

Changing Times, Unchanging Commitment



FEDERAL
RESERVE
BANK
of ATLANTA

2000 ANNUAL REPORT

“The

promise of

our future

is linked

to the

success of

our past.”

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A BRIEF HISTORY OF U.S. CENTRAL BANKING

Many events helped shape the Fed into the central bank we are today. The following are some of the most important milestones.

1783—After the Revolution

Currency notes known as "Continental" were issued in such large quantities during the Revolutionary War that the public eventually lost faith in them. The phrase "not worth a Continental" came to mean "utterly worthless."

1791—The First Bank Is Born

At the urging of Treasury Secretary Alexander Hamilton, Congress established the First Bank of the United States. It was the nation's first attempt at a central bank and was given a twenty-year charter.

1836—Jackson Halts the Central Bank

President Andrew Jackson, a central bank foe, ended central banking by failing to renew the charter of the Second Bank of the United States.

1836–63—The Free Banking Era

State-chartered banks and unchartered "free" banks took hold. They issued their own notes and offered checking accounts, known as demand deposits, but often without sufficient reserves, leading to instability.

1863—A Uniform National Currency

During the Civil War, Congress passed the National Banking Act, providing for nationally chartered (and regulated) banks whose notes had to be backed by U.S. government securities. This action brought about a uniform national currency. State banks continued to flourish through the growing popularity of demand deposits.

1893—Preventing Collapse

The Panic of 1893 set off the worst depression the United States had seen. President Grover Cleveland appealed to banker J.P. Morgan for help. Morgan backed a \$62 million gold bond to support the U.S. gold standard and thus prevented a financial collapse. The need for such assistance made it clear that the nation's financial system was in need of reform.

1907—Panic and Its Aftermath

A severe banking panic prompted cries for a central banking authority to ensure financial stability and an elastic currency. The Aldrich-Vreeland Act of 1908 provided for emergency currency issues and established a national commission to find solutions to recurring banking and financial crises.

1910—Jekyll Island

Senator Nelson Aldrich of Rhode Island and a small group of bankers met secretly on Georgia's Jekyll Island to discuss and formulate financial reform measures. They drafted a plan oriented toward bank control and centralization.

1911—President Wilson Supports Financial Reform

Newly elected President Woodrow Wilson pledged to carry out financial reforms. He named William Jennings Bryan secretary of state. A brilliant speaker, Bryan favored a publicly controlled, decentralized central banking system.

1913—The Fed Is Born

President Wilson signed the Federal Reserve Act into law on December 23, 1913. The nation took a major step forward in establishing a central bank—decentralized in structure and striking a balance between public and private interests.

1914—The Fed Selects Atlanta

The Reserve Bank Organizing Committee chose Atlanta as the site for one of twelve regional Reserve Banks that would make up the Federal Reserve System. On November 16, 1914, the Federal Reserve Bank of Atlanta officially opened for business.

1915—The First System Branch

New Orleans was not selected to be a regional Reserve Bank city, but following protests by local leaders and a mass demonstration by New Orleans citizens, district lines placed southern Louisiana in Atlanta's region. New Orleans became the first branch in the Fed system.

1929–33—The Stock Market Crash

The stock market crashed on "Black Thursday," October 24, 1929. Between 1930 and 1933 nearly 10,000 banks failed. In March 1933, President Franklin Delano Roosevelt declared a "bank holiday."

1933–35—Congress Acts

Congress passed the Banking Act of 1933, known as the Glass-Steagall Act, separating commercial and investment banking. The Banking Act of 1935 established the Federal Open Market Committee (FOMC) as a separate legal entity and removed the U.S. Treasury Secretary and the Comptroller of the Currency from the Fed's governing board.

1951—The "Treasury Accord"

As the Korean Conflict broke out, the Fed reached agreement with the Treasury to end the long-standing practice of supporting government bond interest rates to help meet fiscal policy goals. This action strengthened the independence of the Fed in pursuing its monetary policy goals.

1951–70—The Martin Era

Standing up to political pressure, Fed Chairman William McChesney Martin solidified the Fed's position as "independent within the government." He watched price pressures closely and remarked that the Fed's public policy duty was to "take away the punch bowl just when the party is getting started."

1980—Reform and Modernization

The Monetary Control Act of 1980 initiated a period of financial regulatory reforms, requiring the Fed to price its payment services and allowing banks to pay interest on checking accounts. The next two decades saw further reforms, culminating in the Gramm-Leach-Bliley Act of 1999, which essentially overturned the Glass-Steagall Act of 1933.

1982—The End of High Inflation

Following several years of rising prices, Fed Chairman Paul Volcker led the effort to quell the double-digit inflation of the 1970s. By keeping a tight rein on the money supply, the Fed curbed inflation and steered the economy back on track.

1987—The Longest Expansion

In 1987 Alan Greenspan took over as Fed chairman. During his tenure, his commitment to maintaining a low-inflation environment has helped the U.S. economy to enjoy the longest economic expansion in its history.

2000—Moving Forward

Today the Fed stands as a leader among the world's central banks. Its commitment to price stability lays the foundation for sustainable economic growth. Its role in the payments system enables consumers and businesses to conduct transactions seamlessly. And its leadership as a banking regulator and the lender of last resort helps ensure a sound financial system.

CHANGING TIMES, UNCHANGING COMMITMENT

During the United States' first 125 years, the country's economic growth was rapid yet unstable. It was marked by bank runs, financial crises, recessions, and depressions. In fact, during the nineteenth century more than 30,000 forms of currency existed in the United States. Unfortunately, many banks that issued currency did not have the financial resources to back it, and these banks ultimately failed. Even with the advent of a uniform national currency after 1863, financial crises continued to disrupt business activity and overall economic performance into the early twentieth century. The American people began to recognize the need for a central banking institution to address these and other problems.

After lengthy debate and hard-won compromise, the Federal Reserve Act was signed into law by President Woodrow Wilson in 1913. The establishment of a decentralized central bank, with twelve regional Reserve Banks, was deemed essential to shield the country from the shifting winds of politics that could have troubled a single central bank located in either capital-heavy New York or politically oriented Washington.

In 1914, in cities across the nation, twelve Reserve Banks opened for business. The selection of Atlanta as a Reserve Bank site had been far from inevitable as many cities had campaigned for the honor.

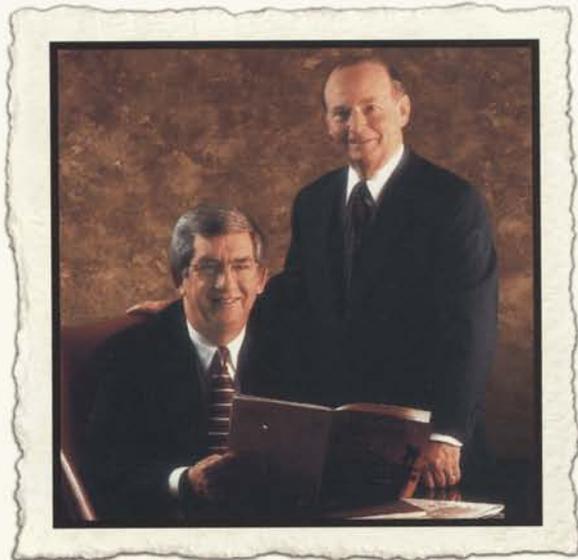
Having a Reserve Bank in the Deep South was particularly important to maintaining the cohesion of the nation. No other region suffered more from the Civil War, Reconstruction, and the lack of capital. The South remained poor while industrial centers in other regions thrived. The case for placing a Reserve Bank in Atlanta was based largely on its being the transportation hub for the Southeast and a burgeoning banking center. But it probably didn't hurt Atlanta's bid that Treasury Secretary William McAdoo was born and raised in Atlanta and that President Wilson launched his career here.

History would prove the selection of Atlanta to be a wise one as the Federal Reserve Bank of Atlanta and its six offices in the Southeast have demonstrated a commitment to serve the region and help secure its financial well-being.

The Fed's original goals were to create an elastic currency that would better respond to economic circumstances; to foster a safer, more stable banking system; and to maintain a reliable and efficient payment system. The Fed's duties included maintaining the Treasury Department's account, issuing currency, and transferring funds from one depository institution to another. Congress later broadened the Fed's goals to include promoting low unemployment, steady growth, and stable prices.

The Atlanta Fed's devotion to the founding principles necessary to fulfill its public policy mandate—principles like integrity, efficiency, effectiveness, and prudence—has been steadfast despite many changes over time. This commitment remains constant as we enter a new millennium.

MESSAGE FROM THE PRESIDENT



JACK GUYNN, ATLANTA FED PRESIDENT AND CHIEF EXECUTIVE OFFICER (LEFT),
AND PAT BARRON, FIRST VICE PRESIDENT AND CHIEF OPERATING OFFICER

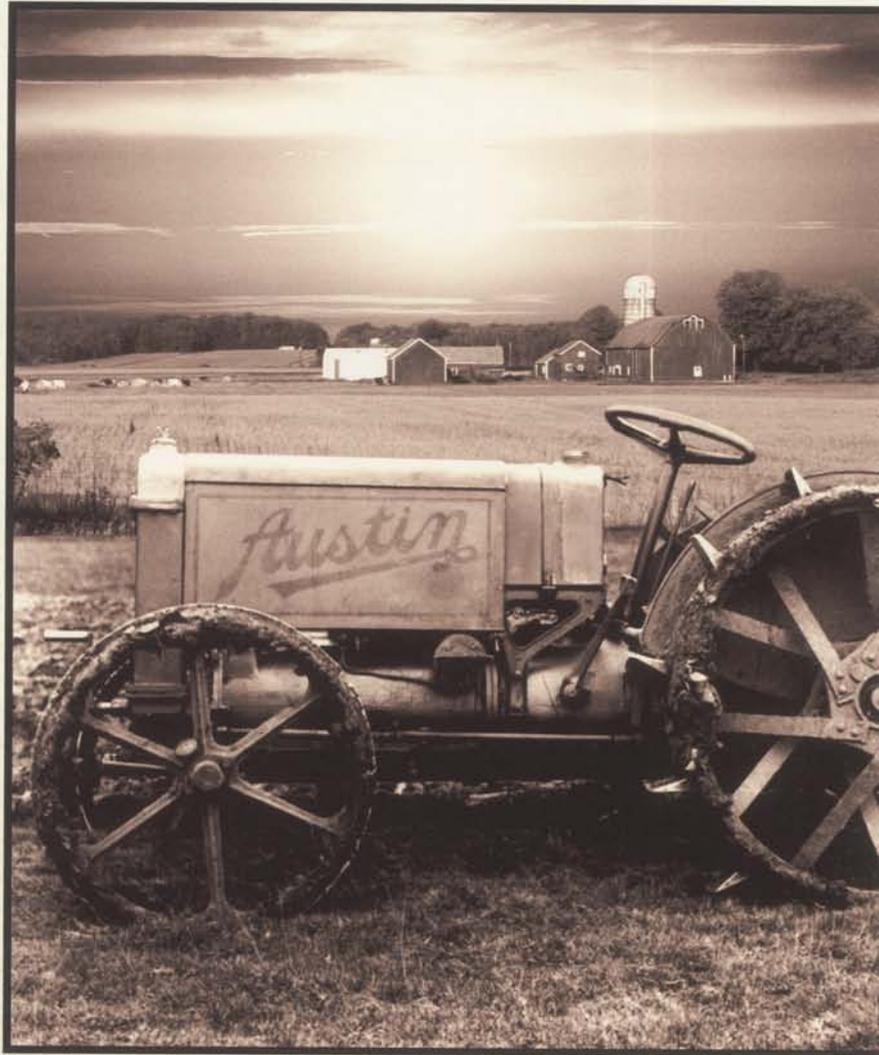
The promise of our future is linked to the success of our past. In the eighty-six years since the Federal Reserve Bank of Atlanta was established, the southeastern economy has experienced remarkable change—in population, industry, banking, and more. We at the Atlanta Fed have embraced and championed change. Yet the core principles we have long valued—integrity, efficiency, effectiveness, and prudence—remain unchanged.

During the past year we have worked to further our progress toward a more efficient, effective payment system; to implement better ways of supervising today's rapidly changing banking institutions; and to contribute deeper insights into formulating monetary policy appropriate to our complex, dynamic economy.

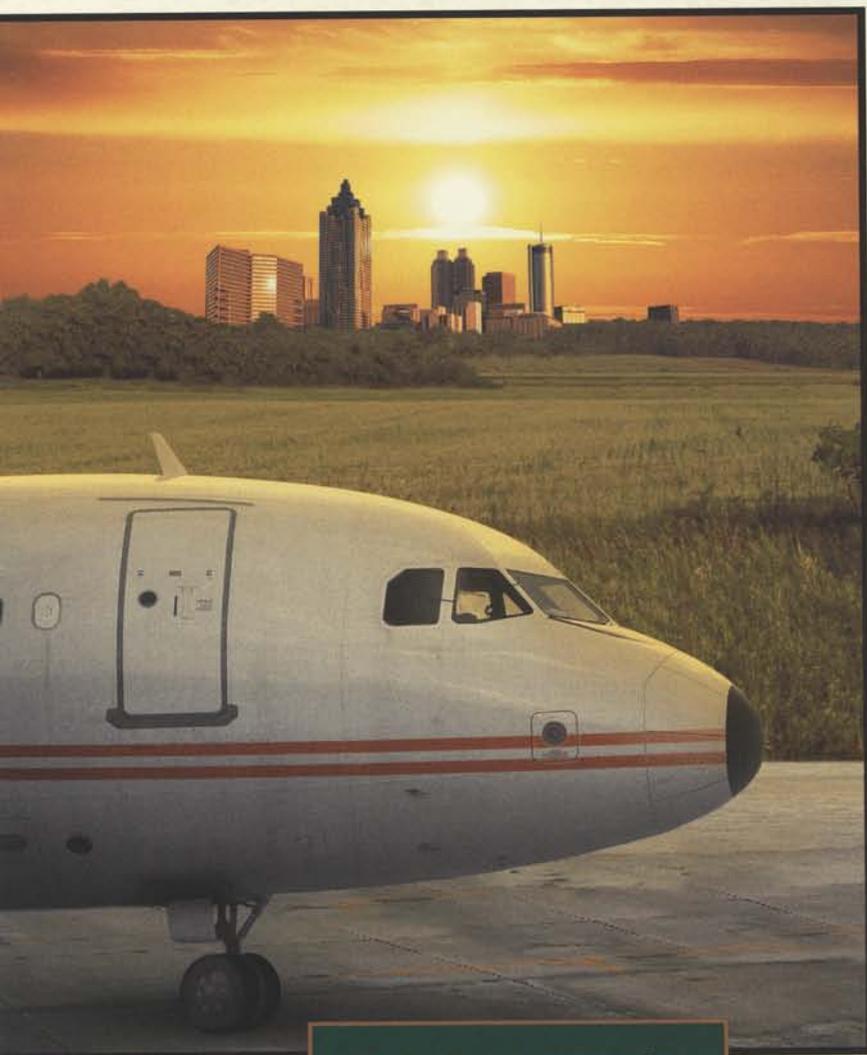
To this end, we have maintained a solid record for efficient performance while striving to be more innovative and responsive to the financial system's needs. We have provided analysis and leadership to shape important public policies that help underpin an ever-changing economy—regionally, nationally, and even internationally. And we have deepened our commitment to being a vibrant part of the communities we serve while forging strong cooperation with other Reserve Banks to more effectively serve a nationwide banking system.

This year's annual report has a retrospective focus that reflects our history but also looks ahead to the new millennium. The report reviews the origins of our institution and the progress made over the past century—how we experienced change and responded to it with vision. We hope this publication promotes your understanding of the Atlanta Fed and assures you of our unwavering commitment to remain a guardian of the Southeast's and the nation's economic well-being.

JACK GUYNN



*Changes in
the Economy*



The Southeast's economy has shifted from agriculture to manufacturing and services with markets across the nation and the world.

In 1913 the area that would make up the Sixth Federal Reserve District was poor, with depleted lands and limited capital. The region's primary economic challenge was overcoming its dependence on a single volatile commodity—King Cotton. In addition, many of the region's state-chartered banks were small, inconsistently regulated, and hard-pressed to support their local economies in times of stress. Loan rates were high and bank failures commonplace. For the most part, the nation's prosperity had bypassed the Southeast.

Over the next several decades the Southeast became increasingly industrialized. Textile and apparel manufacturers were drawn by the region's raw materials and low-cost labor, and abundant timber made the region a prime supplier for the home-building industry nationwide. Beginning in the 1970s massive in-migration spurred income growth, construction, and a booming service sector. Today the Southeast is one of the nation's most rapidly growing areas. The region's economy has diversified to become much less dependent on agriculture and more oriented to high-tech, higher-wage industries like automobile manufacturing as well as services, from tourism to health care.

A Shift in Focus

As the southeastern economy has grown and transformed over the decades, the Atlanta Fed too has changed, sometimes helping to shape and sometimes responding to the evolving economy. For example, when the region's economy was rural and agrarian, the Atlanta Fed met banks' needs mainly by processing cash and providing them with discount window loans to meet temporary liquidity shortages.

CHANGES IN Alabama



Alabama, once renowned for steel production, is recognized today for space technology.

Events in the 1930s, especially the Great Depression, fundamentally reshaped the Fed. Providing liquidity locally in times of stress through discount window lending as a means of stabilizing the economy took a back seat to buying and selling government securities. These open market operations were directed by the Federal Open Market Committee, made up of the members of the Federal Reserve Board of Governors and Reserve Bank presidents.

This development stimulated the Atlanta Fed's need for more information on the regional and national economy and a greater understanding of economics. The Atlanta Bank rose to the occasion by establishing a strong economic research department that not only conducted analysis but also reached out across the region through speeches and reports to encourage further economic diversification.

A Commitment to Efficiency

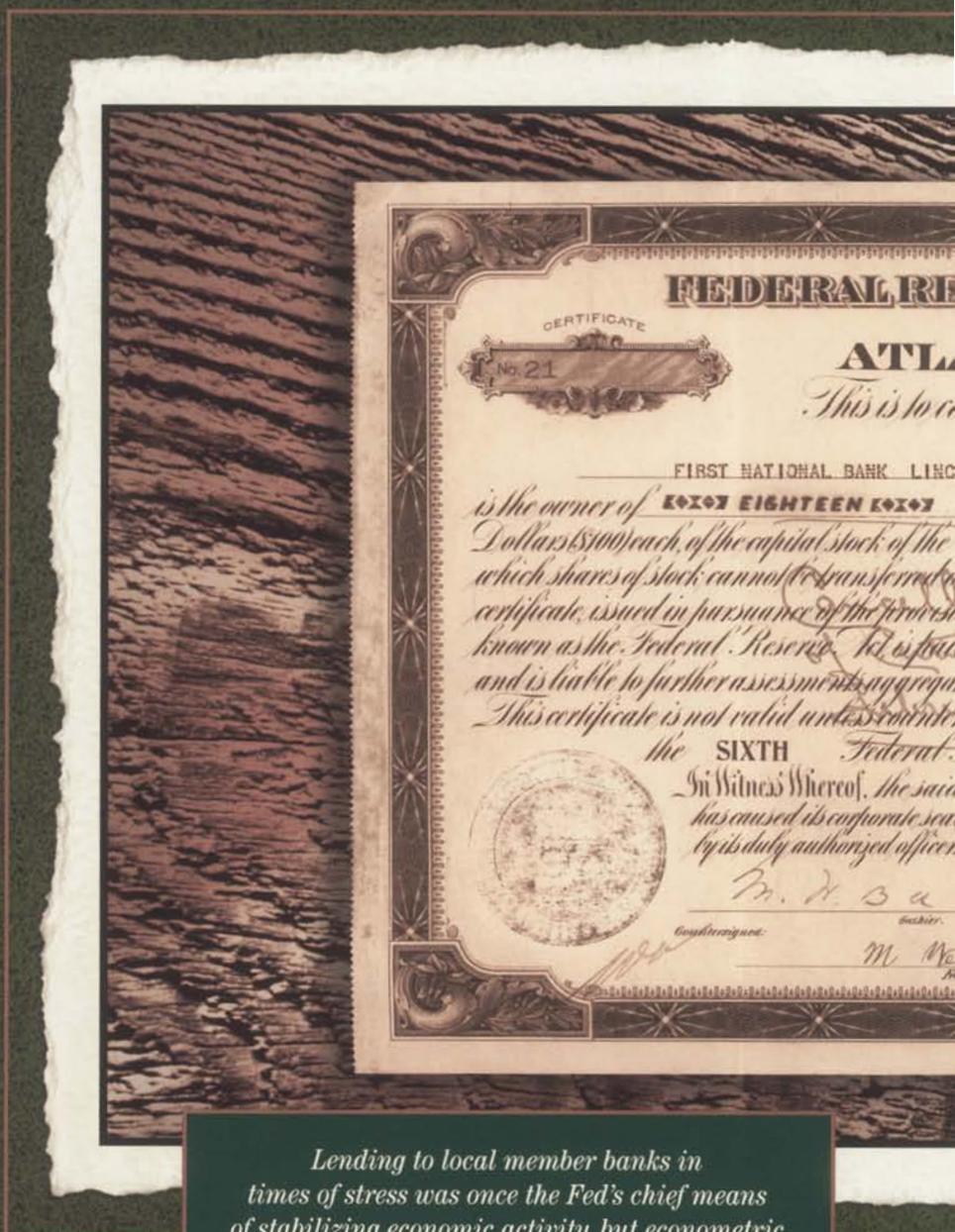
Through its commitment to efficient operations, both internally and through its services to financial institutions, the Atlanta Fed has contributed in its own way to a stronger banking system in the region. In the 1970s, for example, the Atlanta Fed promoted the development of an alternative, electronic retail payment method—the automated clearinghouse (ACH). Through support of high-volume electronic payments like direct deposit of payroll, the ACH has made the entire nation's payment system more efficient and reliable. That commitment continues today through the work of the Retail Payments Office, based at the Atlanta Fed but working on behalf of the entire Federal Reserve System to make the national retail payment system as efficient, accessible, reliable, and secure as technology will permit.

C H A N G E S I N *Florida*

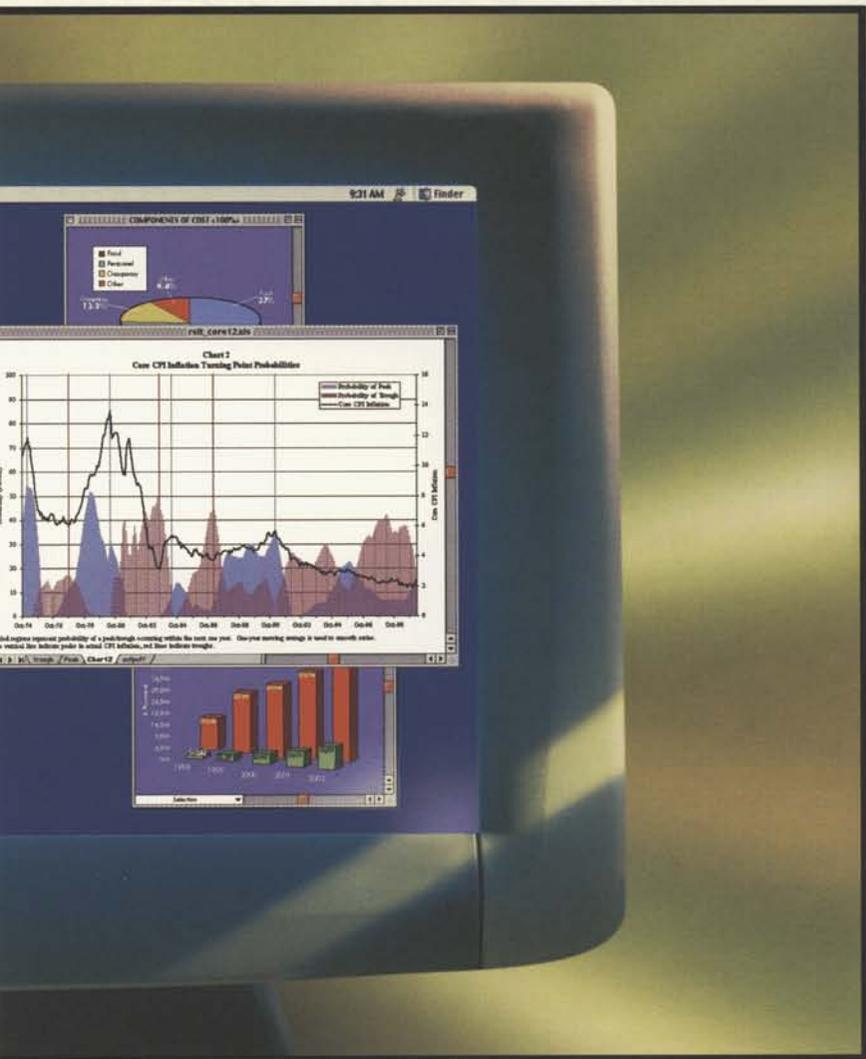


The world has enjoyed Florida citrus products for decades, but Florida also has become a tourist playground.

Changes in Roles and Responsibilities



Lending to local member banks in times of stress was once the Fed's chief means of stabilizing economic activity, but econometric modeling is now an important tool for informing monetary policy decisions that help stabilize the economy.



The Federal Reserve Bank of Atlanta was established during a time of debilitating business conditions. Large banks in the Northeast were the major source of credit and capital to the Southeast's many small, often unsound banks. Before long, the Atlanta Fed became a stable and trusted source of funds for the region, and over time the Atlanta Bank's examiners established a solid standard of prudence for the region's banking system.

Rediscounting Loans and Handling Government Securities

In its early years the Atlanta Fed provided considerable currency to local banks, but its links to nationwide check-clearing services, authorized by the legislation that established the Fed, were used sparingly at first. In its first year of operation the Atlanta Fed processed fewer than 500 checks a day. It also took some time for the Bank to assume its envisioned role as a lead supervisor of state-chartered banks. Capital-poor banks in the Southeast were slow to subject themselves to the Fed's supervision or its requirement that checks cleared through the Fed be accepted at face (par) value and not redeemed below par. Only three state-chartered banks had joined the Atlanta Fed after two years of operations.

Whatever contribution Atlanta Fed staff made to the safety and soundness of southeastern banks in these early days came through monitoring the creditworthiness of banks in conjunction with discount window lending—the main activity of the Atlanta Fed's thirteen original employees. In this role the Atlanta Fed made secured loans to member financial institutions. With this infusion of liquidity, these banks could make additional loans to their customers. Such loans helped growers avoid having to sell their crops at times when prices were low and served to keep locally strained credit conditions from cascading into wider economic problems.

Another significant activity of the Atlanta Fed in its early years—and again during World War II—was handling government securities transactions spurred by the war efforts. World War I caused unprecedented economic change across America, including the expansion of government debt. The volume of government securities work ebbed over time, in large measure as a result of technological innovation. By the 1960s much of the paperwork had been computerized on the Fed's book-entry system. Today most of the securities services performed on behalf of the U.S. government have been centralized to a few Fed offices nationwide.

C H A N G E S I N *Georgia*



Georgia boasts a long tradition as a transportation center and is now the site of the world's busiest airport.

Bank Supervision

Other responsibilities grew in importance after a slow start. The Bank created a bank examination department in the 1920s to supervise the growing number of state member banks. Examiners monitored banks through such activities as verifying balance sheets and generally placing sole reliance on on-site visits. Today most monitoring occurs remotely as a supplement to on-site work. Bank supervision now focuses on the risk-management processes financial institutions have in place, critiquing in-house models and testing portfolios with tools such as credit-risk and default models.

Check Processing

By the 1930s, check processing had become one of the Atlanta Fed's primary activities. Today the Sixth Federal Reserve District processes the highest check volumes in the Federal Reserve System even though the Atlanta Fed has long been a leader within the Fed system in supporting the transition to electronic payment methods. This transition is already reflected in the slowing growth in the volume of checks processed at the Atlanta Bank and in the Bank's increasing use of electronic check presentment.

Econometric Modeling

Over the years the Atlanta Fed's primary focus in regard to monetary policy and economic stabilization has changed significantly as well. We have shifted from conducting credit analyses of local bank loans and balance sheets to gathering statistics; drawing insightful information on business, banking, consumers, and labor from our directors; and conducting advanced econometric modeling.

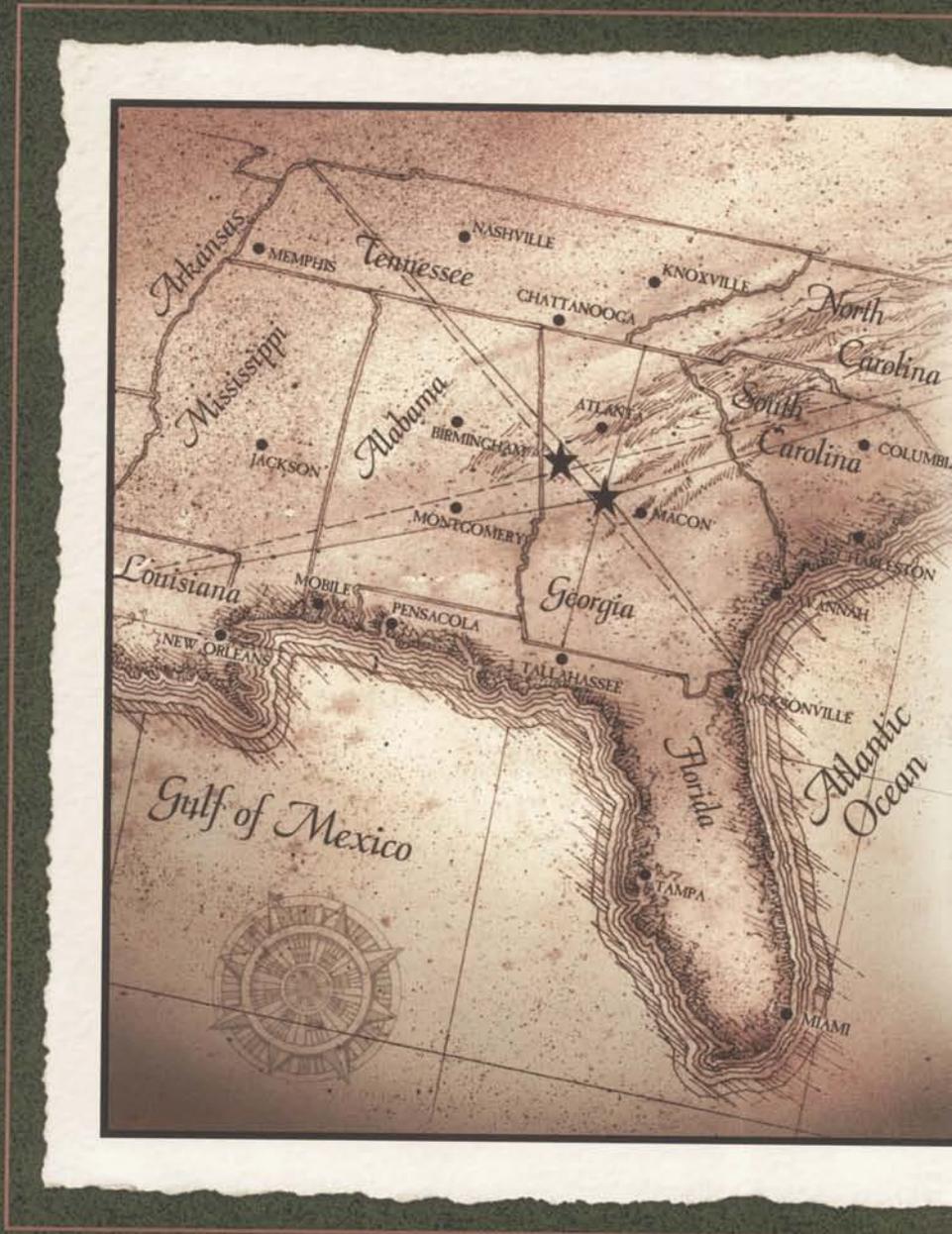
In recent years, such modeling has become more refined. Whereas once hundreds of factors were weighed against each other simultaneously to simulate the economy as a whole, the Atlanta Fed's latest econometric model focuses on a few variables and their interrelationships. This model, the result of over a decade of research and development, continues to gain the respect and recognition of policymakers and economists.

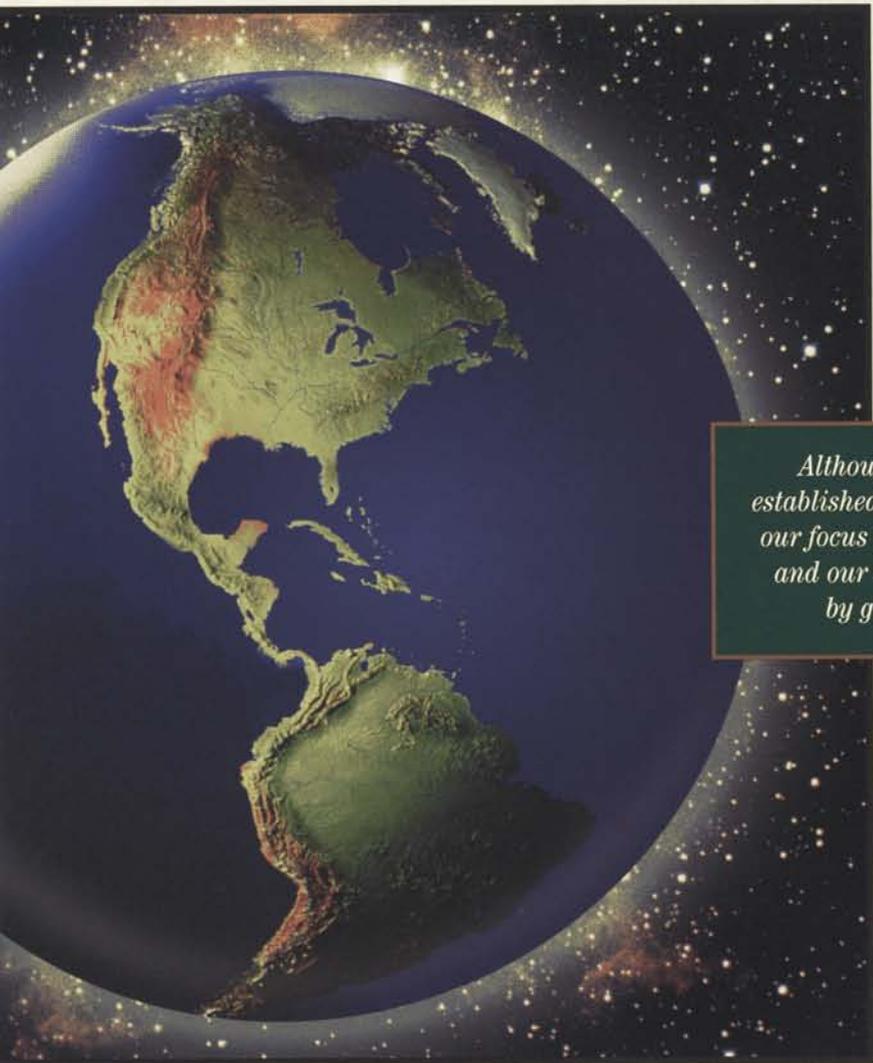
C H A N G E S I N *Louisiana*

Long regarded as a place for entertainment, Louisiana is now a center of technologically advanced oil and natural gas drilling.



*Changes
in
Borders*





Although the Atlanta Fed was established to serve the Sixth District, our focus now extends to the nation, and our discussions are informed by global considerations.

A decentralized central bank sounds like a paradox. The Atlanta Fed, as one of twelve regional Reserve Banks, initially coped with a need to serve both regional and national interests by keeping a regional focus dedicated to locally accommodating the needs of its constituents. Founded as a decidedly southern institution and shaped early on by southern business and banking leaders, the Atlanta Fed was keenly aware of the difficulties facing its region and stood ready to help stabilize and bolster a predominately agrarian economy.

From the outset the Atlanta Fed sought to carry out its mission throughout its geographic district. After creating the Federal Reserve System's first branch in New Orleans in 1915, the Atlanta Bank added branches in Birmingham, Jacksonville, and Nashville within a few years to meet the needs of banks in these commercial centers. In 1923 the Atlanta Fed extended its service outside its borders to the dollar-based economy of Cuba, opening a currency office in Havana, which remained in operation until 1938. In the 1970s the Bank extended its check-processing and cash services to the booming south Florida economy with an office in Miami that later became a full-scale branch, the last to be added to the Federal Reserve System, in 1975.

Today the Federal Reserve Bank of Atlanta continues to transcend old borders—not jurisdictionally but rather by contributing to program and policy debates that affect the region, the nation, and the world.

A Global Perspective

One example of the Atlanta Fed's expanded "borders" is the Bank's Latin America Research Group, whose periodic reports and conferences advance understanding about a region of the world with increasingly close trade ties to the Southeast and the United States. The Bank's supervision staff follow the banking industry in Latin America, meeting regularly with the region's bank supervisors and central bank officials to stay informed about market conditions. In addition, as Latin American countries rely more on the U.S. dollar for business transactions, our Miami branch has begun to process currency shipped to and from a number of these countries.

C H A N G E S I N *Mississippi*



Cotton has been replaced by casinos as one of Mississippi's primary sources of income.

The Gramm-Leach-Bliley Act

Boundaries have also changed over the last decade along business lines. Financial deregulation has had a profound effect on the Fed's supervisory activities. One of the most recent, landmark steps toward deregulation, the Gramm-Leach-Bliley Act of 1999, formally ended the boundaries between insurance, underwriting, and banking in the financial services industry. The Federal Reserve now has umbrella supervisory authority over financial services holding companies that can engage not only in banking but also in insurance and brokerage services. These changes have required the Atlanta Fed to alter its supervisory staff's skill sets and organizational structure and to attract, train, motivate, and retain a workforce with the knowledge and experience to supervise today's more complex banking institutions.

The Emergence of Specialist Banks

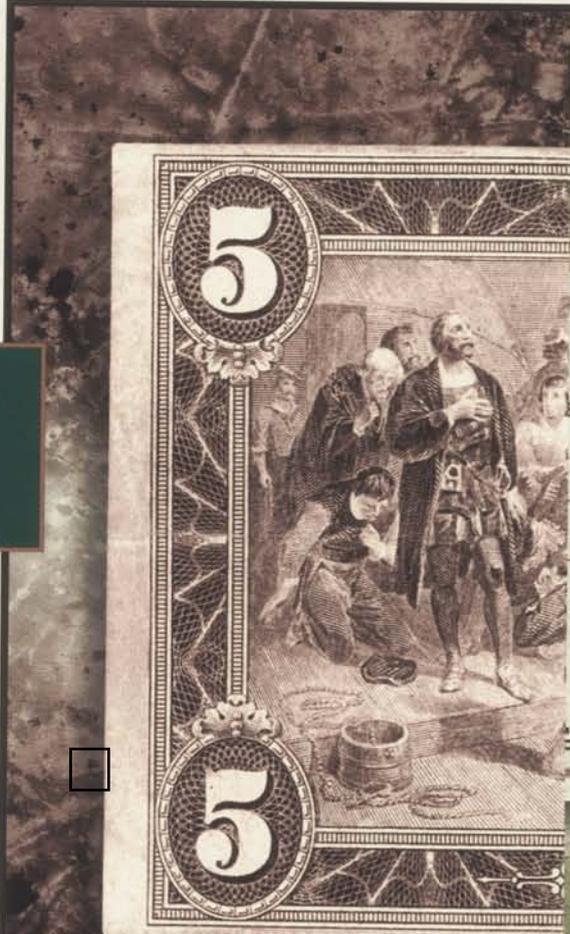
Borders among bank regulators have also had to change. As a result of the growth, both in size and complexity, of the Southeast's banking organizations and the movement to interstate banking, partnerships with state and federal supervisors have had to be strengthened. Moreover, consistency among all Fed districts has become more significant. Banks today—especially interstate banks—want a streamlined supervisory structure with fewer points of contact rather than a host of federal and state agencies. Accordingly, the Fed of the new millennium must employ more collaborative business practices in this decentralized, deregulated financial environment. The year 2000 saw many Federal Reserve Banks evolving toward cooperative centers of expertise while still finding ways to carry out their responsibilities regionally. The Atlanta Fed has deepened its expertise in regard to wealth management by commercial banks on behalf of their customers, with particular focus on Latin America. This shift is important as the financial industry's horizons expand and the scope of services offered becomes as critical as the geographic region served.

C H A N G E S I N *T e n n e s s e e*

*The sound of saws and lumberjacks
has given way to the
sound of country music.*



*The nature of payments in today's economy is changing—
from currency, coin, and checks
to smart cards and debit cards.*



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Changes

in

Payment

Systems



The ways consumers and businesses pay for transactions have undergone many changes since the Fed's inception. In 1929, for example, the U.S. Treasury Department introduced smaller-sized, more durable currency. The new bills were also more difficult to counterfeit. Again, in the 1990s the Treasury enhanced currency with a number of counterfeit-detering features. In both cases the Fed played an important role in expediting the changeover. And because of a strong economy and the ready availability of cash from automated teller machines, currency continues to grow in usage even while new methods of payments are rapidly coming on line.

Checks continued to grow for decades despite predictions of a decline in usage after the advent of computers in the 1960s. The Atlanta Fed's check volume leveled off in 2000, but it is unlikely that consumers will soon abandon this convenient, low-cost payment method.

New Payment Methods

Many people think of credit cards as "plastic money," but a credit card really represents loans that the consumer pays back with a check. Debit cards, in contrast, allow consumers to make payments electronically from their checking accounts without writing a check. Smart cards use computer technology imbedded in the card to store money for small-value transactions or information such as personal security data. These methods still account for a small share of retail payments, but together these alternatives represent the largest share of new growth.

While the market will ultimately determine which of these payment methods proves most popular, the Atlanta Fed will continue to seek ways to process as efficiently as possible its share of the huge volume of paper checks—about 68 billion nationally—that are written each year. One way of improving efficiency is by "electronification" of the check, which involves capturing a digital image of the check and delivering this information by electronic transmission to the bank on which it is drawn. The digital information can also be archived and made available to customers as needed. By eliminating the need to deliver paper checks, the whole process cuts costs, time, and labor. The Fed now provides imaging services for depository institutions and the U.S. Treasury.

Leading the System's Retail Payments

The Atlanta Fed is also playing a leadership role nationally in other efficiency-enhancing changes through its Retail Payments Office. Based in Atlanta but working on behalf of the entire Federal Reserve System, this office is coordinating strategic efforts like the electronification of the check, a survey of check usage, and standardization of the infrastructure by which checks are processed and imaged. The office also coordinates cooperative efforts with other organizations, and even other countries, to promote the electronic method of making small-dollar, high-volume payments—the ACH.

MEETING TOMORROW'S CHALLENGES

The Federal Reserve Bank of Atlanta and the Federal Reserve System have overcome numerous challenges and navigated many changes during the past century. In the beginning, the Atlanta Fed had to prove that it could provide valuable services to the Southeast. The Bank adapted quickly to the region's unique conditions and soon became a vital part of its economy. As times have changed, so have the Fed's services through the determination and dedication of its staff, new legislative requirements, and the use of advanced systems and technology.

As the pace of technological change accelerates, challenges will undoubtedly arise that have yet to be imagined. In such an environment, it is obviously difficult to foresee how the Bank's roles and responsibilities will change by the end of this decade, much less the end of the century. What is certain is that the Federal Reserve Bank of Atlanta is committed to meeting new challenges with the same vigor, creativity, efficiency, and standard of excellence that have made it a strong part of the nation's dynamic central banking system.

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.

Atlanta

BOARD OF DIRECTORS



Left to right: WIELAND, LOVELL, HICKSON, BOAS, JONES, BARANCO, HICKMAN, DANE. Not pictured: LEIVA

JOHN WIELAND

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

PAULA LOVELL

Deputy Chairman
President
Lovell Communications Inc.
Nashville, Tennessee

JUANITA P. BARANCO

Executive Vice President
Baranco Automotive Group
Morrow, Georgia

SUZANNE E. BOAS

President
Consumer Credit
Counseling Service Inc.
Atlanta, Georgia

JOHN DANE III

President and
Chief Executive Officer
Trinity Yachts Inc.
Pass Christian, Mississippi

WAYMON L. HICKMAN

Chief Executive Officer
and Chairman
First Farmers and Merchants
National Bank
Columbia, Tennessee

RICHARD G. HICKSON

President and
Chief Executive Officer
Trustmark Corp.
Jackson, Mississippi

D. PAUL JONES JR.

Chairman and
Chief Executive Officer
Compass Bancshares Inc.
Birmingham, Alabama

MARIA CAMILA LEIVA

Executive Vice President
Miami Free Zone Corp.
Miami, Florida

Federal Advisory Council Member

WILLIAM G. SMITH JR.

President and
Chief Executive Officer
Capital City Bank Group
Tallahassee, Florida



Birmingham

BRANCH DIRECTORS

D. BRUCE CARR
Chairman
Labor-Relations Liaison
Laborers' District
Council of Alabama
Gadsden, Alabama

ROBERT M. BARRETT
Past President
Union Planters National Bank
Deatsville, Alabama

HUNDLEY BATTS SR.
Owner and Managing Agent
Hundley Batts and Associates
Huntsville, Alabama

V. LARKIN MARTIN
Managing Partner
Martin Farm
Courtland, Alabama

W. CHARLES MAYER III
President
Alabama Banking Group
AmSouth Bank
Birmingham, Alabama

ROLAND PUGH
Chairman
Roland Pugh Construction Inc.
Northport, Alabama



Left to right: BATTS, CRENSHAW, CARR, BARRETT, MARTIN, PUGH Not pictured: MAYER

Jacksonville

BRANCH DIRECTORS



Left to right: POOLE, HILTON, SMITH, FLAHERTY, HELLER, RYDBERG. Not pictured: WEST

WILLIAM E. FLAHERTY

Chairman
Chairman
Blue Cross Blue Shield of Florida Inc.
Jacksonville, Florida

HARVEY R. HELLER

President
President
Heller Brothers Packing Corp.
Winter Garden, Florida

JULIE K. HILTON

Vice President and Partner
Vice President and Partner
Paradise Found Resorts and Hotels
Panama City Beach, Florida

MICHAEL W. POOLE

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

MARSHA G. RYDBERG

Partner
Partner
Rydberg and Pettit, PA
Tampa, Florida

JERRY M. SMITH

Chairman and President
Chairman and President
First National Bank of Alachua
Alachua, Florida

TERRY R. WEST

President and Chief Executive Officer
President and Chief Executive Officer
Jax Navy Federal Credit Union
Jacksonville, Florida



Miami

BRANCH DIRECTORS

KAAREN JOHNSON-STREET
Chairman
President
Kaaren Street Associates Inc.
Miami, Florida

GREGG BORGESON (RESIGNED)
President and
Chief Executive Officer
Hellmuth International Forwarders Inc.
Miami, Florida

D. KEITH COBB
Chairman
Laundromax Inc.
Fort Lauderdale, Florida

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

JAMES W. MOORE
Managing Partner
Riverside Capital, LLC
Fort Myers, Florida

RUDY E. SCHUPP
Chairman and
Chief Executive Officer
Republic Security Bank
West Palm Beach, Florida

MARK T. SODDERS
President
Lakeview Farms Inc.
Pahokee, Florida

ROSA SUGRANES
Chairman
Iberia Tiles
Miami, Florida



Left to right: SUGRANES, COBB, SODDERS, MOORE, JOHNSON-STREET, MIGOYA. Not pictured: BORGESON, SCHUPP

Nashville

BRANCH DIRECTORS



Left to right: MARCUM, WALKER, POLLEY, SEWARD, FRANKLIN, DALTON • Not pictured: MARTIN

FRANCES F. MARCUM

Chairman
Partner
Marcum Capital, LLC
Tullahoma, Tennessee

JAMES E. DALTON JR.

President and
Chief Executive Officer
Quorum Health Group Inc.
Brentwood, Tennessee

BETH DORTCH FRANKLIN

President and
Chief Executive Officer
Star Transportation Inc.
Nashville, Tennessee

WHITNEY JOHNS MARTIN

Chairman and
Chief Executive Officer
Capital Across America
Nashville, Tennessee

DALE W. POLLEY

Past President
First American Corp.
Nashville, Tennessee

JOHN E. SEWARD JR.

Managing Director
Allied Jet International
Piney Flats, Tennessee

L. A. (ANDY) WALKER JR.

Chairman and
Chief Executive Officer
First National Bank and Trust Co.
Athens, Tennessee



New Orleans

BRANCH DIRECTORS

DWIGHT H. EVANS
Chairman
President and
Chief Executive Officer
Mississippi Power Co.
Gulfport, Mississippi

C.R. CLOUTIER
President and
Chief Executive Officer
MidSouth Bank
Lafayette, Louisiana

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

HOWELL N. GAGE
Chairman
Vicksburg Advisory Group
BankcorpSouth
Vicksburg, Mississippi

DAVID GUIDRY
President and
Chief Executive Officer
Guico Machine Works Inc.
Harvey, Louisiana

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

BEN TOM ROBERTS
Senior Executive Vice President
Roberts Brothers Inc.
Mobile, Alabama



Left to right: PUMPELLY, GUIDRY, EVANS, CLOUTIER, GAGE, ROBERTS. Not pictured: FONTENOT

Small Business, Agriculture, and Labor

A D V I S O R Y C O U N C I L

STEWART ACUFF

Deputy Director
AFL-CIO Midwest Region
Chicago, Illinois

BETTS BERRY

Managing Partner
Huntland Farms
Chickamauga, Georgia

RONALD EDWARDS

President and
Chief Executive Officer
Evans Properties Inc.
Vero Beach, Florida

CATHY ELLIS

President
Atlanta Classic Cars
Decatur, Georgia

DONNA GIBBS

President
First Coast Systems
Jacksonville, Florida

KARIN GRANT-HOPKINS

President
Multi Image Resource Group
New Orleans, Louisiana

SYNTHIA HARDY

President/Principal Consultant
Hardy Ink
Daphne, Alabama

MELVIN HORTON

District Vice President
International Brotherhood
of Electrical Workers
Birmingham, Alabama

RITA MITCHELL

Vice President
SunTrust Securities Inc.
Nashville, Tennessee

RICHARD RAY

President
Georgia AFL-CIO
Atlanta, Georgia

WILLIAM ROCHELLE

Owner
Royal Oaks Farms
Nunnely, Tennessee

JAMES SANFORD

Chairman of the Board
Home Place Farms
Prattville, Alabama

GAY THOMPSON

President and
Chief Executive Officer
Cement Industries Inc.
Fort Myers, Florida

ROY WARD

President and
Managing Partner
Horne CPA Group
Jackson, Mississippi



Management

COMMITTEE



Left to right: BROWN, HERR, ESTES, DEBEER, CALDWELL, BARRON, OLIVER, GYNN, HAWKINS, EISENBEIS

JACK GYNN
Chairman
President and
Chief Executive Officer

PATRICK K. BARRON
Vice Chairman
First Vice President and
Chief Operating Officer

W. RONNIE CALDWELL
Executive Vice President
Corporate Services Division

ANNE M. DEBEER
Senior Vice President
Corporate Services Division

ROBERT A. EISENBEIS
Senior Vice President and
Director of Research
Research Division

WILLIAM B. ESTES III
Senior Vice President
Supervision and Regulation Division

JAMES D. HAWKINS
Senior Vice President
Financial Services Division

FREDERICK R. HERR
Senior Vice President
System Retail Payments Office

RICHARD R. OLIVER
Senior Vice President
System Retail Payments Office

CHRISTOPHER G. BROWN
Adviser
Senior Vice President
and General Auditor
Auditing Department

Other

C O R P O R A T E O F F I C E R S

SENIOR VICE PRESIDENTS

FRANK J. CRAVEN JR.
Human Resources/
Service Departments

JOHN R. KERR
District Building Projects

DONALD E. NELSON
Financial Services Central

EDMUND WILLINGHAM
General Counsel
Legal Department

VICE PRESIDENTS

LOIS C. BERTHAUME
Supervision and Regulation Division

SUZANNA J. COSTELLO
Supervision and Regulation Division

THOMAS J. CUNNINGHAM
Associate Director of Research
Research Division

GERALD P. DWYER
Research Division

CYNTHIA C. GOODWIN
Supervision and Regulation Division

RICHARD A. JONES
Deputy General Counsel
Legal Department

ZANE R. KELLEY
Supervision and Regulation Division

B. FRANK KING (RETIRED)
Associate Director of Research
Research Division

BOBBIE H. MCCrackIN
Public Affairs Officer
Public Affairs Department

ROBERT I. MCKENZIE (RESIGNED)
Check Standardization

JOHN D. PELICK
Systems/Information Security/
Cryptographic Development
and Support

WILLIAM T. ROBERDS
Research Division

LARRY J. SCHULZ
Check Relay

ADRIENNE M. WELLS
System Retail Payments Office

RONALD N. ZIMMERMAN
Supervision and Regulation Division

ASSISTANT VICE PRESIDENTS

VICKI A. ANDERSON
System Retail Payments Office
Miami Office

EDWARD C. ANDREWS
Service Department

JOHN H. ATKINSON
Supervision and Regulation Division

JOHN S. BRANIGIN
Check Standardization

JAMES L. BROWN
Human Resources Department

JOAN H. BUCHANAN
Supervision and Regulation Division

DAVID F. CARR
Human Resources Department

ROBERTO J. CHANG (RESIGNED)
Research Division

CHAPPEL D. DAVIS
Supervision and Regulation Division

J. COURTNEY DUFRIES
Community Affairs Officer
Supervision and Regulation Division

J. STEPHEN FOLEY
Supervision and Regulation Division

JAYNE FOX
Corporate Secretary
Corporate Relations Department

JOHN L. HANNAN JR.
Cryptographic Development and
Support/Information Security

CAROLYN C. HEALY
Supervision and Regulation Division
Miami Office

JANET A. HERRING
Accounting Department

SUSAN HOY
Assistant General Counsel
Legal Department

MARY M. KEPLER
Automation Operations

JACQUELYN H. LEE
Systems Department

ALBERT E. MARTIN III
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

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 Division

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 Division

EDWINA M. TAYLOR
Statistical Reports Department

LARRY D. WALL
Research Division

JULIUS G. WEYMAN
Check Relay

TAO ZHA
Research Division



Branch

OFFICERS

ATLANTA

JAMES M. MCKEE
Vice President and Branch Manager

JEFFREY L. WELTZIEN
Vice President
Payment Services

MARIE C. GOODING
Assistant Vice President
and Assistant Branch Manager

CHRISTOPHER N. ALEXANDER
Assistant Vice President

ROBERT A. LOVE
Assistant Vice President

WILLIAM R. POWELL
Assistant Vice President

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
Vice President and Branch Manager

CHRISTOPHER L. OAKLEY
Assistant Vice President
and Assistant Branch Manager

DARRIN G. FINLEY
Assistant Vice President

KATHLEEN Y. LOUGHMAN
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

PATRICIA D. VAN DE GRAAF (RESIGNED)
Assistant Vice President



Federal Reserve

BANK OF ATLANTA

FINANCIAL REPORTS



A S S E R T I O N

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, 2000 (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 16, 2001



R E P O R T O F

I N D E P E N D E N T A C C O U N T A N T S

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, 2000, included in the accompanying Management's Assertion.

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

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

In our opinion, management's assertion that the FRB 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, 2000, 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 2, 2001
Atlanta, Georgia

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

We have audited the accompanying statements of condition of the Federal Reserve Bank of Atlanta (the "Bank") as of December 31, 2000 and 1999, and the related statements of income and changes in capital for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2000 and 1999, and results of its operations for the years then ended, on the basis of accounting described in Note 3.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 2, 2001
Atlanta, Georgia



S T A T E M E N T S

O F C O N D I T I O N

<i>(in millions)</i>	<i>As of December 31, 2000</i>	<i>As of December 31, 1999</i>
Assets		
Gold certificates	\$ 802	\$ 724
Special drawing rights certificates	166	450
Coin	83	20
Items in process of collection	514	603
Loans to depository institutions	6	14
U.S. government and federal agency securities, net	34,513	29,455
Investments denominated in foreign currencies	1,122	1,134
Accrued interest receivable	402	297
Interdistrict settlement account	4,499	13,643
Bank premises and equipment, net	307	200
Other assets	40	40
Total assets	\$ 42,454	\$ 46,580
Liabilities and capital		
Liabilities		
Federal Reserve notes outstanding, net	\$ 39,286	\$ 43,852
Deposits		
Depository institutions	1,097	899
Other deposits	4	4
Deferred credit items	877	772
Interest on Federal Reserve notes due U.S. Treasury	84	34
Accrued benefit costs	87	82
Other liabilities	29	17
Total liabilities	\$ 41,464	\$ 45,660
Capital		
Capital paid-in	\$ 495	\$ 460
Surplus	495	460
Total capital	\$ 990	\$ 920
Total liabilities and capital	\$ 42,454	\$ 46,580

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

STATEMENTS

OF INCOME

<i>(in millions)</i>	<i>For the years ended</i>	
	<i>December 31, 2000</i>	<i>December 31, 1999</i>
Interest income		
Interest on U.S. government and federal agency securities	\$ 2,044	\$ 1,666
Interest on investments denominated in foreign currencies	19	16
Interest on loans to depository institutions	1	1
Total interest income	\$ 2,064	\$ 1,683
Other operating income (loss)		
Income from services	\$ 162	\$ 153
Reimbursable services to government agencies	13	15
Foreign currency losses, net	(101)	(35)
U.S. government securities losses, net	(5)	(1)
Other income	8	5
Total other operating income	\$ 77	\$ 137
Operating expenses		
Salaries and other benefits	\$ 151	\$ 142
Occupancy expense	17	16
Equipment expense	25	24
Assessments by Board of Governors	45	48
Other expenses	98	92
Total operating expenses	\$ 336	\$ 322
Net income prior to distribution	\$ 1,805	\$ 1,498
Distribution of net income		
Dividends paid to member banks	\$ 29	\$ 26
Transferred to surplus	304	42
Payments to U.S. Treasury as interest on Federal Reserve notes	1,472	1,430
Total distribution	\$ 1,805	\$ 1,498

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



S T A T E M E N T S

O F C H A N G E S I N C A P I T A L

<i>(in millions)</i>	<i>For the years ended December 31, 2000, and December 31, 1999</i>		
	Capital Paid-In	Surplus	Total Capital
Balance at January 1, 1999 (8.4 million shares)	\$ 418	\$ 418	\$ 836
Net income transferred to surplus		42	42
Net change in capital stock issued (0.8 million shares)	42		42
Balance at December 31, 1999 (9.2 million shares)	\$ 460	\$ 460	\$ 920
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

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

Structure

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

Board of Directors

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

2. OPERATIONS AND SERVICES

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

The FOMC establishes policy regarding open market operations, oversees these operations, and issues authorizations and directives to the FRBNY for its execution of transactions. Authorized transaction types include direct purchase and sale of securities, matched sale-purchase transactions, the purchase of securities under agreements to resell, and the lending of U.S. government securities. 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 ("FX swaps") with various central banks, and "warehouse" foreign currencies for the U.S. Treasury and Exchange Stabilization Fund ("ESF") through the Reserve Banks.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with the Financial Accounting Manual. Differences exist between the accounting principles and practices of the System and generally accepted accounting principles ("GAAP"). The primary differences are the presentation of all security holdings at amortized cost, rather than at the fair value presentation requirements of GAAP, and the accounting for matched sale-purchase transactions as separate sales and purchases, rather than secured borrowings with pledged collateral, as is 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.

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

a. Gold Certificates

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

b. Special Drawing Rights Certificates

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

c. Loans to Depository Institutions

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

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

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

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

Effective April 26, 1999, FRBNY was given the sole authorization by the FOMC to lend U.S. government securities held in the SOMA to U.S. government securities dealers and to banks participating in U.S. government securities clearing arrangements, in order to facilitate the effective functioning of the domestic securities market. These securities-lending transactions are fully collateralized by other U.S. government securities. FOMC policy requires FRBNY to take possession of collateral in excess of the market values of the securities loaned. The market values of the collateral and the securities loaned are monitored by FRBNY on a daily basis, with additional collateral obtained as necessary. The securities loaned continue to be accounted for in the SOMA. Prior to April 26, 1999, all Reserve Banks were authorized to engage in such lending activity.

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

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

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

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

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

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

Balances of U.S. government and federal agency securities bought outright, investments denominated in foreign currency, interest income, amortization of premiums and discounts on securities bought outright, gains and losses on sales of securities, and realized and unrealized gains and losses on investments denominated in foreign currencies, excluding those held under an F/X swap arrangement, are allocated to each Reserve Bank. Effective April 26, 1999, income from securities lending transactions undertaken by FRBNY was also allocated to each Reserve Bank. Securities purchased under agreements to resell and unrealized gains and losses on the revaluation of foreign currency holdings under F/X swaps and warehousing arrangements are allocated to the FRBNY and not to other Reserve Banks.

e. Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over estimated useful lives of assets ranging from 2 to 50 years. New assets, major alterations, renovations and improvements are capitalized at cost as additions to the asset accounts. Maintenance, repairs and minor replacements are charged to operations in the year incurred. 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 automated clearinghouse 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 \$21,662 million and \$18,237 million at December 31, 2000 and 1999, 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 during the year ended December 31, 2000. Reserve Banks were not permitted to replenish the 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 or increases in capital 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 will not be 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. The Bank's allocated share of SOMA balances was 6.656 percent and 6.087 percent at December 31, 2000 and 1999, respectively.

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

	2000	1999
Par value		
Federal agency	\$ 9	\$ 11
U.S. government		
Bills	11,897	10,744
Notes	15,987	13,298
Bonds	6,176	5,051
Total par value	34,069	29,104
Unamortized premiums	648	554
Unaccrued discounts	(204)	(203)
Total allocated to Bank	\$ 34,513	\$ 29,455

Total SOMA securities bought outright were \$518,501 million and \$483,902 million at December 31, 2000 and 1999, respectively.

The maturity distribution of U.S. government and federal agency securities bought outright, which were allocated to the Bank at December 31, 2000, was as follows (in millions):

Maturities of Securities Held	Par value		Total
	U.S. Government Securities	Federal Agency Obligations	
Within 15 days	\$ 1,202	\$ —	\$ 1,202
16 days to 90 days	7,253	—	7,253
91 days to 1 year	8,356	—	8,356
Over 1 year to 5 years	8,839	9	8,848
Over 5 years to 10 years	3,691	—	3,691
Over 10 years	4,719	—	4,719
Total	\$ 34,060	\$ 9	\$ 34,069

At December 31, 2000 and 1999, matched sale-purchase transactions involving U.S. government securities with par values of \$21,112 million and \$39,182 million, respectively, were outstanding, of which \$1,405 million and \$2,385 million were allocated to the Bank. Matched sale-purchase transactions are generally overnight arrangements.

5. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

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

Each Reserve Bank is allocated a share of foreign-currency-denominated assets, the related interest income, and realized and unrealized foreign currency gains and losses, with the exception of unrealized gains and losses on F/X swaps and warehousing transactions. This allocation is based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. The Bank's allocated share of investments denominated in foreign currencies was approximately 7.159 percent and 7.027 percent at December 31, 2000 and 1999, 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):

	2000	1999
European Union Euro		
Foreign currency deposits	\$ 332	\$ 305
Government debt instruments including agreements to resell	196	178
Japanese Yen		
Foreign currency deposits	197	23
Government debt instruments including agreements to resell	393	625
Accrued interest	4	3
Total	\$ 1,122	\$ 1,134

Total investments denominated in foreign currencies were \$15,670 million and \$16,140 million at December 31, 2000 and 1999, respectively.

The maturity distribution of investments denominated in foreign currencies which were allocated to the Bank at December 31, 2000, was as follows (in millions):

Maturities of Investments Denominated in Foreign Currencies	
Within 1 year	\$ 1,053
Over 1 year to 5 years	30
Over 5 years to 10 years	31
Over 10 years	8
Total	\$ 1,122

At December 31, 2000 and 1999, there were no open foreign exchange contracts or outstanding F/X swaps.

At December 31, 2000 and 1999, the warehousing facility was \$5,000 million, with no balance outstanding.

6. BANK PREMISES AND EQUIPMENT

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

	2000	1999
Bank premises and equipment		
Land	\$ 34	\$ 32
Buildings	88	42
Building machinery and equipment	17	13
Construction in progress	134	78
Furniture and equipment	141	134
	414	299
Accumulated depreciation	(107)	(99)
Bank premises and equipment, net	\$ 307	\$ 200

Depreciation expense was \$16 million for each of the years ended December 31, 2000 and 1999.

The Bank is constructing a new building to replace the head office in Atlanta. At December 31, 2000, the contractual obligation for this construction totals \$37 million.

Real estate located at Peachtree Walk in Midtown Atlanta was sold to TCB #11, L.L.C. and Post Apartment Homes, L.P. on June 9, 2000 with a profit of approximately \$1.9 million.

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, 2000 and 1999. Future minimum lease payments under noncancelable agreements in existence at December 31, 2000, were (in thousands):

2001	\$ 601
2002	491
2003	211
2004	149
2005	39
Thereafter	—
	\$ 1,491

7. COMMITMENTS AND CONTINGENCIES

At December 31, 2000, the Bank was obligated under noncancelable leases for premises and equipment with terms ranging from 1 to approximately 9 years. These leases provide for increased rentals based upon increases in real estate taxes, operating costs or selected price indices.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance and maintenance when included in rent), net of sublease rentals, was \$7 million for each of the years ended December 31, 2000 and 1999. 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, 2000, were (in millions):

	Operating
2001	\$ 3.8
2002	0.8
2003	0.6
2004	0.6
2005	0.6
Thereafter	1.0
	\$ 7.4

At December 31, 2000, other commitments and long-term obligations in excess of one year were \$135 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, 2000 or 1999.

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, 2000 and 1999, and for the years then ended, are not material.

Thrift Plan

Employees of the Bank may also participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System ("Thrift Plan"). The Bank's Thrift Plan contributions totaled \$4 million for each of the years ended December 31, 2000 and 1999, 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):

	2000	1999
Accumulated postretirement benefit obligation at January 1	\$ 65.9	\$ 71.8
Service cost-benefits earned during the period	1.8	2.1
Interest cost of accumulated benefit obligation	4.5	4.1
Actuarial (gain)	(2.1)	(10.4)
Contributions by plan participants	0.4	0.3
Benefits paid	(2.3)	(2.0)
Plan amendments, acquisitions, foreign currency exchange rate changes, business combinations, divestitures, curtailments, settlements, special termination benefits	(8.0)	—
Accumulated postretirement benefit obligation at December 31	\$ 60.2	\$ 65.9

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):

	2000	1999
Fair value of plan assets at January 1	\$ —	\$ —
Actual return on plan assets	—	—
Contributions by the employer	1.9	1.7
Contributions by plan participants	0.4	0.3
Benefits paid	(2.3)	(2.0)
Fair value of plan assets at December 31	\$ —	\$ —
Unfunded postretirement benefit obligation	\$ 60.2	\$ 65.9
Unrecognized initial net transition asset (obligation)	—	—
Unrecognized prior service cost	12.6	5.0
Unrecognized net actuarial gain (loss)	5.4	3.3
Accrued postretirement benefit costs	\$ 78.2	\$ 74.2

Accrued postretirement benefit costs are reported as a component of "Accrued benefit costs."

At December 31, 2000 and 1999, the weighted-average assumption used in developing the postretirement benefit obligation was 7.5 percent.

For measurement purposes, an 8.75 percent annual rate of increase in the cost of covered health care benefits was assumed for 2001. Ultimately, the health care cost trend rate is expected to decrease gradually to 5.50 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, 2000 (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	\$ 2.1	\$ (1.6)
Effect on accumulated postretirement benefit obligation	15.6	(11.8)

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

	2000	1999
Service cost-benefits earned during the period	\$ 1.8	\$ 2.1
Interest cost of accumulated benefit obligation	4.6	4.1
Amortization of prior service cost	(0.4)	(0.4)
Recognized net actuarial loss	—	—
Net periodic postretirement benefit costs	\$ 6.0	\$ 5.8

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 insurances, survivor income, disability benefits, and self-insured workers' compensation expenses. Costs were projected using the same discount rate and health care trend rates as were used for projecting postretirement costs. The accrued postemployment benefit costs recognized by the Bank at December 31, 2000 and 1999, were \$9 million in each year. This cost is included as a component of "Accrued benefit costs." Net periodic postemployment benefit costs included in 2000 and 1999 operating expenses were \$2 million in each year.

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