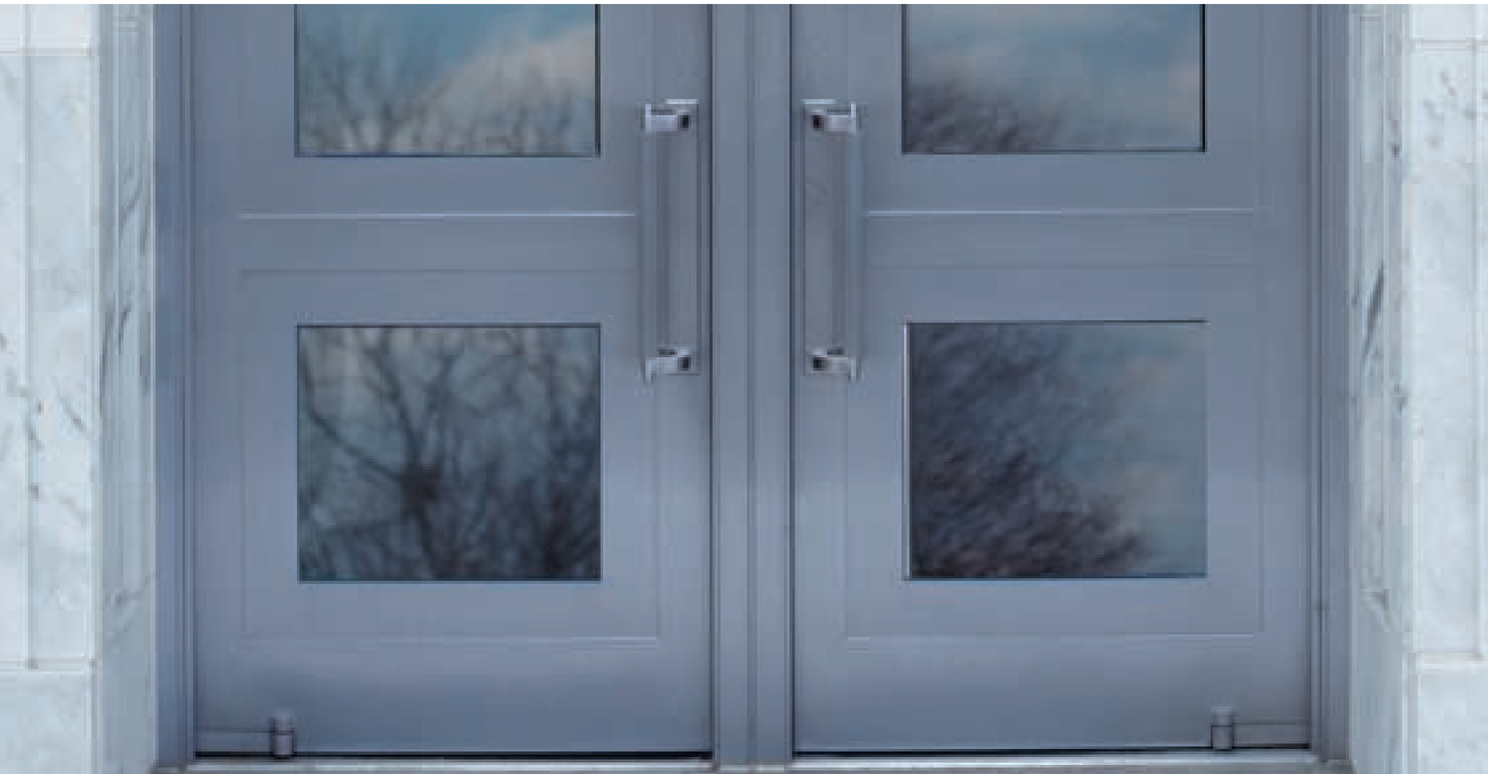
FEDERAL RESERVE BANK OF ATLANTA — 2001 ANNUAL REPORT



FEDERAL RESERVE BANK OF ATLANTA
2001 ANNUAL REPORT

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

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

Through its six offices 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.

FEDERAL RESERVE BANK OF ATLANTA — 2001 ANNUAL REPORT

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Jack Guynn, Atlanta Fed president and CEO (left), and Pat Barron, first vice president and chief operating officer

MESSAGE FROM THE PRESIDENT

The Federal Reserve Bank of Atlanta opened its new headquarters at 1000 Peachtree Street in 2001. It was an important occasion for us, of course, but it was overshadowed—indeed, placed in its proper perspective—by two other developments in the year.

For the first time in a decade, the U.S. economy contracted, weighed down initially by a sharp decline in investment spending.

Then, on September 11, for the first time in nearly two hundred years, major population centers in the United States—including its financial and government capitals—were attacked. While the outcome of the war that followed has never been in doubt, the uncertainty it unleashed nevertheless exacerbated the economic and financial outlook.

Even so, an honest assessment of the long-term prospects of the United States and its economy can only be favorable. That's because the very thing that makes this country vulnerable to a terrorist attack—its openness—is also one of its greatest sources of strength.

Open markets, open borders, open access to information, open minds: all guarantee that financial resources flow to their most efficient uses, that companies are able to do what they do best, that consumers have the broadest range of choices—that the U.S. economy continues to expand and realize the full measure of its potential.

Even though openness tends to be self-reinforcing, it's the responsibility of public institutions to maintain the conditions and systems that support openness. In the United States, the Federal Reserve shares responsibility for the economy and the financial system with other institutions. We work with private and public institutions to ensure that Americans never have to wonder whether a payment will clear and with federal and state government agencies to provide for the stability of the financial system. And, of course, through monetary policy we try to provide a level of financial resources consistent with stable economic growth.

As the only institution with responsibility for all three pillars of economic stability, the Federal Reserve has a special duty to conduct itself in a manner consistent with its ultimate objectives and in the spirit of the democratic republic that created the Fed in 1913.

The 2001 Annual Report offers a closer look at openness at the Federal Reserve Bank of Atlanta. It highlights developments in 2001 that embody our pursuit of an objective that is nevertheless often abstract. The report also demonstrates our commitment to utilizing in our own operations one of the great sources of strength in the U.S. economy.

In the spirit of openness, it should also be observed that the Federal Reserve, in its nearly nine decades as the nation's central bank, has not always been as forthcoming as it is today. This point is worth acknowledging because it demonstrates that the Federal Reserve is a fundamentally human institution that learns from experience as well as from new information and research. This trait, too, we share with markets and with the businesses and consumers who make up the economy.

At the Federal Reserve Bank of Atlanta, we've learned that openness not only enhances our own credibility but also improves the efficacy of our operations and policies. It is just as important as—and, indeed, an essential counterpart to—the electronic networks we use to process payments, the forecasts we prepare for monetary policy, or the bank examinations we conduct.

And yet even as we contemplate the strengths that openness provides, we must remind ourselves that openness remains something that can always be improved, that can always be done better. What follows is an examination of our efforts to do just that.

JACK GUYNN

OPENING A NEW DOOR

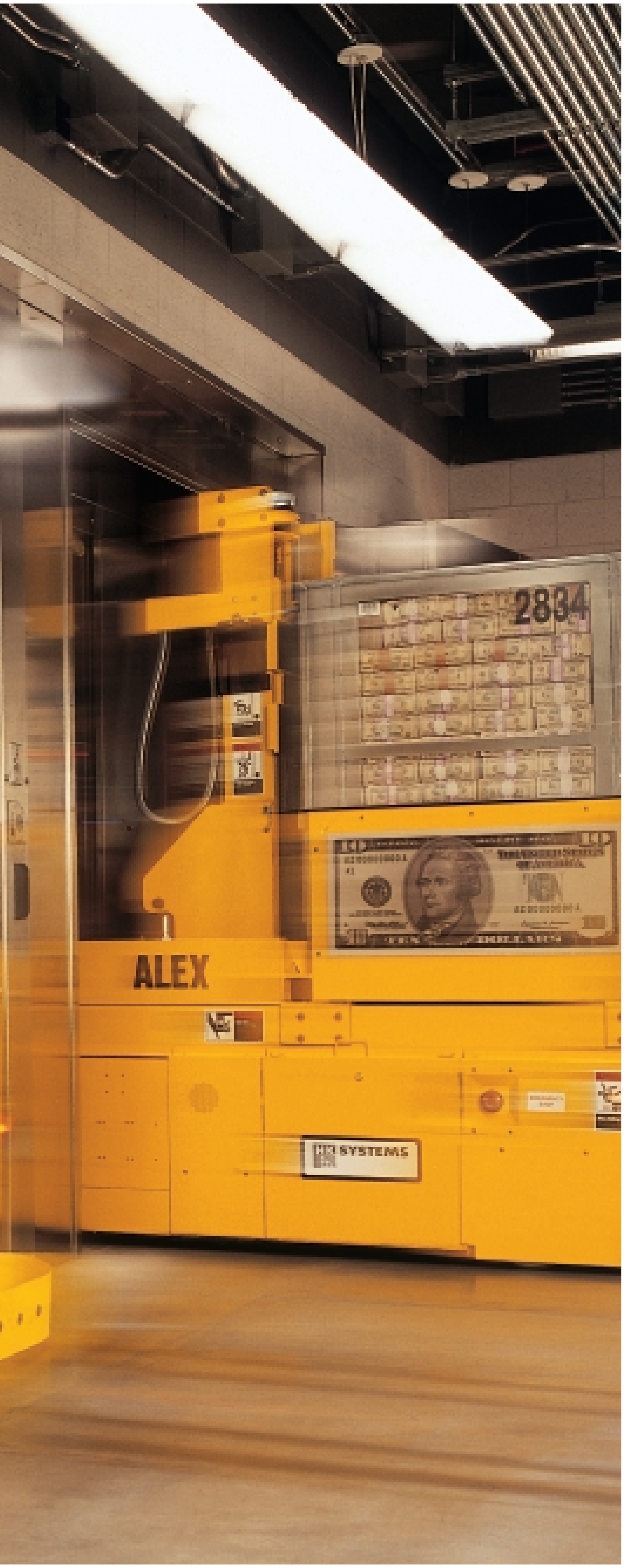
FEDERAL RESERVE BANK OF ATLANTA — 2001 ANNUAL REPORT

OPEN AND OPERATIONAL

Of all the elements required for a smoothly functioning economy, perhaps the most essential is confidence. Without the public's certainty that payments will be settled or faith in the stability of the nation's financial system, most economic activity would not take place efficiently or effectively.

One of the most important ways the Federal Reserve bolsters confidence is through its operation of payment systems—the transmission grid for the dynamo that is the U.S. economy. The Federal Reserve Bank of Atlanta's new headquarters is one expression of our commitment to payment systems leadership. In cash operations, currency processing—the sorting, shredding, and fitness testing that take place after the Atlanta Fed receives deposits—is now aided by robotics, four automated guided vehicles, and the second-largest automated vault in the Federal Reserve System. In check operations, the new headquarters consolidates processing, settlement, and adjustments under one roof and allows room for more high-speed sorters and other automated systems. This more efficient operating environment was one factor that led the U.S. Treasury Department to designate Atlanta one of four Reserve Banks to consolidate Treasury check processing. The new facilities, along with the bank's district efficiency program, are helping the Atlanta Fed maintain its long-time position as one of the most efficient Reserve Banks.

Automated guided vehicles move currency and coin throughout the cash processing area and the vault at the Atlanta Fed's new headquarters.

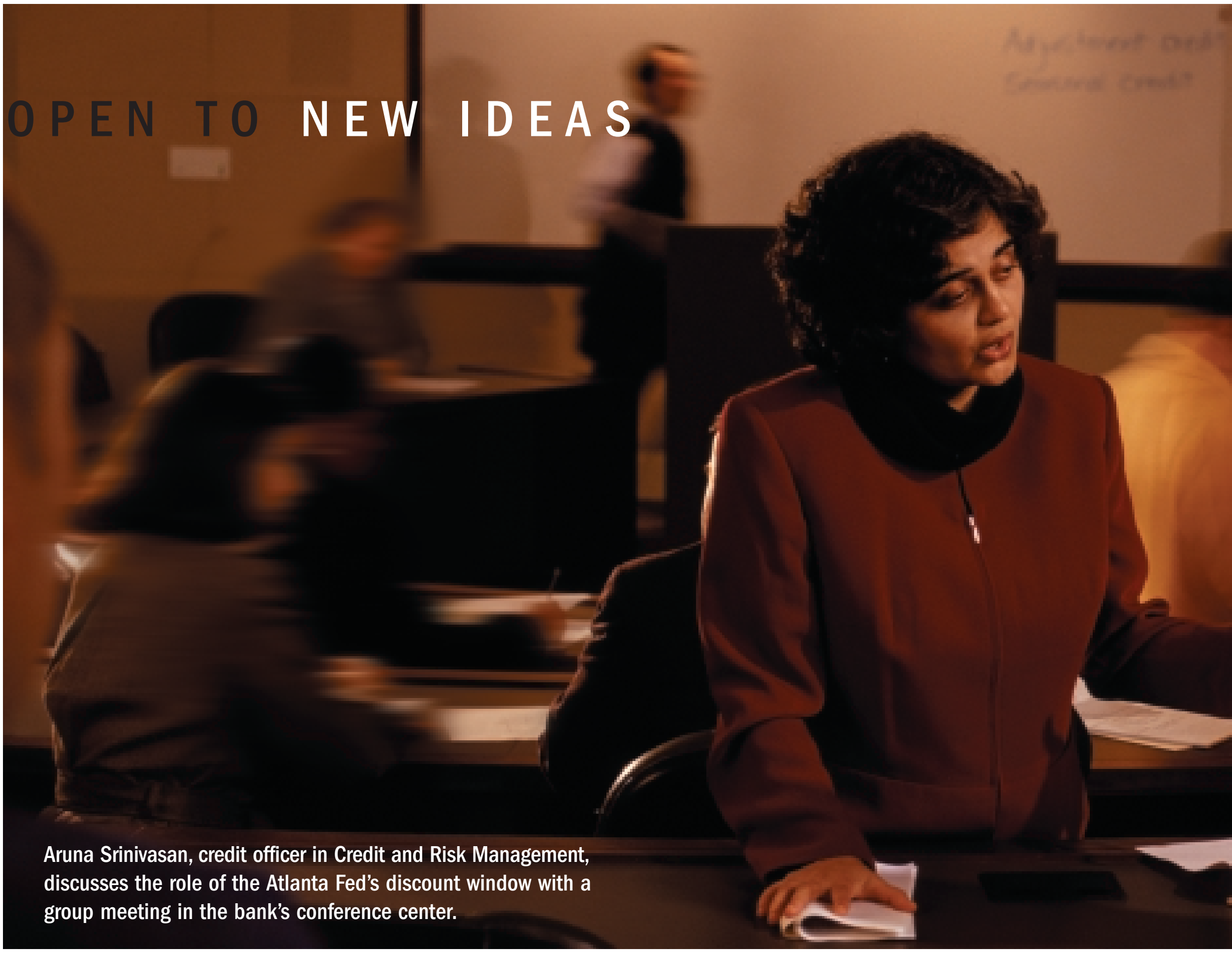


Still, leadership is more than just operating efficiencies, and the Atlanta Fed offers far more to the payment system than a state-of-the-art processing facility. The bank is home to the Retail Payments Office (RPO), which is responsible for strategic planning, product development, and operations management for the Fed System's two retail payments services, checks and FedACH (automated clearinghouse). In 2001 the Atlanta Fed was one of two Feds chosen as consolidated sites for FedACH operations.

Often, the greatest test of leadership is crisis. In the hours following the terrorist attacks of September 11, the Federal Reserve Board of Governors issued the following statement: "The Federal Reserve System is open and operating. The discount window is available to meet liquidity needs." For Atlanta Fed credit officer Aruna Srinivasan and her staff, this commitment meant responding to a flood of inquiries from financial institutions and originating overnight loans through the discount window.

And when the Federal Aviation Administration grounded all civilian flights, Julius Weyman and Greg Fuller of RPO's Check Relay improvised a ground hub-and-spoke transportation system to keep the checks the Fed processes moving throughout the nation. When the planes began flying again, the Check Relay staff also assembled an airborne "float triage" network to ensure that large-volume and long-distance checks were among the first to move. The dedication and resourcefulness demonstrated by Check Relay and many others throughout the Federal Reserve System ensured that payment systems remained open and operating during an extraordinarily difficult week in our nation's history.

OPEN TO NEW IDEAS



Aruna Srinivasan, credit officer in Credit and Risk Management, discusses the role of the Atlanta Fed's discount window with a group meeting in the bank's conference center.

What does it mean to be a learning organization? For the Retail Payments Office, it means ensuring that its products are market-based, service-oriented, and innovative. That's one reason that in 2001 the RPO, in close collaboration with the Board of Governors, conducted the first national study of retail payments in more than twenty years to learn as much as possible about the marketplace. The study collected extensive data on checks and electronic payments to establish benchmark numbers for the volume and value of retail payments. The findings will help the Fed as well as financial institutions and other service providers assess payment trends and preferences.

But learning is hardly unique to the RPO. All public institutions must be aware of, if not always immediately responsive to, ideas and trends that influence the people and markets they serve. This awareness is an important obligation for a central bank, particularly in a dynamic, information- and technology-powered economy. In the Atlanta Fed's new headquarters, the conference and training facilities provide a unique venue for the exchange of information and ideas that affect our public duties and facilitate staff development.

Exploring and sharing new ideas is a responsibility we take seriously at the Federal Reserve Bank of Atlanta. In 2001, for example, the Atlanta Fed's Community Affairs Department cosponsored more than a dozen conferences and workshops throughout the region on topics as varied as preda-

tory lending, "smart growth," and rural development, working with institutions as diverse as the Appalachian Regional Commission, Fannie Mae, and the Office of Thrift Supervision.

In November the bank's Latin America Research Group held a conference in Miami on domestic finance and global capital in Latin America. Scholars and practitioners from such institutions as the Central Bank of Brazil, New York University, and the Inter-American Development Bank considered some of the dilemmas and opportunities presented by financial liberalization in Latin America.

Engaged learning will also continue to be critical to the Atlanta Fed's Supervision and Regulation Division (S&R). The division's emphasis on continuing education and professional development has helped the staff keep pace with an expanded constituency, unparalleled technological changes, and increasing consolidation and complexity in the financial services industry. For instance, bank charter conversions in 2001 led to a 21 percent increase in domestic assets under the Atlanta Fed's supervision, yet S&R was able to accommodate that growth with little increase in staff.

The Atlanta Fed's new conference center provides a place to meet in an environment designed for learning.

OPEN TO THE PUBLIC

When planning began for the new headquarters, the Atlanta Fed's building committee set a number of objectives for the new facility. It had to be secure, of course. It had to bring the Atlanta office's 1,200 employees back together under one roof. It had to allow the Atlanta Fed to keep up with the region's growth in payment operations, with expanded bank supervisory responsibilities, and with the increasing complexity of economic research.

And it had to be open—inviting, accommodating, and informative—to the constituents we serve.

Since the Federal Reserve was established in 1913, one of its defining features has been its independence from the political process. This independence enables the Fed to make decisions about monetary policy and bank supervision that might be inexpedient for an elected official.

The Fed is first and foremost a public institution created by Congress. This means the Fed must also be accountable. Moreover, the effectiveness of Fed policies demands that the public understand how the economy works and the Fed's role in it: For monetary policy to be credible, the general population needs a basic level of economic knowledge and financial literacy.

Students from Atlanta's S.M. Inman Middle School tour the Fed's Monetary Museum, led by volunteer tour guide Stanley Fong of the bank's systems department. Pictured (l to r) are Ysatis Wood, Tandrekka Jordan, Sharon Walz (counselor), Fong, Cynetra Butler, and Frederick Ferdinand.

The Federal Reserve Bank of Atlanta's new Visitors Center and Monetary Museum is a physical expression of our desire to be understood. Through engaging, interactive exhibits, the museum is intended to educate visitors about the Fed's roles in the economy, from monetary policy to bank supervision to payment systems. And the new museum is designed to be accessible and informative for almost every level of interest.

Thousands of high school, college, and civic groups visited the Atlanta Fed's old headquarters, where the Monetary Museum was tucked away on the building's third floor. At 1000 Peachtree Street, the Fed expects to host many more visitors not only because the exhibits are more inviting for tours by students and other groups but also because the space is conveniently located off the main lobby. Although heightened security requirements since September 11 have temporarily limited access to the Visitors Center and Monetary Museum, our vision is to eventually open the exhibits to anyone interested in learning about the Fed.

OPEN TO THE REGION

On January 3, 2001, the Federal Open Market Committee reduced the federal funds target rate by 50 basis points to 6 percent. It was the first of eleven cuts that would culminate in a fed funds target rate of 1.75 percent by the end of the year. The cuts were a significant response to an economy that was suffering from a rapid deterioration in investment spending and manufacturing.

According to the National Bureau of Economic Research, the recession officially began in March 2001, nearly ten years after the beginning of the longest economic expansion in post–World War II U.S. history. More than six months earlier, though, economists at the Atlanta Fed began to see evidence of widespread weakness in the manufacturing-intensive economies of Mississippi and Alabama. Their research helped in some measure to inform the aggressiveness of the Fed's monetary policy in 2001.

Identifying turning points in the economy—and recommending monetary policy responses to Atlanta Fed president and FOMC policymaking participant Jack Guynn—is part of the job for the Atlanta Fed's Research Department. Like other analysts, Atlanta Fed economists rely on data published by government agencies, universities, and research institutions to help gauge the direction of the economy. But researchers at the Atlanta Fed

On Nissan's production line for the 2002 Altima in Smyrna, Tennessee, Atlanta Fed Nashville Director Emil Hassan talks with Stony Thomas, department manager, about production volume. Hassan is a senior VP for Nissan North America, Inc.

and throughout the Federal Reserve System have another valuable resource: Reserve Bank directors.

Directors, such as the Atlanta Fed's Nashville Director Emil Hassan, a senior vice president for Nissan North America, Inc., provide information on economic developments throughout their respective Federal Reserve districts. In this respect, Reserve Bank directors ensure that an idea decades ahead of its time in 1913—a decentralized central bank system, with representation from around the country—remains as relevant today as it was when the Federal Reserve was created.

Fed directors are also able to offer information and analysis on the economy that may take months to appear in the data, after the economy has already changed course. Making sense of events as they happen—in real time—requires information from individuals with knowledge and discernment about local or regional industries and their function in the national economy.

OPEN TO THE NEIGHBORHOOD

Lunching on the bank's grounds are several members of the Fed's Atlanta Branch Payor Bank Services: Xuan Mai Nguyen, Assistant VP Chris Alexander (left bench, l to r), and Palonesy Pham (far left on right bench).

When the Federal Reserve Bank of Atlanta announced that its new headquarters would be at the corner of Tenth and Peachtree Streets in Midtown Atlanta, the news was greeted with some surprise. While Midtown had already begun a revitalization, the area was still not a major corporate hub. But the bank's decision to locate at a crucial intersection reinforced the neighborhood's resurgence and growth.

The location had some important advantages. For one thing, the available parcel of land was large enough to accommodate a building that would consolidate all the functions of the Atlanta office. For another, the site's proximity to multiple interstate highways was convenient for the daily deliveries from armored truck and check couriers, and its location across the street from the Midtown rapid rail station provided easy access for staff and visitors. And while Midtown's comeback may not have figured in the initial considerations for moving to Tenth and Peachtree, the location eventually gave the bank the opportunity to participate in the the area's ongoing revival.

Almost from the moment the Atlanta Fed announced its intention to move, the Bank began working closely with the Midtown Alliance, a consortium of community and business leaders dedicated to improving the area. Integral to the Fed's new development plan were generous street setbacks, wide sidewalks, plazas, park benches,

green space, and trees. This plan provided a unique opportunity to contribute to the vision Midtown had developed to guide its growth.

From the earliest design studies to the final realization, the Atlanta Fed's new headquarters has been a manifestation of what the bank strives to be. The building's accessibility—its invitation to sit and enjoy a safe, open space—represents the spirit of the organization. It's a spirit that is also evident in the volunteer work Atlanta Fed employees throughout the district do in their communities, focusing on mentoring and tutoring services, workforce development, community development, and health and human services.

In 2001 Atlanta employees mentored students and offered personal finance classes at Midtown's Inman Middle School and participated in the Study Hall, a program for at-risk youth in Atlanta's Peoplestown Neighborhood. In New Orleans, branch employees led teacher and student workshops on economics and careers. Staff at the Jacksonville branch took part in programs for the homeless at the Clara White Mission. Nashville branch staff volunteered at a program for elderly citizens at the J.B. Knowles Home for the Aged.

In Atlanta as well as in the other five cities where we have offices, we never forget that public service begins with our neighbors.

OPEN AT WWW.FRBATLANTA.ORG

At the Atlanta Fed, our Web site is bringing interactivity to the bank's on-line resources. The goal of this constantly evolving site, introduced in 1996, is to provide a dynamic forum in which our constituents can interact with the bank and the wealth of resources we make available. Because of its ability to instantaneously communicate critical information, the Internet is one of the most important vehicles we have for carrying out our commitment to transparency—and therefore for maintaining credibility.

As the bank's on-line home, the Atlanta Fed's Web site makes information available in areas where we have particular expertise, such as the Latin America Research Group. But we're also using Internet technology to try to become more useful to the people we serve. On our site a teacher can access all of our publications, tap into FED101—an interactive economic education "classroom"—or get tour information. Check Relay customers can assess schedules and space availability using a continuously updated flight information database. Consumers can offer comments about their bank on-line. And, as of 2001, visitors to the site can now hear audio versions of some Atlanta Fed speeches or sign up on-line to receive e-mail notification when regulatory Circular Letters, Atlanta Fed publications, and news items such as the Beige Book,

Brett Hardin, a social studies and economics teacher at Campbell High School in Smyrna, Georgia, takes advantage of the Atlanta Fed Web site after hours. Hardin is the Georgia Council of Economic Education's 2002 nominee for Economics Teacher of the Year.

the Dollar Index, and financial services information become available.

Above all, www.frbatlanta.org reflects our desire to be more accessible. By interacting with the public we serve on a continuous basis, by inviting them to our on-line home, we become much more aware of how well we're reaching our customers and of areas where we have opportunities to improve. In this respect, www.frbatlanta.org is one expression of the outreach and openness that has become a pillar of the Federal Reserve Bank of Atlanta.

SIXTH DISTRICT DIRECTORS

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.

Fed branch office 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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Left to right: Smith, Lovell, Baranco, Dane, Wieland, Hickman, Boas, Hickson, Leiva Not pictured: Humann

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Lookout Mountain,
Tennessee

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Winter Park, Florida

MARSHA G. RYDBERG
Partner
The Rydberg Law Firm
Tampa, Florida

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of Alachua
Alachua, Florida

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Iberia Tiles Corporation
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Chairman and
Chief Executive Officer
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Nashville, Tennessee

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Counties, Tennessee
Athens, Tennessee

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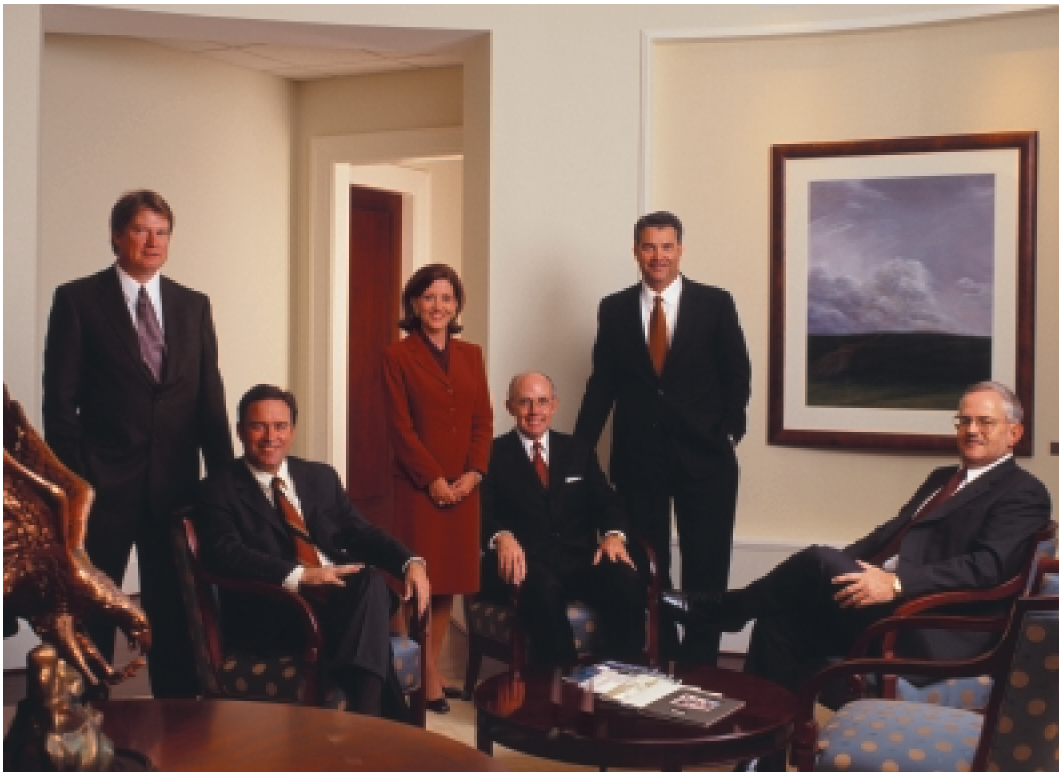
Left to right: Johnson, Pumpelly, Fontenot, Roberts, Dennis, Cloutier Not pictured: Guidry



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Vice President and Owner
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(resigned)
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Chief Executive Officer
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Regulation Division

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(RESIGNED)
Community Affairs Officer
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Regulation Division

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JOHN L. HANNAN JR.
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Development and Support/
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SUSAN HOY
Assistant General Counsel
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MARY M. KEPLER
Automation Operations

JACQUELYN H. LEE
Systems Department

ALBERT E. MARTIN III
(DECEASED)
Assistant General Counsel
Legal Department

DANIEL A. MASLANEY
Financial Services
Technologies
and Support

MARY M. McCORMICK
Planning and Control
Department

MARIE E. McNALLY
Facilities Management

D. PIERCE NELSON
Public Information Officer
Public Affairs Department

ALVIN L. PILKINTON JR.
Assistant General Auditor
Auditing Department

TED G. REDDY III
District Building Projects

MARION P. RIVERS III
Supervision and
Regulation Division

JOHN C. ROBERTSON
Research Department

SUSAN L. ROBERTSON
System Retail
Payments Office

MELINDA J. RUSHING
System Retail
Payments Office

ROBERT M. SCHENCK
Supervision and
Regulation Division

ROBERT T. SEXTON
Financial Services Support

DAVID W. SMITH
Supervision and
Regulation Division

TIM R. SMITH
Community
Relations Officer
Public Affairs Department

ARUNA SRINIVASAN
Credit and Risk
Management

ELLIS W. TALLMAN
Research Department

EDWINA M. TAYLOR
Statistical Reports
Department

LARRY D. WALL
Research Department

JULIUS G. WEYMAN
Check Relay

TAO ZHA
Research Department

BRANCH OFFICERS

ATLANTA

JAMES M. McKEE
Senior Vice President
and Branch Manager

JEFFREY L. WELTZIEN
Vice President and
Assistant Branch Manager

CHRISTOPHER N. ALEXANDER
Assistant Vice President

ROBERT A. LOVE
Assistant Vice President

WILLIAM R. POWELL
Assistant Vice President

BIRMINGHAM

ANDRE T. ANDERSON
Vice President and
Branch Manager

MARGARET A. THOMAS
Assistant Vice President
and Assistant Branch
Manager

TREV B. BROWN
Assistant Vice President

FREDRIC L. FULLERTON
Assistant Vice President

CHARLES W. PRIME
Assistant Vice President

JACKSONVILLE

ROBERT J. SLACK
Senior Vice President
and Branch Manager

CHRISTOPHER L. OAKLEY
Assistant Vice President
and Assistant Branch
Manager

DARRIN G. FINLEY
Assistant Vice President

KATHLEEN YOUNG
Assistant Vice President

SHIRLEY G. PYATT
Assistant Vice President

MIAMI

JAMES T. CURRY III
Vice President and
Branch Manager

JUAN DEL BUSTO
Assistant Vice President
and Assistant Branch
Manager

FRED D. COX
Assistant Vice President

ROBERT A. DE ZAYAS
Assistant Vice President

ROBERT K. MORANDO
Assistant Vice President

NASHVILLE

MELVYN K. PURCELL
Senior Vice President
and Branch Manager

LEE C. JONES
Vice President and
Assistant Branch Manager

LEAH L. DAVENPORT
Assistant Vice President

ANNITA T. MOORE
Assistant Vice President

JOEL E. WARREN
Assistant Vice President

NEW ORLEANS

ROBERT J. MUSSO
Senior Vice President
and Branch Manager

AMY S. GOODMAN
Vice President and
Assistant Branch Manager

W. JEFFREY DEVINE
Assistant Vice President

EDWARD B. HUGHES
Assistant Vice President

EVETTE H. JONES
Assistant Vice President

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, 2001 (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 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

February 11, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have examined management's assertion that the Federal Reserve Bank of Atlanta ("FRB Atlanta") maintained effective internal control over financial reporting and the safeguarding of assets as they relate to the Financial Statements as of December 31, 2001, included in the accompanying Management's Assertion. The assertion is the responsibility of FRB Atlanta management. Our responsibility is to express an opinion on the assertions based on our examination.

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 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, 2001, is fairly stated, in all material respects, based upon criteria described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 4, 2002
Atlanta, Georgia

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying statements of condition of the Federal Reserve Bank of Atlanta (the "Bank") as of December 31, 2001 and 2000, 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 of America. 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 of America.

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, 2001 and 2000, and results of its operations for the years then ended, on the basis of accounting described in Note 3.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 4, 2002
Atlanta, Georgia

STATEMENTS OF CONDITION

(in millions)	As of December 31, 2001	As of December 31, 2000
Assets		
Gold certificates	$ 871	$ 802
Special drawing rights certificates	166	166
Coin	113	83
Items in process of collection	149	514
Loans to depository institutions	7	6
U.S. government and federal agency securities, net	38,624	34,513
Investments denominated in foreign currencies	1,046	1,122
Accrued interest receivable	392	402
Interdistrict settlement account	7,088	4,499
Bank premises and equipment, net	353	307
Other assets	36	40
Total assets	**$ 48,845**	**$ 42,454**
Liabilities and capital		
Liabilities		
Federal Reserve notes outstanding, net	$ 46,323	$ 39,286
Deposits		
Depository institutions	1,169	1,097
Other deposits	5	4
Deferred credit items	137	877
Interest on Federal Reserve notes due U.S. Treasury	33	84
Accrued benefit costs	91	87
Other liabilities	17	29
Total liabilities	**$ 47,775**	**$ 41,464**
Capital		
Capital paid-in	$ 535	$ 495
Surplus	535	495
Total capital	**$ 1,070**	**$ 990**
Total liabilities and capital	**$ 48,845**	**$ 42,454**

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

STATEMENTS OF INCOME

(in millions)	For the years ended December 31, 2001	December 31, 2000
Interest income		
Interest on U.S. government and federal agency securities	$ 2,013	$ 2,044
Interest on investments denominated in foreign currencies	23	19
Interest on loans to depository institutions	1	1
Total interest income	**$ 2,037**	**$ 2,064**
Other operating income (loss)		
Income from services	$ 134	$ 162
Reimbursable services to government agencies	13	13
Foreign currency losses, net	(103)	(101)
U.S. government securities gains (losses), net	22	(5)
Other income	6	8
Total other operating income	**$ 72**	**$ 77**
Operating expenses		
Salaries and other benefits	$ 154	$ 151
Occupancy expense	19	17
Equipment expense	28	25
Assessments by Board of Governors	45	45
Other expenses	96	98
Total operating expenses	**$ 342**	**$ 336**
Net income prior to distribution	**$ 1,767**	**$ 1,805**
Distribution of net income		
Dividends paid to member banks	$ 30	$ 29
Transferred to surplus	40	304
Payments to U.S. Treasury as interest on Federal Reserve notes	1,697	1,472
Total distribution	**$ 1,767**	**$ 1,805**

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

STATEMENTS OF CHANGES IN CAPITAL

for the years ended December 31, 2001, and December 31, 2000

(in millions)	Capital Paid-In	Surplus	Total Capital
Balance at January 1, 2000			
(9.2 million shares)	$ 460	$ 460	$ 920
Net income transferred to surplus		304	304
Surplus transfer to the U.S. Treasury		(269)	(269)
Net change in capital stock issued			
(0.7 million shares)	35		35
Balance at December 31, 2000			
(9.9 million shares)	$ 495	$ 495	$ 990
Net income transferred to surplus		40	40
Net change in capital stock issued			
(0.8 million shares)	40		40
Balance at December 31, 2001			
(10.7 million shares)	$ 535	$ 535	$ 1,070

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

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

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

Structure

The Bank and its branches in Birmingham, Alabama, Jacksonville, Florida, Nashville, Tennessee, New Orleans, Louisiana, and Miami, Florida, serve the Sixth Federal Reserve District, which includes Georgia, Florida, Alabama, and portions of Louisiana, Tennessee, and Mississippi. In accordance with the Federal Reserve Act, supervision and control of the Bank are 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 ("ACH") operations and check processing; distributing coin and currency; performing 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. The FRBNY is also authorized by the FOMC to hold balances of and to execute spot and forward foreign exchange and securities contracts in nine 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 accounting principles generally accepted in the United States of America ("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 generally required by GAAP. In addition, the Bank has elected not to present a Statement of Cash Flows. 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. 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 would not provide any additional useful information. There are no other significant differences between the policies outlined in the Financial Accounting Manual and GAAP.

Effective January 2001, the System implemented procedures to eliminate the sharing of costs by Reserve Banks for certain services a Reserve Bank may provide on behalf of the System. Data for 2001 reflects the adoption of this policy. Major services provided for the System by the Bank, for which the costs will not be redistributed to the other Reserve Banks, include:

Cryptographic Development and Support
Retail Payments Office
Retail Check Related Projects
Accounting Related Projects
Electronic Access Related Projects
Financial Services Policy Committee
National Information Center for Supervision and Regulation
Audit Services

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. Certain amounts relating to the prior year have been reclassified to conform to the current-year presentation. 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 average Federal Reserve notes outstanding in each District.

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. At the time SDR transactions occur, the Board of Governors allocates amounts among Reserve Banks based upon Federal Reserve notes outstanding in each District at the end of the preceding year. There were no SDR transactions in 2001.

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 accrued using 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. Reserve Banks retain the option to impose a surcharge above the basic rate in certain circumstances.

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

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

Matched sale-purchase transactions are accounted for as separate sale and purchase transactions. 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.

The FRBNY has 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 on behalf of the System, 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 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.

Foreign exchange ("F/X") 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 two 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 settlementand 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 investments denominated in 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 "U.S. government securities gains (losses), net." Foreign-currency-denominated assets are revalued daily 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 daily, 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 agency securities bought outright, securities loaned, investments denominated in foreign currency, interest income, securities lending fee 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. Income from securities lending transactions undertaken by the FRBNY are 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.

Statement of Financial Accounting Standards No. 133, as amended and interpreted, became effective on January 1, 2001. For the periods presented, the Reserve Banks had no derivative instruments required to be accounted for under the standard.

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. Internally developed software is capitalized based on the cost of direct materials and services and those indirect costs associated with developing, implementing, or testing software.

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 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 federal agency securities, triparty agreements, loans to depository institutions, 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 currency held in the vaults of the Bank of $18,763 million, and $21,662 million at December 31, 2001 and 2000, 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 percent 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 percent 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 Consolidated Appropriations Act of 2000 (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. Federal Reserve Bank of Atlanta transferred $269 million to the U.S. Treasury. Reserve Banks were not permitted to replenish surplus for these amounts during fiscal year 2000, which ended September 30, 2000; however, the surplus was replenished by December 31, 2000.

In the event of losses or a substantial increase in capital, 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 Costs 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 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. TheBank's allocated share of SOMA balances was 6.876 percent and 6.656 percent at December 31, 2001 and 2000, respectively.

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

	2001	2000
Par value		
Federal agency	$ 1	$ 9
U.S. government		
Bills	12,520	11,897
Notes	18,286	15,987
Bonds	7,128	6,176
Total par value	**$ 37,935**	**$ 34,069**
Unamortized premiums	777	648
Unaccreted discounts	(88)	(204)
Total allocated to Bank	**$ 38,624**	**$ 34,513**

Total SOMA securities bought outright were $561,701 million and $518,501 million at December 31, 2001 and 2000, respectively.

The maturity distribution of U.S. government and federal agency securities bought outright, which were allocated to the Bank at December 31, 2001, were as follows (in millions):

	Par value		
Maturities of Securities Held	U.S. Government Securities	Federal Agency Obligations	**Total**
Within 15 days	$ 735	$ —	**$ 735**
16 days to 90 days	8,564	—	**8,564**
91 days to 1 year	8,982	—	**8,982**
Over 1 year to 5 years	10,531	1	**10,532**
Over 5 years to 10 years	3,668	—	**3,668**
Over 10 years	5,454	—	**5,454**
Total	**$ 37,934**	**$ 1**	**$ 37,935**

At December 31, 2001 and 2000, matched sale-purchase transactions involving U.S. government securities with par values of $23,188 million and $21,112 million, respectively, were outstanding, of which $1,594 million and $1,405 million were allocated to the Bank. Matched sale-purchase transactions are generally overnight arrangements.

At December 31, 2001 and 2000, U.S. government securities with par values of $7,345 million and $2,086 million, respectively, were loaned from the SOMA, of which $505 million and $139 million were allocated to the Bank.

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 7.183 percent and 7.159 percent at December 31, 2001 and 2000, respectively.

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

	2001	2000
European Union Euro		
Foreign currency deposits	$ 330	$ 332
Government debt instruments including agreements to resell	193	194
Japanese Yen		
Foreign currency deposits	136	197
Government debt instruments including agreements to resell	382	394
Accrued interest	5	5
Total	**$ 1,046**	**$ 1,122**

Total investments denominated in foreign currencies were $14,559 million and $15,670 million at December 31, 2001 and 2000, respectively.

The maturity distribution of investments denominated in foreign currencies which were allocated to the Bank at December 31, 2001, was as follows (in millions):

Maturities of Investments Denominated in Foreign Currencies	
Within 1 year	$ 985
Over 1 year to 5 years	29
Over 5 years to 10 years	32
Over 10 years	0
Total	**$ 1,046**

At December 31, 2001 and 2000, there were no open foreign exchange contracts or outstanding F/X swaps.

At December 31, 2001 and 2000, the warehousing facility was $5 billion, with zero outstanding.

6. BANK PREMISES AND EQUIPMENT

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

	2001	2000
Bank premises and equipment		
Land	$ 39	$ 34
Buildings	235	88
Building machinery and equipment	33	17
Construction in progress	1	134
Furniture and equipment	163	141
	471	414
Accumulated depreciation	(118)	(107)
Bank premises and equipment, net	$ 353	$ 307

Depreciation expense was $18 million and $16 million for the years ended December 31, 2001 and 2000, respectively.

The Bank leases unused space to outside tenants. Those leases have terms ranging from 1 to 5 years. Rental income from such leases was $1 million for each of the years ended December 31, 2001 and 2000. Future minimum lease payments under noncancelable agreements in existence at December 31, 2001, were (in thousands):

2002	$ 537
2003	211
2004	149
2005	39
2006	—
Thereafter	—
	$ 936

7. COMMITMENTS AND CONTINGENCIES

At December 31, 2001, the Bank was obligated under noncancelable leases for premises and equipment with terms ranging from 1 to approximately 8 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 $5 million and $7 million for the years ended December 31, 2001 and 2000, respectively. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases, net of sublease rentals, with terms of one year or more, at December 31, 2001, were (in millions):

	Operating
2002	$ 3.5
2003	0.7
2004	0.6
2005	0.5
2006	0.3
Thereafter	0.8
	$ 6.4

At December 31, 2001, other commitments and long-term obligations in excess of one year were $148 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 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent 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, 2001 or 2000.

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, 2001 and 2000, 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 $5 million and $4 million for the years ended December 31, 2001 and 2000, 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 costs are actuarially determined using a January 1 measurement date.

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

	2001	2000
Accumulated postretirement benefit obligation at January 1	$ 60.2	$ 65.9
Service cost-benefits earned during the period	1.9	1.8
Interest cost of accumulated benefit obligation	4.7	4.5
Actuarial loss (gain)	9.5	(2.1)
Contributions by plan participants	0.4	0.4
Benefits paid	(2.2)	(2.3)
Plan amendments, acquisitions, foreign currency exchange rate changes, business combinations, divestitures, curtailments, settlements, special termination benefits	(10.6)	(8.0)
Accumulated postretirement benefit obligation at December 31	$ 63.9	$ 60.2

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

	2001	2000
Fair value of plan assets at January 1	$ —	$ —
Actual return on plan assets	—	—
Contributions by the employer	1.8	1.9
Contributions by plan participants	0.4	0.4
Benefits paid	(2.2)	(2.3)
Fair value of plan assets at December 31	$ —	$ —
Unfunded postretirement benefit obligation	$ 63.9	$ 60.2
Unrecognized initial net transition asset (obligation)	—	—
Unrecognized prior service cost	22.2	12.6
Unrecognized net actuarial gain (loss)	(4.1)	5.4
Accrued postretirement benefit costs	$ 82.0	$ 78.2

Accrued postretirement benefit costs are reported as a component of “Accrued benefit costs.”

At December 31, 2001 and 2000 the weighted average discount rate assumptions used in developing the benefit obligation were 7.0 percent and 7.5 percent, respectively.

For measurement purposes, a 10.00 percent annual rate of increase in the cost of covered health care benefits was assumed for 2002. Ultimately, the health care cost trend rate is expected to decrease gradually to 5.00 percent by 2008, 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, 2001 (in millions):

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	$ 1.6	$ 1.2
Effect on accumulated postretirement benefit obligation	12.1	9.4

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

	2001	2000
Service cost-benefits earned during the period	$ 1.9	$ 1.8
Interest cost of accumulated benefit obligation	4.7	4.6
Amortization of prior service cost	(1.0)	(0.4)
Recognized net actuarial loss	—	—
Net periodic postretirement benefit costs	$ 5.6	$ 6.0

Net periodic postretirement benefit costs are 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. 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, 2001 and 2000, were $9 million in each year. This cost is included as a component of “Accrued benefit costs.” Net periodic postemployment benefit costs included in 2001 and 2000 operating expenses were $2 million in each year.

HEAD OFFICE AND ATLANTA BRANCH
1000 Peachtree Street, N.E.
Atlanta, Georgia 30309-4470

BIRMINGHAM BRANCH
524 Liberty Parkway
Birmingham, Alabama 35242-7531

JACKSONVILLE BRANCH
800 West Water Street
Jacksonville, Florida 32204-1616

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

NASHVILLE BRANCH
301 Eighth Avenue, North
Nashville, Tennessee 37203-4407

NEW ORLEANS BRANCH
525 St. Charles Avenue
New Orleans, Louisiana 70130-3480

CREDITS

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PUBLICATIONS DIRECTOR
Lynne Anservitz

GRAPHIC DESIGNER AND ART DIRECTOR
Peter Hamilton

WRITER
Lee Underwood

EDITORS
Lynn Foley
Nancy Pevey

Photography by Flip Chalfant, represented by Will Sumpter and Associates, Atlanta

Printing by BennettGraphics

FOR ADDITIONAL COPIES CONTACT
Public Affairs Department
Federal Reserve Bank of Atlanta
1000 Peachtree Street, N.E.
Atlanta, Georgia 30309-4470
404.498.8020
www.frbatlanta.org