forms the context for the displays.

Economic Research

Formulating and implementing monetary and bank regulatory policies in a manner that keeps the economy healthy are primary functions of the Federal Reserve. The Bank's Research area contributes to this process by continually studying and analyzing current economic and financial information which affects policy decisions. In addition, its outreach efforts play a key role in interpreting monetary policy and explaining the purposes and functions of the Federal Reserve to the public.

A major challenge of the year was to respond to the currency crisis in Asia with research, policy briefings, speeches, and publications. Research analyzed the determinants of the crisis and its severity as well as the spread of the crisis through financial market linkages. In addition, a staff member provided technical assistance to the Asia Development Bank Institute on site in Tokyo for a month.

During the 20 years which Rip had slept away on the mountainside, great changes had taken place. While Rip had been sleeping peacefully, a fierce war had been fought. Now he was no longer an Englishman but an American.

Washington
Irving
Rip Van
Winkle
The Sketch
Book
1820

The department, along with the Stanford Institute for Economic Policy Research, presented a conference on "Central Bank Inflation Targeting," bringing together some 100 eminent economists from academia, the Federal Reserve, and foreign central banks to discuss the advisability and methodology of explicit inflation targeting. Another conference, co-sponsored with the Federal Reserve Bank of Atlanta, addressed "Financial Modernization and Regulation." It brought together Federal Reserve policymakers and staff as well as academic economists to discuss the implications of modernization for the design of financial regulatory policy.

Banking Supervision and Regulation

The Federal Reserve, along with several state and federal agencies, supervises and regulates the nation's financial institutions to ensure their financial soundness and compliance with banking, consumer, and other applicable laws. Specifically, the Federal Reserve is responsible for supervising all bank holding companies and their nonbank and foreign subsidiaries; state member banks and their foreign branches and subsidiaries; Edge Act and agreement corporations through which U.S. banking organizations conduct operations abroad; and U.S. activities of foreign banking organizations.

The San Francisco Federal Reserve Bank has implemented a strategy that focuses resources in areas of greatest need, investing in new technology to increase overall effectiveness. The strategy also helps to retain and develop high performing staff, and strengthen communication and outreach with the banking community.

The first day of the year 2000 on the Gregorian calendar as it will look on various calendars:

Mayan: 12.19.6.15.0, 9 Ahau 8 Kankin

Islamic: 24 Ramadan 1420

At the end of 1998 there were 70 state member banks in the District. There were also 201 holding companies with assets of \$374.9 billion, 106 agencies and branches of foreign banks, 15 Edge and agreement corporation offices, and 29 representative offices.

Applications activity increased somewhat with 244 filings received in 1998, compared to 234 in 1997. Two major cases last year which involved considerable analysis and staff

Hebrew: 23 Teveth 5760
Julian: 19 December 1999
Persian: 11 Dey 1378
Ethiopic: 23 Takhsas 1993
Coptic: 22 Kivahk 1716
**Chinese: Cycle 78, year 16,
month 11, day 25**

involved considerable analysis and staff attention were the mega-mergers of Bank of America with NationsBank and Wells Fargo with Norwest. Applications to form bank holding companies decreased by 8 from 35 to 27.

Supervision and regulation staff also made significant contributions to the Bank's outreach efforts on behalf of Y2K by participating in numerous educational seminars throughout the District.

Important functions of the Community Affairs unit are to encourage banks to work with community organizations to help meet the credit needs of their communities and to monitor compliance with consumer protection laws relating to credit. In keeping with this, they created and facilitated a series of Sovereign Lending meetings to address access to credit issues for Native American tribes in Washington, Oregon, Idaho, and Utah. These seminars brought together tribal representatives, local bankers, and government and nonprofit representatives. The program has increased lending, spurred the creation of small business centers on several reservations, improved relationships between bankers and tribal representatives, and led to the adoption of uniform commercial codes by several tribes.

Other workshops presented during the year encouraged banks' involvement with nonprofit small business assistance providers and introduced a new concept to provide funds to match deposits low-income customers place in special savings accounts, helping them to reach specific financial goals.

The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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From left, Raymond H. Laurence, Senior Vice President-in-Charge, Portland; Andrea P. Wolcott, Vice President-in-Charge, Salt Lake City; Gordon R. G. Werkema, Executive Vice President, Northern Region; and Mark Mullinix, Senior Vice President-in-Charge, Los Angeles.

The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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| | Volume (in thousands) | 1996 | 1997 | 1998 |
|--|-----------------------|-----------|-----------|-----------|
| Custody Services | | | | |
| Cash Services | | | | |
| Currency notes paid into circulation | | 4,317,704 | 4,626,649 | 4,739,673 |
| Food stamp coupons processed | | 748,535 | 654,068 | 483,942 |
| Securities Services | | | | |
| Other Treasury original issues | | 125 | 105 | 76 |
| Book-entry securities processed | | 829 | 751 | 673 |
| Payments Services | | | | |
| Check Services | | | | |
| Commercial checks collected | | 2,188,856 | 2,313,792 | 2,312,860 |
| Government checks processed | | 61,741 | 54,466 | 52,103 |
| Return items processed | | 32,767 | 35,251 | 34,591 |
| Electronic Payments Services | | | | |
| Wire transfers processed | | 22,113 | 24,058 | 26,622 |
| Automated clearinghouse transactions processed | | 404,974 | 428,564 | 499,527 |
| Discounts & Advances | | | | |
| Total discounts & transactions* | | 461 | 478 | 463 |
| Number of financial institutions accommodated* | | 83 | 86 | 77 |

*Whole numbers (not in thousands)

The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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| Robert T. Parry President and Chief Executive Officer | Deborah S. Smyth Vice President | James J. Callahan Assistant Vice President | James J. Tenge Assistant Vice President |
| John F. Moore First Vice President and Chief Operating Officer | Michael J. Stan Vice President | Teresa M. Curran Assistant Vice President | Elizabeth L. Wood Assistant Vice President |
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| Sara K. Garrison Senior Vice President | Sallie H. Weissinger Vice President and Director of Public Information | Elaine G. Geller Assistant Vice President | Angela J. D'Alessandro* Examining Officer |
| Michael J. Murray Senior Vice President | Patricia A. Welch Vice President | Louis "Skip" George Assistant Vice President | * On loan to the Board |
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| D. Kerry Webb Senior Vice President | James M. Barnes Director | Ellen M. Hamilton Assistant Vice President | Thomas R. Burke Accounting Officer |
| John H. Parrish General Auditor | Kenneth R. Binning Director | Beverley-Ann Hawkins Assistant Vice President | Richard K. Cabral Cash Officer |
| Robert D. Mulford Vice President, General Counsel, and Ethics Officer | Harold H. Blum Director | Peter K. C. Hsieh Assistant Vice President | Lee C. Dwyer Electronic Payments and Fiscal Services Officer |
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| Frederick T. Furlong Vice President | John S. Hsiao Director | Mark E. Levonian Assistant Vice President | Brian Motley Research Officer |
| William K. Ginter Vice President | Ann Marie Kohlligian Director | Ellsworth E. Lund, Jr. Assistant Vice President | Gary P. Palmer Information and Technology Officer |
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| | Barbara J. Beckman Assistant Vice President | Daniel K. Shaw Assistant Vice President | Mary E. Wujek Information and Technology Officer |
| | Armen Beylerian Assistant Vice President | Gordon S. Tannura Assistant Vice President | |

(As of December 31, 1998)

The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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Los Angeles Branch

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Senior Vice President

Sean J. Rodriguez
Vice President

Robert G. Wiley
Vice President

Robert W. Replogle
Director

Marla E. Borowski
Assistant Vice President

Robert C. Johnson
Assistant Vice President

Jimmy F. Kamada
Assistant Vice President

Mark E. Koegel
Assistant Vice President

Dale L. Vaughan
Assistant Vice President

Linda J. Westerschulte
Assistant Vice President

Anthony P. Dazzo
Cash Officer

Steven E. Jung
Check Processing Officer

Sherann L. Mack
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Senior Vice President

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Assistant Vice President

Robert D. Long
Assistant Vice President

Robin A. Rockwood
Assistant Vice President

Seattle Branch

Gale P. Ansell
Assistant Vice President

Mark A. Gould
Assistant Vice President

Lynn M. Jorgensen
Assistant Vice President

Kenneth L. Peterson
Assistant Vice President

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Vice President

Jed W. Bodily
Assistant Vice President

Gerald R. Dalling
Assistant Vice President

Richard B. Hornsby
Assistant Vice President

Thomas P. McGrath
Assistant Vice President

(As of December 31, 1998)

The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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Federal Reserve Bank of San Francisco

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Federal Reserve Agent**

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Chairman and CEO
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Boise, Idaho

E. Lynn Caswell
Chairman and CEO
Pacific Community Banking Group
Laguna Hills, California

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Vice Chairman, President,
and CEO
Hawaii National Bank
Honolulu, Hawaii

Deputy Chairman

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President and CEO
Catellus Development Corp.
San Francisco, California

Krestine Corbin
President and CEO
Sierra Machinery, Inc.
Sparks, Nevada

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(Retired)
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Thousand Oaks, California

Sheila D. Harris
Consultant
Harris Consulting
Litchfield Park, Arizona

John V. Rindlaub
President, Northwest Region
Bank of America
Seattle, Washington

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Housing Services, Inc.
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City National Bank
Beverly Hills, California

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President, Southern
California
Bank of America
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Linda Griego
Managing General Partner
Engine Co. No. 28
Los Angeles, California

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Marylhurst University
Marylhurst, Oregon

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Executive Director
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Business Network
Portland, Oregon

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Vice President and Co-Owner
Stahlbush Island Farms, Inc.
Corvallis, Oregon

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Newport, Oregon

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President and General Manager
Oregon's 12-KPTV
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Security Bank
Coos Bay, Oregon

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Kaysville, Utah

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Institution
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Chairman of the Board
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Bellevue, Washington

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(Retired)
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Seattle, Washington

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First National Bank of Anchorage
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Bothell, Washington

Peter H. Van Oppen
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Advanced Digital Information
Corporation
Redmond, Washington

The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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Chairman

Bailey "Biff" S. Barnard
Senior Vice President
Allied Capital Corporation
San Francisco, California

Vice Chairman

Walter F. Payne, Jr.
President and CEO
Blue Diamond Growers
Sacramento, California

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Utah AFL-CIO
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BLV, Agribusiness Consultants
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Sahuarita, Arizona

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Bountiful, Utah

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Fifth District, County of Kern
Bakersfield, California

Denice A. Young, C.P.A.
President
Young Real Estate Group
Torrance, California

The Federal Reserve Bank of San Francisco

ABOUT THE FED

1998 Annual Report

T San Francisco Office
P.O. Box 7702
San Francisco, California 94120

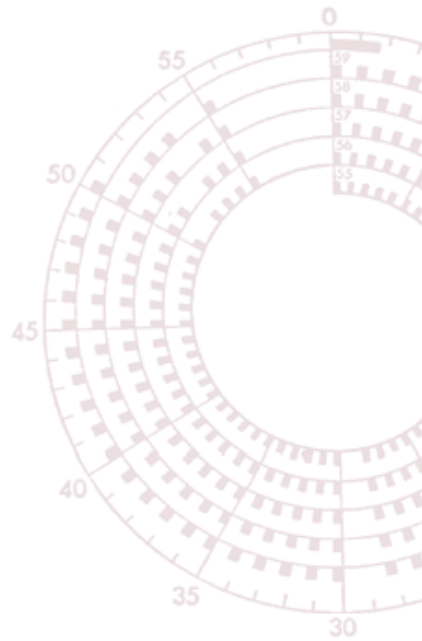
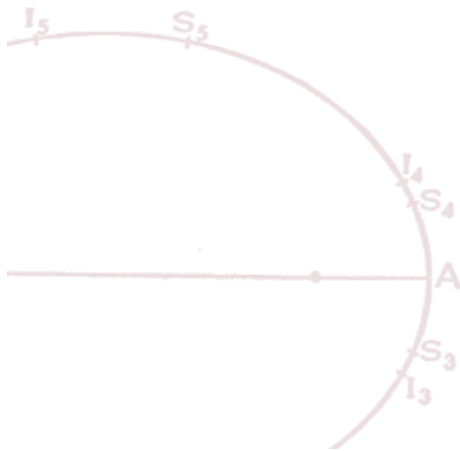
W Los Angeles Branch
P.O. Box 2077, Terminal Annex
Los Angeles, California 90051

E Portland Branch
P.O. Box 3436
Portland, Oregon 97208

L Salt Lake City Branch
P.O. Box 30780
Salt Lake City, Utah 84130

F Seattle Branch
P.O. Box 3567
Seattle, Washington 98124-3567

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*This Report was produced and written by Karen Flamme.
Design and illustrations were created by Mark Hendricks.
Sidebars and layout were completed by Dylan Frederick.
Color photography by Paul Schulz.*

The Federal Reserve Bank of San Francisco

ABOUT THE FED
ABOUT THE FED

1998 Annual Report

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February 11, 1999

To: PricewaterhouseCoopers LLP

The management of the Federal Reserve Bank of San Francisco (FRB-SF) 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.

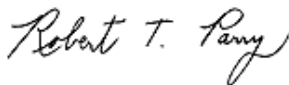
The management of the FRB-SF is responsible for maintaining an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements. Such internal controls are designed to provide reasonable assurance to management and to the 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.

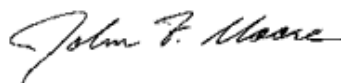
The management of the FRB-SF assessed its process of internal controls over financial reporting including the safeguarding of assets reflected in the Financial Statements, based upon the criteria established in the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations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

by
Robert T. Parry
President



by
John F. Moore
First Vice President



PricewaterhouseCoopers LLP

Report of Independent Accountants

To the Board of Directors of the
Federal Reserve Bank of San Francisco

We have examined managements assertion that the Federal Reserve Bank of San Francisco ("FRB San Francisco") 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 Managements 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, managements assertion that the FRB San Francisco 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.

[Signed PricewaterhouseCoopers LLP]

San Francisco, California
March 5, 1999

PricewaterhouseCoopers LLP

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 San Francisco

We have audited the accompanying statements of condition of the Federal Reserve Bank of San Francisco (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 the results of its operations for the years then ended, on the basis of accounting described in Note 3.

[Signed PricewaterhouseCoopers LLP]

San Francisco, California
March 5, 1999

***As of December 31, 1998**