Grassroots

Federal Reserve Bank of Atlanta
2003 Annual Report

The Atlanta Fed's grassroots connections stretch across areas as diverse as the swamps of Louisiana (cover) and the city of Atlanta, home of the Centers for Disease Control and Prevention. Chief pathologist Dr. Sherif R. Zaki (shown above, center) uses a slide of the SARS virus to talk about the CDC's role in understanding and combating major infectious diseases. Viewpoints gathered from its wide constituency help the Atlanta Fed better understand the Southeast's complex economy.

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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.

Jack Guynn, president and chief executive officer, and Pat Barron, first vice president, of the Federal Reserve Bank of Atlanta, visit the Centers for Disease Control and Prevention in Atlanta.

Message from the President

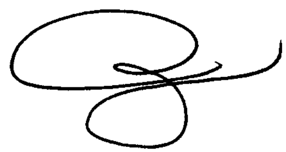
Today's Federal Reserve Bank of Atlanta is a much different place than it was nearly forty years ago when I started working here. And the pace of change has quickened in the last few years. This shift is most apparent in our payment services, which have responded to other dramatic changes in the financial services industry. Technology and increased competition have prompted—indeed, forced—banking organizations to cut costs, consolidate, merge, and then do it all again. Likewise, the Fed has aggressively turned to technology, standardization, consolidation, and other workflow improvements to enhance efficiency and better meet the needs of financial firms that are nationwide, even global, in their scope of operations. And we've done so not only in payments but also in other functions as well as in support and overhead.

Despite this confluence of forces pulling the nation's central bank toward a more centralized business model, our fundamental goals have remained the same. Reiterating the Fed's charter, the Federal Reserve System strategic plan directs us "to provide the nation with a safer, more flexible, and more stable monetary and financial system." And the Fed continues to function through the structure of twelve Federal Reserve Banks around the nation and the Board of Governors in Washington, D.C.

To some, this structure may seem anachronistic or at odds with the Fed's broad mandates. I contend, however, that the inherent advantages in our regional structure continue to support our ability to effectively fulfill our core responsibilities. What's more, I would even argue that this structure helps us navigate the turbulent waters of change and enhances a monetary policy that fosters the stability and prosperity upon which our society relies.

The Fed's decentralized structure facilitates the flow of information with our constituents—banks who use our payment services, banks who are supervised by Fed examiners, and businesses and households, whose economic decisions are profoundly affected by monetary policy actions. Through their insights at the grassroots level, business and civic leaders contribute to policy at conceptual stages. And this vast network of constituents in their respective regions enables Reserve Banks to do a much better job of helping individuals and organizations understand policy changes.

This annual report explores how the Fed's grassroots foundation not only remains relevant today but actually enhances how we perform our core functions of monetary policy formulation, bank supervision, and payment services as well as the educational mission that is increasingly important for a public policy organization in today's complex and rapidly changing world.



Jack Guynn

Many apparel and textile manufacturing plants in the Southeast have closed their doors or laid off workers as they have struggled against competition from offshore facilities.

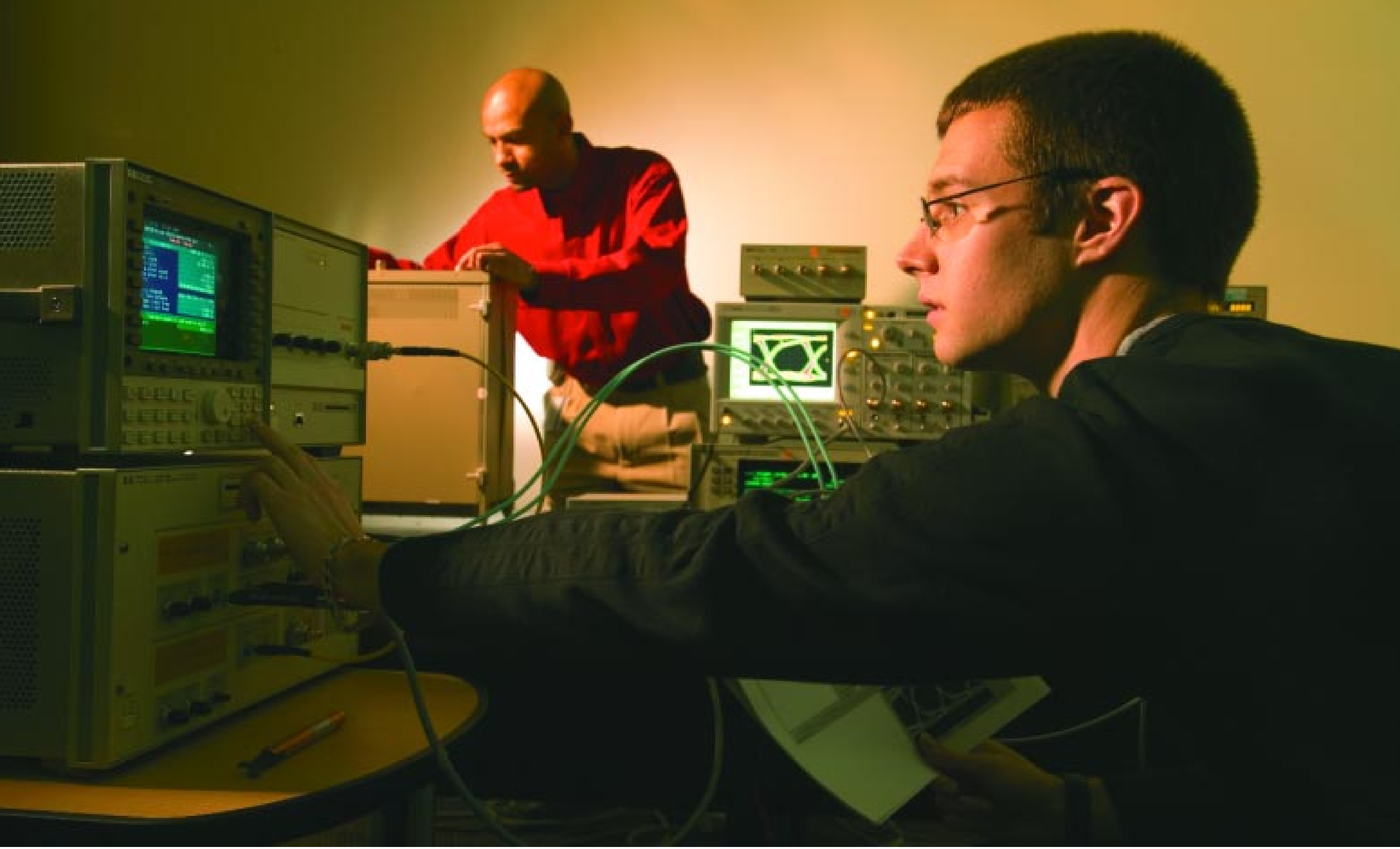
Small business start-ups, such as Highland Bakery in Atlanta, are signs of hope for a sluggish economy. Owner John Mount turned a love of stone-ground bread into a business baking bread for restaurants and his own bakery-café, creating new jobs in the process.

Grassroots perspectives enrich monetary policy

In 2003 the U.S. economic expansion gained a foothold with both strong output growth overall and more widespread growth, encompassing not only consumer spending and housing but also businesses' capital spending. But continued labor market weakness clouded these brightening skies. Although payroll employment began to pick up in the fall, job creation still seemed tepid at year-end.

The Southeast experienced this pattern as well. More of the region's textile and apparel factories padlocked their gates, and other long-standing, traditionally dominant industries struggled to cope with declining demand or stiff international competition. Understanding and interpreting these mixed signals were major challenges for monetary policy in 2003.

Yet signs of hope were discernible at institutions ranging from simple small business start-ups to high-tech institutions such as the Atlanta-based



In one of nearly a dozen million-dollar research labs at Georgia Tech's Georgia Electronic Design Center, researchers Benoit Chauvimeau (foreground) and Daron Foreman test their cutting-edge theories.

Centers for Disease Control and Prevention and Georgia Tech. Of course, the trick is knowing where to look for these signs. That's where the Federal Reserve System's regional structure, created ninety years ago, remains an advantage.

At the Atlanta Fed, preparation for monetary policy decisions is a blend of art and science. Data analysis and forecasting play a critical role in informing monetary policy. However, official statistics often lag behind the period they cover while fresh anecdotes and ideas from Atlanta Fed contacts in the Southeast add depth, context, and color to the economic picture. Having both channels of insight is especially important during times of rapid economic change, and the Fed's regional structure helps enormously in garnering the widest range of information available.

Atlanta Fed directors at both the head office and branches bring a wide array of viewpoints about today's dramatic economic changes. Directors come from large corporations and small businesses, and they include people from nonprofit organization executives to farmers and educators. By law, head office directors also include executives from small, medium, and large banks, whose jobs give them a ground-level view of economic conditions across the region. The Atlanta Fed also has an advisory council whose members represent small business, agriculture, and labor.

Having access to such diverse views ensures that economic developments in the Sixth Federal Reserve District and among its population of about 43 million people are taken into consideration as part of monetary policy deliberations. Of course, monetary policy decisions must be made on the basis of what's best for the country as a whole. The Southeast, though, is in many ways a microcosm of the nation, so identifying emerging developments in this region can provide useful indications of what's on the national economic horizon.

The Fed's monetary policy process culminates every six to eight weeks at the Federal Open Market Committee in Washington, D.C. Clearly, the anecdotal information gathered from regional sources adds to the process of determining monetary policy.

Part of the Atlanta Fed's mission is to promote in-depth understanding of the Fed, its economic research, and its monetary policy decisions. Having a regional footprint makes it easier to achieve this goal.

The process of formulating an effective, well-informed monetary policy can be unwieldy, and it is not perfect. But in today's complex and globally connected economy, the Fed's grassroots relationships are more valuable than ever.

Working the night shift, Atlanta Fed employees Hien Dang and Monica Paul still process a high volume of paper checks even as the Fed leads the movement toward electronic payments.

When international ACH payments are available to Latin America, émigrés like the dos Santos family (Alan, Rene, Alex, and Marina) will be able to move money simply and with little cost from their home in Decatur, Georgia, to family members back home.

Doing the right things in financial services

Six nights a week, truckloads of boxed and bagged checks arrive at each of the six Atlanta Fed offices across the Southeast, prompting teams of employees to rush into action to ensure that each check is accurately and swiftly routed, cleared, and shipped to its destination.

The twelve Federal Reserve Banks process about one-third of all checks cleared around the country. Check volume has begun to decline in recent years as electronic payments become more popular, but the overall volume remains large. Though the Fed competes with the private sector in providing these services, the Fed's role as a service provider supports its mission to promote a reliable, efficient, and accessible nationwide payment system.

Few industries have changed more in recent years than financial services. In response, the Atlanta Fed, along with the other Reserve Banks,

Bartow Morgan Jr. (left), a fifth-generation Lawrenceville, Georgia, community banker and chief executive officer of Brand Banking Company, describes the renovation of the original 1905 bank building to the Atlanta Fed's business development officer Jeff Devine, who frequently visits bankers around the Sixth Federal Reserve District to listen to their needs.

continually seeks new ways to lower costs by standardizing and consolidating backroom operations. Another way the Fed adjusts to this shifting landscape is by staying in close touch with banking organizations in each Fed district. Because feedback from customers is especially valuable in financial services, the Atlanta Fed works hard to cultivate a network of listening posts in the Southeast.

C.R. "Rusty" Cloutier, president and chief executive of MidSouth Bank in Lafayette, Louisiana, is one such resource. As chairman of the Independent Community Bankers of America and a director of the Atlanta Fed's New Orleans Branch, Cloutier is concerned that smaller community banks risk getting lost in the current shuffle of mergers and acquisitions, and he's grateful that the Atlanta Fed is available to listen and to provide services that help his bank.

"We see the Fed as critical to the payments system," said Cloutier, noting that the Fed represents all points of view. "The big four [banks] aren't going to call us and ask what a bank like ours wants."

The Fed's network of local contacts provides input and feedback as the Fed develops and implements far-reaching changes such as check truncation and the digital transmission of payment information.

The Federal Reserve System helped shape the Check Clearing for the 21st Century Act, which was signed into law in 2003. The act gives legal status to a "substitute check," making an electronic image of a check now legally equivalent to the paper original. Once "Check 21" becomes effective in 2004, the check-clearing process will become more efficient as banks gain more latitude to move beyond often cumbersome paper-based check clearing.

In this quickly changing payment landscape, it's wise to keep in mind the advice of business guru Peter Drucker: "Efficiency is concerned with doing things right. And effectiveness is doing the right things."

For the Fed's Atlanta-based Retail Payments Office, one of the right things is leading development of an international automated clearinghouse. Payments through FedACH International already allow individuals and businesses to exchange payments faster and less expensively with Canada, Europe, and Mexico, and funds transfers with other areas of Latin America will soon be possible.

In addition to creating close ties between Reserve Banks and their financial services customers, the Fed's decentralized structure supports the resilience of the U.S. payment system in times of crisis. Fed contingency plans deal with scenarios ranging from terrorist attacks to major power outages. But simply by having multiple offices, the Reserve Banks can more readily ensure that payments will keep flowing in a crisis.

Whether by listening to the concerns of local bankers or getting feedback from customers who will send funds abroad through FedACH International, the Atlanta Fed works to ensure its constituents in the Southeast that we're doing things right and doing the right things.

Bankers and bank examiners could easily get bogged down in paperwork as they try to stay on top of the rules, regulations, and supervisory requirements governing the industry. But Atlanta Fed examiners work hard to build working relationships with bankers at the grassroots level to help navigate these issues.

Juan Sanchez, an Atlanta Fed community affairs officer, talks with Hattie Dorsey, president and chief executive officer of Atlanta Neighborhood Development Partnership Inc., at Atlanta's Studioplex redevelopment project.

The human touch still matters in bank supervision

In today's competitive financial sector, banks face tremendous pressure to consolidate and automate to reduce costs, and these forces aren't easing. But trade-offs accompany consolidation. A particularly tough challenge for many institutions is to wring the most from potential efficiency gains and cost-saving initiatives without sacrificing personal service and deep-rooted ties to local communities.

In many ways, the Atlanta Fed mirrors these changes. The Federal Reserve System was originally designed as a decentralized entity capable of regulating a fragmented and geographically diffuse banking industry. Since the 1980s, as banks began consolidating and merging across state borders, the Fed adapted by eliminating duplication wherever possible and ensuring a consistent examination process for banks everywhere in the country.

Fernando Perez-Hickman, managing director of Banco Santander, discusses the growth of international banks in Miami, Florida, with Atlanta Fed officer Carolyn Healy, who focuses on supervising the activities of foreign banking organizations with offices in the Southeast.

This process of nationwide standardization continues today. But at the same time Reserve Banks remain vigilant about preserving their presence in the districts, seeing this regional presence as vital to an effective examination process. Reserve Banks have a close-up view of the financial institutions they examine, and they are authorized to quickly resolve many issues at a local level without having to deal with a centralized bureaucracy.

It would take several large bookcases to hold all the volumes of regulations and other paperwork that bankers and bank examiners must be familiar with. While regulations are central to banking supervision, the Atlanta Fed believes the human touch is also critical to success. Examiners and community affairs staff spend time in the field, where they can build relationships and leverage their knowledge of the diverse markets they supervise and serve.

In south Florida—the nation's gateway to Latin America—Miami's Brickell Avenue is home to many international and U.S. banks. These institutions serve businesses globally, and money from all over the world flows into and out of this region. Because banking in south Florida is diverse and complex, the Atlanta Fed currently has forty-eight examiners in its Miami Branch. These professionals understand the international financial marketplace as well as anyone, and they do their jobs better by operating close to the source instead of from Atlanta or Washington, D.C.

The Atlanta Fed's emphasis on doing business at the grassroots level is a factor in community development. To support this effort, the Atlanta Fed places a premium on reaching out to people in the field with staff in Atlanta and each of its five branch locations.

Delivering results is not always easy when a variety of people are involved, but the Atlanta Fed has established relationships at the local level. In doing so, it has gained the credibility to serve as an honest broker and bring the right people together—to advance the goals of the Community Reinvestment Act, which governs the way financial institutions meet community credit needs, as well as to support many other valuable local initiatives.

For example, Hattie Dorsey, president and chief executive officer of Atlanta Neighborhood Development Partnership Inc., said the Atlanta Fed has helped her organization's financing efforts by explaining to bankers the rationale for the Community Reinvestment Act and the potential for profit in certain lower- and middle-income areas. By participating in conferences and building ongoing banking relationships, the Atlanta Fed "sends the message that CRA is good business with a good return on investment," Dorsey said.

The Atlanta Fed's message resonates in large part because we know our region. We are here to show a human face and the personal touch that bankers, civic leaders, and other stakeholders in the Southeast's financial community have come to expect from an organization geared not just to rules and regulations but to making a difference at the grassroots level.

Businesses that make title and payday loans do not typically offer credit on favorable terms to their customers. But such businesses thrive on catering to people whose knowledge of economics and finance is limited.

Conferring during a break at the inaugural Georgia Summit on Economic and Financial Education are Patt Braaf (left), senior business manager at Fannie Mae Corporation, and C.W. Copeland, director of community outreach at the Consumer Credit Counseling Service of Greater Atlanta Inc.

Economic education at the grassroots

From young people just starting out to retirees on fixed incomes, consumers may find themselves struggling financially if they don't have the knowledge or tools to manage their money wisely.

What can be done to help such people recover their financial equilibrium and break out of the debilitating cycle of struggling to make ends meet as they live from paycheck to paycheck? Educating people about personal financial responsibility is a crucial step toward alleviating such problems, and the Atlanta Fed champions the teaching of economics and personal finance in schools and beyond.

Economic and financial education is of concern to the Federal Reserve because consumers play a huge role in the economy, with spending by consumers accounting for nearly two-thirds of the nation's $11 trillion gross domestic product. The level of consumer spending depends to a large extent on how individuals handle their finances. Consumers' poor financial decisions can have highly detrimental consequences not only for

Student Ashley Monroe helps Atlanta Fed community affairs staffer Wayne Smith teach a personal finance class at Inman Middle School in midtown Atlanta.

individuals but for the economy. If a large number of households do not get the most from their hard-earned money or if they support economic policies that are misguided, economic growth in the long run will suffer. Simply put, economic illiteracy is expensive and painful—whether in the form of mortgage foreclosures and personal bankruptcy or in its effects on output over time.

While these problems are national in scope, the solutions more often than not are regional. At the local level, the Atlanta Fed can help identify cultural needs and workable solutions for adults by building relationships with people like Atlanta Fed director Suzanne Boas, head of the nonprofit Consumer Credit Counseling Service of Greater Atlanta Inc. Because she spends much of her time helping people cope with financial difficulties, she offers a wealth of insights into the financial situations of the region's families.

The Atlanta Fed's approach to filling in the gaps in financial and economic education in regional schools is to team up with other organizations that make a difference. The bank works closely with southeastern state councils on economic education and groups such as Jump$tart and Junior Achievement. The Jump$tart Coalition helps teach students about personal finance. Junior Achievement brings business leaders into the classroom to share their views on managing money, economics, and entrepreneurship. In 2003 Atlanta Fed staff were involved in establishing several Jump$tart operations in Florida, Tennessee, and Alabama.

In addition to participating in these partnerships, the Atlanta Fed offers teacher workshops on monetary policy, tours of the Fed that illustrate its important role in the nation's economy, and economic and financial education programs in the classroom. The bank also takes a leadership role in conferences such as the 2003 Georgia Summit on Economic and Financial Education. The summit, cohosted by the Atlanta Fed and the Georgia Council on Economic Education, attracted educators such as Georgia School Superintendent Kathy Cox, business executives, and community leaders. Presentations and discussions at the summit highlighted the considerable progress that has been made in economic and financial education but also identified several important issues that still need to be addressed: improving teacher training in college, infusing economics and finance throughout the curriculum, and improving assessment and accountability of ongoing educational efforts.

Ultimately, these relationships, partnerships, and events support the Atlanta Fed's mission to formulate sound monetary policy as well as the bank's vision to be a good corporate citizen. These efforts would be much less effective without a grassroots presence in the region, where economic and financial education makes a real difference.

Sixth Federal Reserve 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.

Left to right: Perry, Hickson, Dane, Lovell, Ratcliffe, Martin, Smith, Beall, Boas; not pictured: Humann

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JUAN C. SANCHEZ
Supervision and Regulation Division

ROBERT T. SEXTON (retired)
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

DAVID E. TATUM
Supervision and Regulation Division

EDWINA M. TAYLOR
Statistical Reports Department

JULIUS G. WEYMAN
Check Relay

Branch Officers

ATLANTA

JAMES M. McKEE
Senior Vice President and
Branch Manager

JEFFREY L. WELTZIEN
Vice President and
Assistant Branch Manager

LEAH L. DAVENPORT
Vice President

CHRISTOPHER N. ALEXANDER
Assistant Vice President

ROBERT A. LOVE
Assistant Vice President

WILLIAM R. POWELL (retired)
Assistant Vice President

JACKSONVILLE

CHRISTOPHER L. OAKLEY
Vice President and
Branch Manager

DARRIN G. FINLEY (resigned)
Assistant Vice President and
Assistant Branch Manager

PAUL W. GRAHAM
Assistant Vice President

SHIRLEY G. PYATT (retired)
Assistant Vice President

NASHVILLE

MELVYN K. PURCELL
Senior Vice President and
Branch Manager

ANNITA T. MOORE
Assistant Vice President and
Assistant Branch Manager

JOEL E. WARREN
Assistant Vice President

BIRMINGHAM

LEE C. JONES
Vice President and
Branch Manager

KATHLEEN A. YOUNG
Assistant Vice President and
Assistant Branch Manager

TREV B. BROWN
Assistant Vice President

FREDRIC L. FULLERTON (retired)
Assistant Vice President

CHARLES W. PRIME
Assistant Vice President

MIAMI

JAMES T. CURRY III
Vice President and
Branch Manager

JUAN del BUSTO
Vice President and
Assistant Branch Manager

FRED D. COX
Assistant Vice President

ROBERT A. de ZAYAS
Assistant Vice President

ROBERT K. MORANDO
Assistant Vice President

NEW ORLEANS

ROBERT J. MUSSO
Senior Vice President and
Branch Manager

AMY S. GOODMAN
Vice President and
Assistant Branch Manager

EDWARD B. HUGHES
Assistant Vice President

EVETTE H. JONES
Assistant Vice President

Financial Reports

The firm engaged by the Board of Governors for the audits of the individual and combined financial statements of the Reserve Banks for 2003 was PricewaterhouseCoopers LLP (PwC). Fees for these services totaled $1.4 million. To ensure auditor independence, the Board of Governors requires that PwC be independent in all matters relating to the audit. Specifically, PwC may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In 2003, the Bank did not engage PwC for advisory services.

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, 2003 (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 ("Manual") and, as such, include amounts, some of which are based on judgments and estimates of management. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with the accounting principles, policies, and practices documented in the Manual and include all disclosures necessary for such fair presentation.

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

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

The management of the FRB Atlanta assessed its process of internal controls over financial reporting, including the safeguarding of assets reflected in the Financial Statements, based upon the criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, we believe 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

Christopher G. Brown
Senior Vice President and
Chief Financial Officer

March 1, 2004
Atlanta, Georgia

Report of Independent Accountants

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

We have examined management's assertion, included in the accompanying management 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, 2003, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. FRB Atlanta's management is responsible for maintaining effective internal control over financial reporting and safeguarding of assets as they relate to the financial statements. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing 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 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 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, 2003, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

This report is intended solely for the information and use of management and the Board of Directors and Audit Committee of FRB Atlanta and any organization with legally defined oversight responsibilities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 1, 2004
Atlanta, Georgia

Report of Independent Auditors

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, 2003 and 2002, and the related statements of income and changes in capital for the years then ended, which have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these 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 described in Note 3, these 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, 2003 and 2002, and results of its operations for the years then ended, on the basis of accounting described in Note 3.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 1, 2004
Atlanta, Georgia

Statements of Condition

(in millions)	As of December 31, 2003	As of December 31, 2002
Assets		
Gold certificates	$ 863	$ 926
Special drawing rights certificates	166	166
Coin	82	103
Items in process of collection	723	748
Loans to depository institutions	5	8
U.S. government and federal agency securities, net	45,639	45,508
Investments denominated in foreign currencies	1,127	1,231
Accrued interest receivable	341	388
Interdistrict settlement account	4,274	—
Bank premises and equipment, net	340	345
Other assets	43	38
Total assets	**$ 53,603**	**$ 49,461**
Liabilities and capital		
Liabilities		
Federal Reserve notes outstanding, net	$ 48,296	$ 42,368
Securities sold under agreements to repurchase	1,733	1,502
Deposits		
Depository institutions	1,608	1,735
Other deposits	2	135
Deferred credit items	855	972
Interest on Federal Reserve notes due U.S. Treasury	21	—
Interdistrict settlement account	—-	1,692
Accrued benefit costs	98	93
Other liabilities	12	14
Total liabilities	**$ 52,625**	**$ 48,511**
Capital		
Capital paid-in	$ 489	$ 475
Surplus	489	475
Total capital	**$ 978**	**$ 950**
Total liabilities and capital	**$ 53,603**	**$ 49,461**

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

Statements of Income

(in millions)	For the years ended December 31, 2003	December 31, 2002
Interest income		
Interest on U.S. government and federal agency securities	$ 1,530	$ 1,772
Interest on investments denominated in foreign currencies	15	20
Total interest income	**$ 1,545**	**$ 1,792**
Interest expense		
Interest expense on securities sold under agreements to repurchase	$ 15	$ 1
Net interest income	**$ 1,530**	**$ 1,791**
Other operating income		
Income from services	$ 166	$ 125
Reimbursable services to government agencies	18	13
Foreign currency gains, net	155	152
U.S. government securities gains, net	—	5
Other income	3	4
Total other operating income	**$ 342**	**$ 299**
Operating expenses		
Salaries and other benefits	$ 166	$ 158
Occupancy expense	20	21
Equipment expense	24	26
Assessments by Board of Governors	79	46
Other expenses	94	94
Total operating expenses	**$ 383**	**$ 345**
Net income prior to distribution	**$ 1,489**	**$ 1,745**
Distribution of net income		
Dividends paid to member banks	$ 29	$ 28
Transferred to (from) surplus	14	(60)
Payments to U.S. Treasury as interest on Federal Reserve notes	1,446	1,777
Total distribution	**$ 1,489**	**$ 1,745**

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

Statements of Changes in Capital

(in millions)	For the years ended December 31, 2003, and December 31, 2002		
	Capital Paid-In	Surplus	Total Capital
Balance at January 1, 2002			
(10.7 million shares)	$ 535	$ 535	$ 1,070
Net income transferred from surplus		(60)	(60)
Net change in capital stock redeemed			
(1.2 million shares)	(60)		(60)
Balance at December 31, 2002			
(9.5 million shares)	$ 475	$ 475	$ 950
Net income transferred to surplus		14	14
Net change in capital stock issued			
(0.3 million shares)	14		14
Balance at December 31, 2003			
(9.8 million shares)	$ 489	$ 489	$ 978

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

1. STRUCTURE

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. 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. 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. 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

In accordance with the Federal Reserve Act, supervision and control of the Bank are exercised by a 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, the sale of securities under agreements to repurchase, 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 ("F/X") 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 with 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 because 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. A Statement of Cash Flows, therefore, would not provide any additional useful information. There are no other significant differences between the policies outlined in the *Financial Accounting Manual* and GAAP.

Each Reserve Bank provides services on behalf of the System for which costs are not shared. Major services provided on behalf of the System by the Bank, for which the costs were not redistributed to the other Reserve Banks, include

- Federal Reserve Information Technology Projects
- Retail Payments Office
- Retail Check-Related Projects
- Cash-Related Projects
- Accounting-Related Projects
- Financial Services Policy Committee
- Customer Support Projects
- National Information Center for Supervision and Regulation
- Audit Services
- Special Check-Related Projects

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, 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 on 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 SDR certificates, at the direction of the U.S. Treasury, for the purpose of financing SDR acquisitions or for financing exchange stabilization operations. At the time SDR transactions occur, the Board of Governors allocates SDR certificate transactions 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 2003 or 2002.

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 loans were ever 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 Boards of Directors of the Reserve Banks, subject to review by the Board of Governors.

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.

In December 2002, the FRBNY replaced matched sale-purchase ("MSP") transactions with securities sold under agreements to repurchase. MSP transactions, accounted for as separate sale and 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. Securities sold under agreements to repurchase are treated as secured borrowing transactions with the associated interest expense recognized over the life 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 the 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 the FRBNY on a daily basis, with additional collateral obtained as necessary. The securities loaned continue to be accounted for in the SOMA.

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 prearranged 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 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 that contain varying degrees of off-balance-sheet market risk because they represent contractual commitments involving future settlement and counterparty 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 may result in gains or losses when holdings are sold prior to maturity. Decisions regarding the securities and foreign currencies transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, market values, 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, net." Foreign-currency-denominated assets are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as "Foreign currency gains, net." Foreign currencies held through F/X swaps, when initiated by the counterparty, 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 sold under agreements to repurchase, securities loaned, investments denominated in foreign currency, interest income and expense, 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. 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.

In 2003, additional interest income of $61 million, representing one day's interest on the SOMA portfolio, was accrued to reflect a change in interest accrual methods, of which $4.1 million was allocated to the Bank. Interest accruals and the amortization of premiums and discounts are now recognized beginning the day that a security is purchased and ending the day before the security matures or is sold. Previously, accruals and amortization began the day after the security was purchased and ended on the day that the security matured or was sold. The effect of this change was not material; therefore, it was included in the 2003 interest income.

e. Bank Premises, Equipment, and Software

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 two to fifty years. 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. Costs incurred for software, either developed internally or acquired for internal use, during the application development stage are capitalized based on the cost of direct services and materials associated with designing, coding, installing, or testing software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which range from two to five years.

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 (the Chairman of the Board of Directors of each Reserve Bank) 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 2003, the Federal Reserve Act was amended to expand the assets eligible to be pledged as collateral security to include all Federal Reserve Bank assets. Prior to the amendment, only gold certificates, special drawing rights certificates, U.S. government and federal agency securities, securities purchased under agreements to resell, loans to depository institutions, and investments denominated in foreign currencies could be pledged as collateral. 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 par value of securities pledged for securities sold under agreements to repurchase is similarly deducted. 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 that 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 the Bank's Federal Reserve notes outstanding reduced by its currency holdings of $18,415 million and $16,757 million at December 31, 2003 and 2002, 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. Pursuant to Section 16 of the Federal Reserve Act, Reserve Banks are required by the Board of Governors to transfer to the U.S. Treasury as interest on Federal Reserve notes 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.

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.

k. Taxes

The Reserve Banks are exempt from federal, state, and local taxes except for taxes on real property. The Bank's real property taxes were $3 million and $4 million for the years ended December 31, 2003 and 2002, respectively, and are reported as a component of "Occupancy expense."

l. Recent Accounting Developments

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150, which will become applicable for the Bank in 2004, establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and imposes certain additional disclosure requirements. When this standard is adopted, there may be situations in which the Bank has not yet processed a member bank's application to redeem its Reserve Bank stock. In those situations, this standard requires that the portion of the capital paid-in that is mandatorily redeemable be reclassified as debt.

m. 2003 Restructuring Charges

In 2003, the System restructured several operations, primarily in the check and cash services. The restructuring included streamlining the management and support structures, reducing staff, decreasing the number of processing locations, and increasing processing capacity in the remaining locations.

Footnote 10 describes the restructuring and provides information about the Bank's costs and liabilities associated with employee separations and contract terminations. Costs and liabilities associated with enhanced pension benefits for all Reserve Banks are recorded on the books of the FRBNY as discussed in footnote 8, and those associated with the Bank's enhanced post-retirement benefits are disclosed in footnote 9.

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 and the related premiums, discounts, and income, with the exception of securities purchased under agreements to resell, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of interdistrict clearings. The settlement, performed in April of each year, equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding. The Bank's allocated share of SOMA balances was approximately 6.756 percent and 7.120 percent at December 31, 2003 and 2002, respectively.

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

	2003	2002
Par value		
Federal agency	$ —	$ 1
U.S. government		
Bills	16,540	16,140
Notes	21,845	21,211
Bonds	6,652	7,464
Total par value	45,037	44,816
Unamortized premiums	662	767
Unaccreted discounts	(60)	(75)
Total allocated to Bank	$ 45,639	$ 45,508

The total of SOMA securities bought outright was $675,569 million and $639,125 million at December 31, 2003 and 2002, respectively.

As noted in footnote 3, the FRBNY replaced MSP transactions with securities sold under agreements to repurchase in December 2002. At December 31, 2003 and 2002, securities sold under agreements to repurchase with a contract amount of $25,652 million and $21,091 million, respectively, were outstanding, of which $1,733 million and $1,502 million were allocated to the Bank. At December 31, 2003 and 2002, securities sold under agreements to repurchase with a par value of $25,658 million and $23,188 million, respectively, were outstanding, of which $1,733 million and $1,594 million were allocated to the Bank.

The maturity distribution of U.S. government securities bought outright and securities sold under agreements to repurchase, that were allocated to the Bank at December 31, 2003, was as follows (in millions):

Maturities of Securities Held	U.S. Government Securities (par value)	Securities Sold Under Agreements to Repurchase (contract amount)
Within 15 days	$ 3,224	$ 1,733
16 to 90 days	9,414	—
91days to 1 year	11,084	—
Over 1 year to 5 years	12,637	—
Over 5 years to 10 years	3,466	—
Over 10 years	5,212	—
Total	$ 45,037	$ 1,733

At December 31, 2003 and 2002, U.S. government securities with par values of $4,426 million and $1,841 million, respectively, were loaned from the SOMA, of which $299 million and $131 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 purchased 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 5.671 percent and 7.281 percent at December 31, 2003 and 2002, respectively.

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

	2003	2002
European Union Euro		
Foreign currency deposits	$ 390	$ 406
Government debt instruments including agreements to resell	232	240
Japanese Yen		
Foreign currency deposits	84	130
Government debt instruments including agreements to resell	416	449
Accrued interest	5	6
Total	$ 1,127	$ 1,231

Total investments denominated in foreign currencies were $19,868 million and $16,913 million at December 31, 2003 and 2002, respectively.

The maturity distribution of investments denominated in foreign currencies which were allocated to the Bank at December 31, 2003, was as follows (in millions):

Maturities of Investments Denominated in Foreign Currencies	
Within 1 year	$ 1,035
Over 1 year to 5 years	73
Over 5 years to 10 years	19
Over 10 years	—
Total	$ 1,127

At December 31, 2003 and 2002, there were no outstanding F/X swaps or material open foreign exchange contracts.

At December 31, 2003 and 2002, the warehousing facility was $5,000 million, with no balance outstanding.

6. BANK PREMISES, EQUIPMENT, AND SOFTWARE

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

	2003	2002
Bank premises and equipment		
Land	$ 40	$ 40
Buildings	241	236
Building machinery and equipment	36	33
Construction in progress	2	4
Furniture and equipment	161	167
Subtotal	$ 480	$ 480
Accumulated depreciation	(140)	(135)
Bank premises and equipment, net	$ 340	$ 345
Depreciation expense, for the years ended	$ 19	$ 20

The Bank leases unused space to outside tenants. Those leases have terms ranging from one to five years. Rental income from such leases was $1 million for each of the years ended December 31, 2003 and 2002. Future minimum lease payments under noncancelable agreements in existence at December 31, 2003, were (in thousands):

2004	$ 575
2005	190
2006	102
2007	102
2008	34
	$ 1,003

The Bank has capitalized software assets, net of amortization, of $3 million for each of the years ended December 31, 2003 and 2002. Amortization expense was $1 million for each of the years ended December 31, 2003 and 2002.

7. COMMITMENTS AND CONTINGENCIES

At December 31, 2003, the Bank was obligated under noncancelable leases for premises and equipment with terms ranging from one to approximately six years. These leases provide for increased rental payments 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 $2 million for each of the years ended December 31, 2003 and 2002. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases and capital leases, net of sublease rentals, with terms of one year or more, at December 31, 2003, were (in thousands):

	Operating Leases
2004	$ 576
2005	549
2006	280
2007	280
2008	280
Thereafter	280
	$ 2,245

At December 31, 2003, the Bank, acting on behalf of the Reserve Banks, had contractual commitments through the year 2006 totaling $75 million, $17 million of which had been recognized. These contracts represent air and ground transportation services for the Federal Reserve Check Transportation System, which serves all Reserve Banks.

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, 2003 or 2002.

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"). In addition, certain Bank officers participate in the Supplemental Employee Retirement Plan ("SERP").

The System Plan is a multiemployer plan with contributions fully funded by participating employers. Participating employers are the Federal Reserve Banks, the Board of Governors of the Federal Reserve System, and the Office of Employee Benefits of the Federal Reserve Employee Benefits System. No separate accounting is maintained of assets contributed by the participating employers. The FRBNY acts as a sponsor of the Plan for the System, and the costs associated with the Plan are not redistributed to the Bank. The Bank's projected benefit obligation and net pension costs for the BEP and the SERP at December 31, 2003 and 2002, 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 $6 million for each of the years ended December 31, 2003 and 2002, 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):

	2003	2002
Accumulated postretirement benefit obligation at January 1	$ 64.8	$ 63.9
Service cost-benefits earned during the period	2.0	1.7
Interest cost of accumulated benefit obligation	4.7	4.2
Actuarial loss	22.2	0.2
Special termination loss	0.2	—
Contributions by plan participants	0.6	0.2
Benefits paid	(2.8)	(3.0)
Plan amendments	—	(2.4)
Accumulated postretirement benefit obligation at December 31	$ 91.7	$ 64.8

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

	2003	2002
Fair value of plan assets at January 1	$ —	$ —
Actual return on plan assets	—	—
Contributions by the employer	2.2	2.8
Contributions by plan participants	0.6	0.2
Benefits paid	(2.8)	(3.0)
Fair value of plan assets at December 31	$ —	$ —
Unfunded postretirement benefit obligation	$ 91.7	$ 64.8
Unrecognized prior service cost	20.8	22.8
Unrecognized net actuarial gain (loss)	(26.3)	(4.3)
Accrued postretirement benefit costs	$ 86.2	$ 83.3

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

At December 31, 2003 and 2002, the weighted average discount rate assumptions used in developing the benefit obligation were 6.25 percent and 6.75 percent, respectively.

For measurement purposes, a 10 percent annual rate of increase in the cost of covered health care benefits was assumed for 2004. Ultimately, the health care cost trend rate is expected to decrease gradually to 5 percent by 2011 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 1 percentage point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2003 (in millions):

	One Percentage Point Increase	One Percentage Point Decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	$ 1.5	$ (1.1)
Effect on accumulated postretirement benefit obligation	16.4	(12.9)

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

	2003	2002
Service cost-benefits earned during the period	$ 2.0	$ 1.7
Interest cost of accumulated benefit obligation	4.7	4.2
Amortization of prior service cost	(2.0)	(1.8)
Recognized net actuarial loss	0.2	—
Total periodic expense	$ 4.9	$ 4.1
Special termination loss	0.1	—
Net periodic postretirement benefit costs	$ 5.0	$ 4.1

Net periodic postretirement benefit costs are reported as a component of “Salaries and other benefits.”

The recognition of special termination loss is the result of enhanced retirement benefits provided to employees during the restructuring described in footnote 10.

Following the guidance of the Financial Accounting Standards Board, the Bank elected to defer recognition of the financial effects of the Medicare Prescription Drug Improvement and Modernization Act of 2003 until further guidance is issued. Neither the accumulated postretirement benefit obligation at December 31, 2003, nor the net periodic postretirement benefit cost for the year then ended reflect the effect of the act on the plan.

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, 2003 and 2002, were $11 million and $10 million, respectively. This cost is included as a component of "Accrued benefit costs." Net periodic postemployment benefit costs included in operating expenses were $2 million for each of the years ended December 31, 2003 and 2002.

10. RESTRUCTURING CHARGES

In 2003, the Bank announced plans for restructuring to streamline operations and reduce costs, including consolidation of check operations and staff reductions in various functions of the Bank. These actions resulted in the following business restructuring charges:

Major categories of expense (in millions):

	Total Estimated Costs	Accrued Liability 12/31/02	Total Charges	Total Paid	Accrued Liability 12/31/03
Employee separation	$ 6	$ —	$ 5	$ (2)	$ 3
Contract termination	—	—	—	—	—
Other	—	—	—	—	—
Total	$ 6	$ —	$ 5	$ (2)	$ 3

Employee separation costs are primarily severance costs related to reductions of approximately 175 staff and are reported as a component of "Salaries and other benefits." Contract termination costs include the charges resulting from terminating existing lease and other contracts and are shown as a component of "Other expenses."

Costs associated with enhanced pension benefits for all Reserve Banks are recorded on the books of the FRBNY as discussed in footnote 8. Costs associated with enhanced postretirement benefits are disclosed in footnote 9.

Future costs associated with the announced restructuring plans are estimated at $622,000 and will be incurred in 2004.

The Bank anticipates substantially completing its announced plans by March 2004.

Milestones: A Brief Review of the Atlanta Fed's Activities in 2003

First Quarter

Federal Reserve Banks announced the Check Reengineering Initiative, aimed at improving the efficiency of the Reserve Banks' check processing operation. The Federal Reserve's Retail Payments Office, based at the Atlanta Fed, led this effort.

A market-based compensation program was launched with broader, more flexible salary guidelines to keep the Atlanta Fed competitive in hiring and retaining high-quality staff.

Atlanta Fed volunteers gave a boost to many communities. Staff members in the bank's five branch cities as well as in Atlanta volunteered for a range of community activities. For example, bank volunteers provided a day of motivational and educational workshops for welfare-to-work students as part of the YMCA's Workforce Enterprise Program.

Second Quarter

The Federal Reserve Bank of Atlanta and the Center for Banking and Finance at the University of North Carolina School of Law jointly sponsored the 2003 Financial Markets Conference, "Business Method Patents and Financial Services."

Working toward its goal of becoming an employer of choice, the Atlanta Fed began its internal "Dialogue on Diversity" training to continue building trust and openness throughout the workplace.

The Atlanta Fed launched an online virtual tour of its Visitor's Center and Monetary Museum. The tour features the bank's collection of rare monetary artifacts.

Third Quarter

As part of its proactive approach to bank supervision, the Atlanta Fed hosted credit conferences for community bank executives as well as credit-related training sessions for community bank directors who serve on loan committees.

The Atlanta Fed, along with the Georgia Council on Economic Education, hosted the Georgia Summit on Economic and Financial Education. The conference was attended by more than 100 educators, business leaders, and community leaders

The Federal Reserve Banks rolled out FedImage Services^{SM}, a suite of products for the capture, storage, retrieval, and delivery of check images.

Fourth Quarter

The Federal Reserve Bank of Atlanta and the Inter-American Development Bank sponsored the conference "Rethinking Structural Reform in Latin America," which attracted academics, policymakers, and media from throughout the Western Hemisphere.

The Urban Land Institute's Atlanta chapter presented its 2003 award for excellence to the Atlanta Fed for its new building project, completed in 2001, which helped reinvigorate an entire section of Midtown Atlanta.

Congress passed the "Check 21" Act, which should streamline the check collection process by allowing checks to move through this process digitally. To prepare bankers for this change, which takes effect in late 2004, Atlanta Fed staff made presentations at banker conferences and seminars around the Sixth Federal Reserve District.

The Atlanta Fed noted that the economy of the six-state Southeast region as a whole outperformed the nation's in 2003. Looking to 2004, the bank's researchers predict that Florida and Georgia will continue to propel the region's economy as the other states rebound from the recent economic downturn.

Cover
Atchafalaya Swamp in central Louisiana

Back cover
An airboat cuts between the mangrove trees and cypress knees near Evangeline Parish in Louisiana.

Credits

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Peter Hamilton

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William Smith

Editors
Lynn Foley
Tom Heintjes

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