Front cover

Reopening as soon as possible after Hurricane Katrina, the Café du Monde keeps regulars and tourists supplied with chicory coffee and hot beignets. Waitress Kim Richard, a twenty-seven-year employee of the renowned New Orleans French Quarter institution, was glad to get back to work after the storm even if customers were few and far between.

Credits

The 2005 Federal Reserve Bank of Atlanta Annual Report was created and produced by the Public Affairs Department.

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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.

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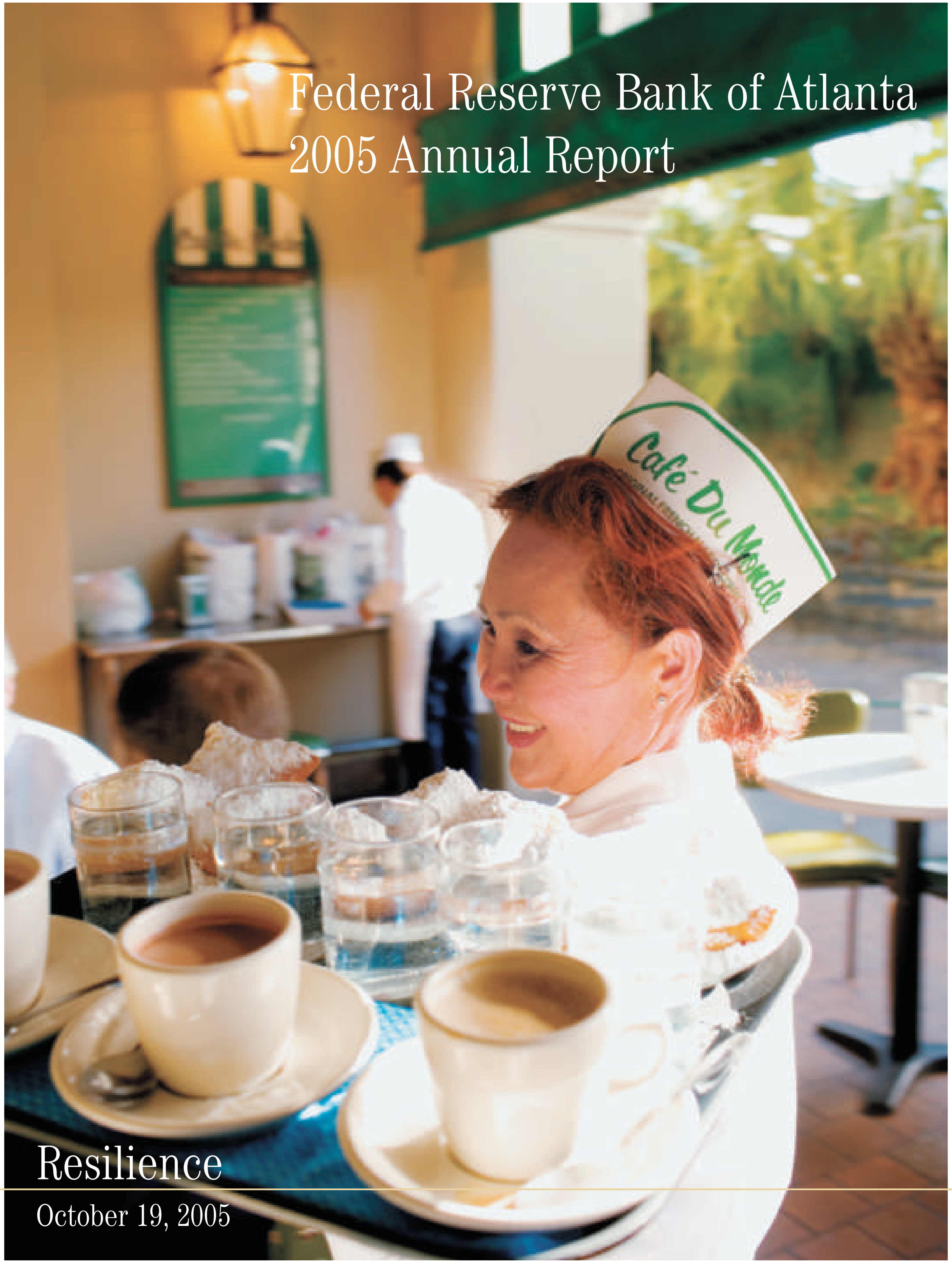
FEDERAL
RESERVE
BANK
of ATLANTA

Ruin

September 10, 2005

Federal Reserve Bank of Atlanta
2005 Annual Report



Resilience
October 19, 2005

Restoration
December 3, 2005

Ruin, Resilience, Restoration

Federal Reserve Bank of Atlanta 2005 Annual Report

The 2005 hurricane season made an indelible mark on the Southeast. Dennis, Wilma, and Rita took their toll, but Hurricane Katrina pummeled New Orleans and the Gulf Coast of Louisiana, Mississippi, and Alabama. The Atlanta Fed felt the blow just like countless businesses and individuals in the affected area. Throughout the fall season, staff at the New Orleans Branch showed amazing dedication to the Federal Reserve even as they tried to piece their own lives back together.

This year's annual report is dedicated to the staff of the Federal Reserve Bank of Atlanta and to the people of the Gulf Coast region. The ruin inflicted upon so many of them in late August was quickly replaced by a resilience of spirit in the aftermath of the storms, and, by the end of 2005, residents and business owners were beginning to look ahead toward restoration of their way of life.

Contents

Atlanta Fed President and CEO Jack Guynn (pictured with Law Enforcement Officer Charles Sage) visits the bank's New Orleans Branch and overlooks the parking lot filled with trailers that provide temporary living quarters for displaced staff and their families.

Message from the President

In the mid-1960s, just a few years after I came to work for the Federal Reserve Bank of Atlanta, I was fortunate to be offered a year-long assignment at the bank's New Orleans Branch. It was an exciting time for me as I had the chance to assume greater responsibilities. I went on to serve three tours of duty in New Orleans, twelve years in all, eventually rising to the position of branch manager. My three children were born there, and some of our best memories as a family are associated with the unique way of life of the Gulf Coast and the sights, sounds, and smells of Cajun country.

I was even in New Orleans in 1965, when Hurricane Betsy left sections of the city underwater. But now, forty years later, I wasn't prepared to see Hurricane Katrina flood New Orleans on a much broader—and more deadly—scale. Violent storms do not typically have a significant economic impact outside the immediate area. But Katrina was no ordinary disaster. Indeed, the 2005 Atlantic storm season was particularly violent, and hurricanes made a broad and indelible impression not just on the Southeast—especially Florida, Alabama, Mississippi, and Louisiana—but also on the global economy.

Because of the extraordinary nature of these events and the special roles the Federal Reserve Bank of Atlanta played in dealing with them, we chose to focus the 2005 annual report on some of the amazing actions of our staff during and after the year's regional hurricanes. Almost everyone who experienced the storm has a story to tell. There were many heroes among our New Orleans staff, but this report can tell only a few of those remarkable stories. Sharing these individual experiences is important in recounting the larger story of the Federal Reserve System's many behind-the-scenes responsibilities that help the U.S. economy to recover quickly from natural disasters.

The ruin immediately after Katrina was devastating, but this report does not dwell on that widely told tale. Rather, much of the report describes the Fed's role in fostering the resilience of the local economy. Since the horrors of September 11, 2001, the Federal Reserve System has stepped up its contingency planning, and that preparation was pivotal to our bank's effective response in the hectic days after Katrina. Simply securing our New Orleans Branch, which was isolated and surrounded by floodwaters in late August and early September, was nothing short of heroic. But creative thinking and resourcefulness were also vital to our efforts to overcome disrupted communications systems and broken transportation networks in the service of our core mission—to help keep the economy and financial system stable, no matter what.

As 2005 waned, we looked for the beginning steps that would lead toward restoration and ways the Federal Reserve Bank of Atlanta could contribute to this rebuilding. During the dark aftermath of the storm, our directors helped to keep us in touch with the situation in our region. This on-the-ground intelligence from our directors, together with the dedication of our staff, was essential both in responding to the disaster and in helping us understand its long-term implications.

Looking back at 2005, I am extremely proud of our people. The Atlanta Fed's resilience was tested by unprecedented events. I was moved to think that for many nights in September our New Orleans Branch was the only light visible in an area that was otherwise completely dark. I am pleased that we ended the year as a stronger organization, continuing to assist our New Orleans employees whose lives were turned upside down, preparing to help in the restoration of our damaged region, and being better prepared for the inevitable challenges ahead.

Jack Guynn

Ruin

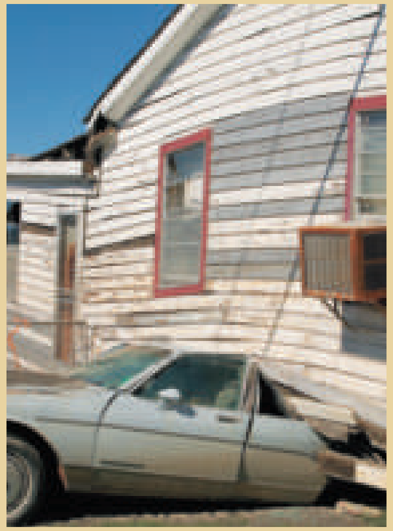
Potentially catastrophic Hurricane Katrina now moving north-northwestward toward the northern gulf coast. . . . Maximum sustained winds are near 160 mph . . . with higher gusts. . . . Katrina is expected to make landfall at category four or five intensity.

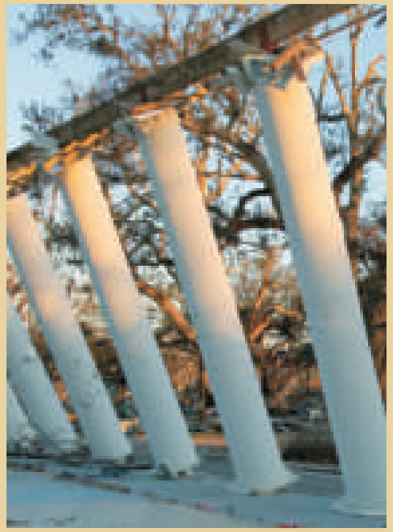
—National Weather Service bulletin, August 28, 2005

On Saturday, August 27, 2005, the Atlanta Fed's senior management met to plan a response to Hurricane Katrina, a storm that had already wreaked havoc on a wide swath of south Florida. With the storm churning north in the Gulf of Mexico, bank officers recognized the grave risks to employees and decided to close the New Orleans Branch for operations. Only critical employees were to remain, and contingency plans were invoked. On Monday the storm swept across land, devastating a 90,000-square-mile area the size of Great Britain, including parts of Alabama, Mississippi, and Louisiana.

The Atlanta Fed's New Orleans Branch sustained minor damage, primarily windows broken by debris and a loss of electricity and water. But the rest of the city and the entire Gulf Coast were not so lucky. For the staff remaining at the branch, the storm provided some scary moments. Building superintendent Mike Fieramusca had to secure himself to a rope to make his way across the rooftop while braving 100 mile-per-hour winds to repair the bank's generator. The situation rapidly worsened after the storm passed and water began to pour through breached levees in the city, smashing nearby neighborhoods and leaving vast portions of the city submerged.

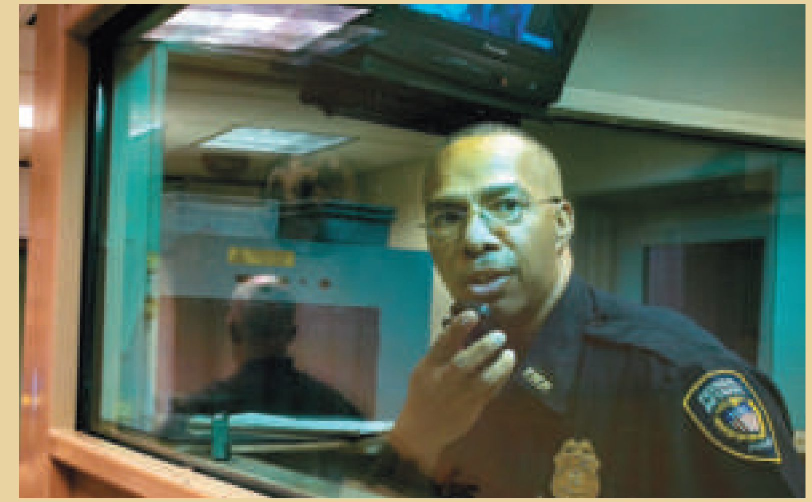
A few blocks to the east of the branch building, thousands of people found themselves trapped inside the Superdome, which by Tuesday was surrounded by waist-deep floodwaters. Water continued to rise and spread to within a half block of the branch's building on St. Charles Avenue. Outside the branch's gates, looters roamed the soggy streets, and one even tried a few times to climb over the fence. Inside the building, conditions were dry, but telephone service (both land lines and wireless) was out, and the 1250-watt generator, its fuel supply dwindling, worked to power lights, fans, and air conditioning essential for maintaining computer, telecommunications, and security equipment. The Atlanta Fed's New Orleans Branch was cut off from the rest of the world in the chaos of the storm, protected by only a small but determined group of employees.





The devastation in New Orleans and along the Gulf Coast was unimaginable. The storm surges and floodwaters turned streets into lakes, reduced homes on the Mississippi coastline to rubble with only twisted architectural details left behind, and flattened houses on top of cars in their driveways.

A Victorian-style shotgun house in the Bywater section of New Orleans tilts—the result of Hurricane Katrina's wrath—as if a single push could send it crashing to the ground. The ruined interior and the pile of debris on the sidewalk are common sights throughout the Gulf Coast in the storm's aftermath.



Troy Crump, a law enforcement officer at the Atlanta Fed's New Orleans Branch, experienced the bad and the good as he lost his house in Violet, Louisiana, but found both a temporary home and continuing employment at the Fed.

Down but not out

Law Enforcement Officer Troy Crump had been employed by the Atlanta Fed's New Orleans Branch for only seven months when Hurricane Katrina hit Louisiana and the Gulf Coast on Monday, August 29, 2005. A resident of Violet, Louisiana, a low-lying suburb in St. Bernard Parish, Crump knew his home would be vulnerable to the storm. With limited financial options, he and his family drove to New Orleans to ride out Katrina in a hotel. But when they arrived the hotel was closed.

With the storm approaching, the Crumps decided to stay with relatives nearby. By Tuesday afternoon, they were stranded in an apartment along with fourteen other people, including a one-year-old child. Water was rising to the second-story balcony. Using an inflated air mattress to move through chest-high water, Crump led efforts to forage for supplies, including baby formula. He also rescued an elderly woman as they moved up to the roof of the building.

After two days of trying to get help while standing on the roof in the blazing sun, the stranded residents were rescued by a National Guard helicopter that whisked them away to an emergency shelter in Houma, Louisiana. There, a government official handed a dazed and exhausted Crump an application for unemployment insurance. With no access to a television and no telephone or cell service, he filled out the paperwork even before he had a chance to contact the Fed's New Orleans Branch.

Subsequently, Crump called the Atlanta Fed's toll-free number and spoke to Human Resources Director Richard Squires, who told Crump his job would be there whenever he came back. "That was a big relief," Crump said. He reported to work September 27, 2005, commuting from an apartment in Baton Rouge eighty miles away. He eventually moved into "Eagle Estates," a cluster of a dozen FEMA trailers parked in the Fed's New Orleans Branch parking lot. He lives there now with his son. Crump's home in Violet washed away under fifteen feet of water during Katrina.

As he seeks a permanent home, Crump is more than happy to know he can count on the security that comes with working for the Atlanta Fed. "It made me feel good as a new employee that they stuck by me. It made me proud to be a part of this institution and glad that I had made the decision to come to the bank."

Resilience

When a natural disaster strikes, providing victims with food, water, shelter, and medical care is the first order of business. But after these basic needs are met, obtaining cash or gaining access to savings to cover emergency expenses becomes a top priority for individuals and business owners. The better the contingency capabilities of the financial system—including financial institutions and payments processing—the easier and faster the economy can recover and begin to return to normalcy.

The Federal Reserve plays an important but mostly behind-the-scenes role in fostering the resilience of the U.S. financial system, and the Fed provided that support in the wake of Hurricanes Katrina, Dennis, Rita, and Wilma in 2005. Following Katrina, the Fed began working to ensure that banks had enough cash (see page 12) to meet the spike in demand that followed the storm.

But the Fed's work didn't stop there. It also worked with banks to process automated clearinghouse payments (ACH) when banks' contingency arrangements failed and implemented alternative arrangements for processing checks. In addition, Federal Reserve staff coordinated with other regulatory agencies to monitor the financial condition of banks and made its discount window available for lending.

Keeping the threads of all these efforts together during Hurricane Katrina was Pat Barron, first vice president and chief operating officer of the Atlanta Fed. Barron was supported by hundreds of Atlanta Fed staff in these endeavors. He was also in continuous contact with New Orleans Branch Manager Bob Musso, other Federal Reserve Banks, members of the Atlanta Fed's board of directors, and state and federal banking regulators as well as governmental authorities and industry associations.

For Barron and the Fed, however, the highest priority in such circumstances is staff safety. To address the extraordinary conditions created by Hurricane Katrina, the bank used its Web site and 24/7 phone lines to reach the 179 employees of the New Orleans branch. It took weeks, but eventually all employees were accounted for in the wake of the disaster.

With much of the infrastructure in New Orleans and along the Gulf Coast knocked out for what clearly would be an extended period, extraordinary measures were also necessary to resume the processing of checks between financial institutions and the Atlanta Fed's New Orleans branch. By August 31, two days after Katrina hit land, the bank's Atlanta office had taken on the check processing work of the New Orleans Branch. With New Orleans staff still getting their personal lives in order, check processing work initially was handled by Atlanta Fed employees working overtime and by volunteers from other Sixth District offices and other Federal Reserve Banks.

In the weeks following the storm, more than sixty New Orleans check processing employees relocated to Atlanta with their families and lived in temporary quarters to take on the work. While local check clearinghouses in the New Orleans zone were inoperable, the Atlanta check shop was processing 1.5 million extra items a day in addition to the normal daily volume of 4.2 million items.

First Vice President Pat Barron set up a response center in his office, maintaining continuous contact with banks, regulators, and Fed operations staff who struggled to keep cash flowing and checks moving in the wake of Hurricane Katrina.

Atlanta Fed staff also worked closely with financial institutions affected by the storm to expedite their resumption of ACH payments, which are critical because they are used for the huge volume of direct deposits of paychecks and direct payments of items such as car loans. Although it took days and even weeks in certain cases, banks and credit unions were ultimately able to retrieve their own ACH files and begin their normal operations.

The viability of financial institutions in the hurricane-afflicted areas was a public policy concern of the Federal Reserve and other regulatory agencies. To monitor the status of banks, the federal and state banking authorities exchanged calls on a daily basis. The Fed's credit facilities, as usual, were available for emergency needs.

The federal financial regulatory agencies, including the Fed, offered guidance to banks in the affected areas, encouraging institutions to open their lobbies to other banks whose premises might be unusable so that customers could be served, urging financial institutions to offer deferments on mortgage payments, and reminding consumers to get in touch with their banking institutions about their financial situation.

By early October, a month after Katrina hit, the resilient New Orleans Branch reopened for cash operations and eliminated the contingency arrangements for paying, receiving, and processing cash that had been in place since the hurricane's onset.

But other contingency operations continued as new issues arose. For example, the Fed also had to deal with checks and cash that had been sitting in floodwaters for days or weeks, arranging for alternative processing methods and safe disposal of the items. Taken all together, these decisive actions helped keep payments flowing in the wake of the disaster and enabled the local economy to take its first steps toward recovery.

The stories that follow tell of both personal triumphs and professional resilience in the aftermath of Katrina.

The Atlanta Fed's New Orleans Branch remained staffed thanks to the efforts of a stalwart band of employees, like Jude Miller (left) and Mike Fieramusca, who stayed behind when the city was evacuated.

Holding the fort during and after the storm

For thirteen days and nights, Mike Fieramusca ate military-style "meals ready to eat" (MREs), drank and bathed in water siphoned from a 20,000-gallon reserve tank, and, as the situation called for, slept on cots in the boiler room of the Atlanta Fed's New Orleans Branch. "It's my job to stay here and make sure this building survives whatever is thrown at it," said Fieramusca, the New Orleans building superintendent. "If we don't have this building, folks don't have a place to work."

The deteriorating conditions outside created a demanding test of patience and resourcefulness inside the branch. As the temperature climbed above 95 degrees, Fieramusca and two Federal Reserve law enforcement officers fashioned standard-issue post-Katrina survival uniforms—T-shirts, shorts, and bulletproof vests. Carrying a fire extinguisher, Fieramusca moved constantly about the property to check on essential functions. A persistent worry was flaming ash from a nearby fire that rained down on the building's rooftop.

As a small and determined group held on, Senior Financial Services Project Leader Jude Miller rushed to bring in relief. Starting from his native southwestern Louisiana, Miller began his own epic journey, driving his truck east across low-lying back roads. Using his personal radio equipment to stay in touch with Fed management in Atlanta and Birmingham, Miller made frequent stops in the countryside to purchase fuel and other supplies for the branch, at several points negotiating for purchases in Cajun French.

At Baton Rouge, Miller joined a group of Federal Reserve protection officers who had driven from Atlanta, and from there he led the group along the treacherous route to New Orleans. The convoy passed many miles of traffic by riding on the shoulder, making its way along roads jammed with heavily armed and upset civilians and past military checkpoints. U.S. Army soldiers waved the convoy through after Miller turned on flashing blue lights on his truck and showed federal homeland security authorization papers—official documents provided by the Fed Board of Governors in Washington.

Finally, Miller and his convoy reached the branch, and Fieramusca opened the gate to let the group with the much-needed fuel, water, food, clothing, toothbrushes, and other supplies—and, above all, manpower—into the parking lot. The building was secure for the remainder of the emergency period.

Making cash a priority

Financial Services Administrator Adrienne Slack, under the direction of New Orleans Branch Manager Bob Musso, worked from her contingency site at the Atlanta Fed's Birmingham office to implement alternative ways to get cash to the region's banks.

Just before Hurricane Katrina hit land, Adrienne Slack fled her home in New Orleans, driving with her husband and three children to Birmingham, Alabama. As the storm pounded the Gulf Coast, she reported for work as financial services administator for the cash function office at the Atlanta Fed's Birmingham Branch. There, she learned that her home was under eight feet of water because of a breach in the London Avenue Canal. Despite this personal heartbreak, she focused her professional energies on her immediate role: the pressing need to get cash flowing into depository institutions.

Along the devastated Gulf Coast, conditions for cash delivery could not have been worse. Roads were destroyed, fuel was scarce, and the New Orleans Branch was cut off from the rest of the world. But Slack was armed with a contingency plan for cash services. The Atlanta Fed quickly authorized the release of $60 million in cash from a strategic inventory location in Louisiana. Currency distribution for Mississippi and Louisiana was moved into the bank's Birmingham facility, and New Orleans staff were in position there to work around the clock to deliver fresh currency and remove from circulation large quantities of contaminated coins and cash. In addition, Slack arranged for Fed System "buddy banks" in Jacksonville, Houston, Atlanta, and Memphis to pay out currency in affected areas.

Even with this unprecedented support from other Fed offices, more efforts were needed. Slack quickly initiated a plan to hire private armored carriers to make daily runs to deliver cash from the Federal Reserve Bank of Dallas's Houston Branch to banks in Baton Rouge and Lafayette and from the Birmingham Branch to depository institutions in Mobile, Alabama, and Pensacola, Florida. To clear the way for these deliveries, Slack worked with other Fed staff to negotiate agreements with federal and state authorities to allow priority passage and refueling of the cash-ferrying vehicles.

In December, after the New Orleans Branch had reopened, the Slacks left Birmingham even though they had no home to return to. Waiting for a FEMA trailer, they moved into a small cabin on a cruise ship docked in New Orleans. Even with cramped living conditions, Slack was glad to be back in her own office and grateful to be part of the effort to help her community recover. "The support and teamwork of the Federal Reserve System were outstanding," she said, "and our cash strategy worked just as it was supposed to work to bring money where it was needed most."

A community banker who stepped up

Atlanta Fed New Orleans Branch Director David Johnson kept his bank in Hattiesburg, Mississippi, open, despite the loss of electric power, to cash checks and provide much-needed currency to residents fleeing the Gulf Coast.

With hurricane winds gusting up to 120 miles per hour and storm surges taking out everything in their path, coastal residents in Mississippi pushed upstate, and roads and highways in the lower half of the state filled with people. Katrina hit on a Monday, and on Tuesday David E. Johnson, chairman and chief executive officer of The First Bancshares and The First, had no access to his bank branches in the Hattiesburg area. By Wednesday, as the chaos of the storm's aftermath forced more and more coastal residents away from their homes, Johnson—an Atlanta Fed director—and his managers met and made the decision to open the branches.

On Thursday the bank was one of the first to open in Laurel—in the dark, without power or phone service. Friday Johnson opened his office in Picayune, again without power. The Hattiesburg office was one of the few in the area with electricity, and by midweek after Katrina's landfall, the area had swelled by 150,000 people escaping the storm's aftermath.

With power on at Johnson's bank and next door at a large gas station, people flooded the local streets. Gasoline was a big factor in First Bank's decision to open. The two precious commodities for evacuees were gas and cash. As cars sat waiting in long lines to fill up their gas tanks, one person from a vehicle could run across the lawn to the bank to cash a check. No ATMs were operating, so the bank's management decided to work with the Fed's contingency cash services to bring in larger-than-normal supplies of cash to meet the needs of people driving away from the coast.

No matter where a person banked, First Bank cashed a check for up to $100 on the faith of a valid ID. The bank had no way to verify the check and no idea what the potential downside risk would be. Through Thursday, Friday, and Saturday and even on the Labor Day Monday holiday, First Bank stayed the course. Johnson, in shorts and a T-shirt, stood outside in the sweltering heat cashing checks. The bank cashed checks from noncustomers, checks drawn on competitors' banks, FEMA checks, and Red Cross checks—almost half a million dollars in all. The bank waived nearly $10,000 in insufficient funds charges, but in the end its loss was no worse than on any average banking day, netting out to about $300.

Johnson's decision to help evacuees resulted ultimately in a 20 percent increase in deposits for the bank and the opening of more new accounts during a shorter period of time than the bank had ever seen.

Restoration

Because the Sixth Federal Reserve District serves the hurricane-prone Southeast, the Atlanta Fed has considerable experience in the pattern of rebuilding after a natural disaster. Immediately after a violent storm, there's usually a significant loss of jobs and spending in the affected areas, and the impact is primarily local. Within a few weeks and months, government and insurance money begins to flow into the affected area, and the local economy gets a kick as the rebuilding begins. But the 2005 hurricane season was anything but typical.

Hurricane Katrina smashed hundreds of miles of homes and businesses along the coasts of Louisiana, Mississippi, and Alabama, flooded most of New Orleans, and wrecked a sizable portion of the nation's energy infrastructure. A few weeks later, Hurricane Rita knocked out more energy equipment near the Louisiana-Texas line. Then, Hurricane Wilma hit south Florida and the Yucatán Peninsula in Mexico, causing extensive power outages and several deaths.

Because of the unusual scope of destruction during the 2005 hurricane season—the most costly in U.S. history—much of the economic data from the storm-ravaged areas were unreliable because so many residents had fled. Instead, Atlanta Fed Assistant Vice President John Robertson and his team of regional economists turned to sources in the energy industry and Gulf Coast business leaders, including Atlanta Fed New Orleans branch directors, who provided quick and current analysis. Another important contact was Atlanta Fed Chairman David Ratcliffe, the top executive of Southern Company, who offered insights into the energy sector and rebuilding the region's economic infrastructure. By tapping relationships like these built over many years, the Atlanta Fed was able to quickly fill a pressing need for on-the-ground information about the extent of damage to oil rigs, refineries, and the delicate but complex network of national gas pipelines and thereby fashion a better understanding of the long-term outlook for energy supplies in the U.S. economy overall.

Cleanup, construction, and job growth, however, were beginning to occur in the Gulfport-Biloxi area and in Lake Charles, Louisiana, by year's end. But reconstruction in New Orleans and other hard-hit communities was slow in 2005 because of legal and other barriers to rebuilding in areas damaged by flooding. The Atlanta Fed research staff projected that the usually prompt rebuilding surge would take months or years to restore the region.

Atlanta Fed Community Affairs staff worked closely with financial institutions, regulators, and government agencies to methodically assess needs, resolve regulatory issues, and help with the process of rebuilding. In December, at the Atlanta Fed's recently reopened New Orleans Branch, Atlanta Fed Community Affairs Officer Juan Sanchez and New Orleans-based Community Development Specialist Nancy Montoya brought together bankers, architects, and charitable leaders to discuss the need for workforce housing, mortgage-related insurance concerns, and communication on banking issues.

The Atlanta Fed's role in addressing these and other complex challenges related to restoration will continue in 2006 and beyond. The future of the battered communities along the Gulf Coast depends on the people leading the restoration. Given the character and resilience demonstrated by the men and women described in this report and countless others who are not mentioned, the prospects for this vital economic region are highly favorable.

Atlanta Fed New Orleans Branch Director Dave Dennis (left) shows Federal Reserve Board Governor Mark Olson the destroyed bridge over Bay St. Louis in Mississippi. Dennis talked about the plans already in place for rebuilding the Mississippi coast.

David Ratcliffe, Atlanta Fed chairman and CEO of Southern Company (left), talks with Jack Guynn about the long-term impact of the 2005 hurricane season on the Southeastern economy.

Milestones: A Brief Review of the Atlanta Fed's Activities in 2005

While the attention of the Federal Reserve Bank of Atlanta's staff in the latter months of 2005 was focused largely on responding to several hurricanes and their aftermath, the bank also had a busy year on other fronts. Here are a few of the major issues that garnered staff time and attention.

Monetary policy accommodation reduced

The Federal Reserve's Federal Open Market Committee raised the benchmark federal funds rate eight times during 2005, from 2¼ percent to 4¼ percent. Meanwhile, the Atlanta Fed's board of directors voted to raise the discount rate over the course of the year from 3¼ percent to 5¼ percent.

Bank supervision unit deepens global work

The Atlanta Fed's supervision and regulation division forged closer ties with the Association of Latin American Bank Supervisors and expanded a partnership with the New York Fed to supervise the growing Spanish bank presence in the United States. The division also became more involved in selected supervisory-related opportunities in Brazil, Argentina, and Mexico and heightened its focus on Bank Secrecy Act/anti–money laundering practices.

Check 21 starts to take hold

The Federal Reserve's Retail Payments Office, based in Atlanta, played a central role in the continuing evolution of the nation's payment system as the Check 21 law, enacted in October 2003, began to take hold in 2005. By the end of the year the volume of electronic transactions was climbing an average 20 percent a month. The law allows financial institutions in the payments stream to create electronic images of checks and send those images, rather than the actual paper checks, through the system.

Birmingham check function moves to Atlanta

In March, Birmingham check operations consolidated to Atlanta with minimal disruptions for customers. During the week after the consolidation, average processing volume in Atlanta jumped to 4.5 million checks a day from 3.2 million.

System cash study affects Birmingham operation

In June, the Reserve Banks approved a plan to convert the Birmingham cash operation to a third-party cash depot arrangement, serviced by the Atlanta office. The transition is expected to happen in late 2006.

Research department holds mortgage finance symposium

In May, the bank hosted a conference at which leading academics and analysts examined government-sponsored enterprises, or GSEs, in the mortgage market and other dimensions of housing, including the relationship between house prices and rents and the transmission of monetary policy through housing and mortgage markets.

Atlanta Fed launches Americas Center

The bank launched the Americas Center, a cooperative venture by the supervision and regulation, research, and financial services divisions. A vehicle for collaboration among bank staff whose responsibilities relate to Latin America, the center serves regional, national, and international audiences through various outreach initiatives.

Bank holds policy conferences

The Atlanta Fed held numerous conferences in 2005 on a range of topics including finance, economics, and banking. The Atlanta Fed's Americas Center and the Inter-American Development Bank jointly sponsored a conference in Washington, D.C., in September that assembled academics, analysts, regulators, and policymakers to discuss the relationship between banking activity and macroeconomic performance in Latin America. In conjunction with the Federal Deposit Insurance Corporation, the bank also hosted a conference examining banking strategies to better serve Georgia's Hispanic population.

Canine units in all branches

In October, the Atlanta Fed decided to use explosive-sniffing dogs to inspect vehicles at each of its offices after the dogs improved the speed and quality of inspections in a Jacksonville Branch pilot program.

Miami Branch weathers Wilma

Hurricane Wilma hit south Florida on October 24, forcing the Miami Branch to close for a day. Three days later, all 174 branch employees were safe and accounted for.

Atlanta leads Fed patent drive

The Atlanta Fed coordinated the Federal Reserve Banks' efforts to obtain patents for retail payments inventions. The banks have filed multiple applications for such patents and expect to secure their first patent in early 2006.

New Orleans checks consolidate permanently in Atlanta

The bank announced in December 2005 that it will consolidate the New Orleans Branch check processing operation to Atlanta, effective March 31, 2006. The New Orleans office likely would have been identified for consolidation in the next round of Fed System check restructuring, so it was prudent for both the relocated New Orleans staff and the bank to anticipate this move.

Bank expands outreach

As part of an expanded commitment to economic and financial education, the Atlanta Fed increased its education programs in all its branch offices. The effort puts in place one of the bank's major strategic goals: to strengthen communication with constituents to promote an understanding of Fed policy and operational issues. Programs such as teacher workshops directly reached 1,200 teachers in 2005. An online newsletter for teachers was launched in the fall.

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.

Atlanta Board of Directors

Left to right: Ratcliffe, Martin, Thomas, Smith, Hickson

Left to right: Perry, Fontenot, Beall, Davis; not pictured: Green

DAVID M. RATCLIFFE
CHAIRMAN
Chairman, President, and
Chief Executive Officer
Southern Company
Atlanta, Georgia

V. LARKIN MARTIN
DEPUTY CHAIRMAN
Managing Partner
Martin Farm
Courtland, Alabama

JAMES F. BEALL
Chairman, President, and
Chief Executive Officer
Farmers & Merchants Bank
Centre, Alabama

D. SCOTT DAVIS
Chief Financial Officer
United Parcel Service
Atlanta, Georgia

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

RICHARD G. HICKSON
Chairman and
Chief Executive Officer
Trustmark Corporation
Jackson, Mississippi

EGBERT L.J. PERRY
Chairman and
Chief Executive Officer
The Integral Group, LLC
Atlanta, Georgia

WILLIAM G. SMITH JR.
Chairman, President, and
Chief Executive Officer
Capital City Bank Group Inc.
Tallahassee, Florida

LEE M. THOMAS
President and
Chief Operating Officer
Georgia-Pacific Corporation
Atlanta, Georgia

Federal Advisory Council Member

FREDERICK L. GREEN III
Vice Chairman
Synovus Financial Corporation
Columbus, Georgia

Birmingham Branch Directors

Left to right: Holcomb, Sanford, Bradley, Head, Barnett, Dodson; not pictured: Welborn

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Chairman
Chairman of the Board
HOME Place Farms Inc.
Prattville, Alabama

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Monroeville Chairman
and President
BankTrust
Monroeville, Alabama

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Managing Partner
Lewis Properties, LLC, and
Anderson Investments, LLC
Athens, Alabama

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Business Manager/
International Union of
Operating Engineers Local 312
President/Central Alabama
Building and Construction
Trades Council
Birmingham, Alabama

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Ram Tool and Supply Company Inc.
Birmingham, Alabama

JOHN H. HOLCOMB III
Chairman and
Chief Executive Officer
Alabama National Bancorporation
Birmingham, Alabama

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President
Welborn and Associates Inc.
Lookout Mountain, Tennessee

Jacksonville Branch Directors

Left to right: Sherrer, Healan, Gabremariam, Smith, Titen, Landrum, Fisher

FASSIL GABREMARIAM
Chairman
President and Founder
U.S.-Africa Free Enterprise
Education Foundation
Tampa, Florida

ROBERT L. FISHER
President and
Chief Executive Officer
MacDill Federal Credit Union
Tampa, Florida

JACK B. HEALAN JR.
President
Amelia Island Plantation Company
Amelia Island, Florida

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President and
Chief Executive Officer
AmStaff Human Resources Inc.
Pensacola, Florida

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Chief Executive Officer
Prudential Network Realty
Jacksonville, Florida

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Chairman of Alachua County
Community Board
Capital City Bank
Alachua, Florida

ELLEN S. TITEN
President
E.T. Consultants
Winter Park, Florida

Miami Branch Directors

Left to right: Keeley, Thompson, Jones, Lopez, Schwartzel, Gudorf; not pictured: Hudson

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CHAIRMAN
President
Angus Investments Inc.
Port St. Lucie, Florida

FRANCIS V. GUDORF
President/Executive Director
Jubilee Community
Development Corporation
Miami, Florida

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Chairman and
Chief Executive Officer
Seacoast Banking Corporation
of Florida
Stuart, Florida

BRIAN E. KEELEY
President and
Chief Executive Officer
Baptist Health South Florida
Coral Gables, Florida

MIRIAM LOPEZ
Chairman and
Chief Executive Officer
TransAtlantic Bank
Miami, Florida

JOSEPH C. SCHWARTZEL
President
Meridian Broadcasting Inc.
Fort Myers, Florida

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

Nashville Branch Directors

Left to right: Franklin, Swain, London, Williams, Loughry, Gaudette, Spradley

BETH DORTCH FRANKLIN
Chairman
Chief Executive Officer
Star Transportation Inc.
Nashville, Tennessee

DANIEL A. GAUDETTE
Senior Vice President
North American Manufacturing
and Quality Assurance
Nissan North America Inc.
Smyrna, Tennessee

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President and
Chief Executive Officer
St. Mary's Health System
Knoxville, Tennessee

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Chairman and
Chief Executive Officer
Cavalry Banking
Murfreesboro, Tennessee

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Standard Candy Company Inc.
Nashville, Tennessee

MICHAEL B. SWAIN
Chairman
First National Bank
Oneida, Tennessee

DAVID WILLIAMS II
Vice Chancellor and
General Counsel
Vanderbilt University
Nashville, Tennessee

New Orleans Branch Directors

Left to right: Johnson, Roberts, Kurzius, Slaughter, Shipp, Cloutier, Dennis

EARL L. SHIPP
Chairman
Global Business Vice President
for Oxides and Glycols
The Dow Chemical Company
Midland, Michigan

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

DAVE DENNIS
President and
Chief Executive Officer
Specialty Contractors &
Associates Inc.
Gulfport, Mississippi

DAVID E. JOHNSON
Chairman and
Chief Executive Officer
The First Bancshares Inc.
and The First, A National
Banking Association
Hattiesburg, Mississippi

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President
U.S. Consumer Foods
McCormick & Company Inc.
Baltimore, Maryland

BEN TOM ROBERTS
President
Roberts Brothers Commercial &
Property Management Inc., Realtors
Mobile, Alabama

CHRISTEL C. SLAUGHTER
Partner
SSA Consultants, LLC
Baton Rouge, Louisiana

Small Business, Agriculture, and Labor Advisory Council

Left to right: Sandlin, Howard, Harris, Pierce, Killebrew, Hartley, Savant

Left to right: Reems, Jones Parks, Carver, White, Holt, Jarriel, Guidry, Paulk

BOB CARVER
President and
Chief Executive Officer
Florida Professional Firefighters
Tallahassee, Florida

KARL "BUBBA" GUIDRY
Vice President/
Secretary-Treasurer
Advanced Agriculture Inc.
Lafayette, Louisiana

OSCAR L. HARRIS JR.
Chief Executive Officer
and Founder
Turner Associates/
Architects & Planners Inc.
Atlanta, Georgia

SUSAN L. HARTLEY
President
H&R Coffee Company Inc.
SunBelt Coffee & Water Service
Coffee Perks Franchise Inc.
Jacksonville, Florida

MARK E. HOLT
Assistant Business Manager
Southeast Laborers' District Council
Helena, Alabama

JAMES W. HOWARD JR.
President and
Chief Executive Officer
Atlanta Hardwood Corporation
Mableton, Georgia

DAVID JARRIEL
President
Dry Branch Farms Inc.
Collins, Georgia

LESTER H. KILLEBREW SR.
President and
Chief Executive Officer
Henry Farm Center Inc./
ValCom Business Centers
Abbeville, Alabama

CYNTHIA JONES PARKS
President and
Chief Executive Officer
Jones Worley Communications
Atlanta, Georgia

THOMAS PAULK
President and
Chief Executive Officer
Alabama Farmers Cooperative Inc.
Decatur, Alabama

CHRISTINE W. PIERCE
Partner
Braver Schimler
Pierce Jenkins LLP
Atlanta, Georgia

PETE REEMS
Owner
Heart of Georgia
Freshwater Shrimp
Barnesville, Georgia

STEVEN M. SANDLIN
Vice President and Partner
Pay-Less Pharmacy Group
Decatur, Alabama

NOAH SAVANT
Vice President
Communications Workers
of America
Decatur, Georgia

EVETTE WHITE
Chief Executive Officer
White/Thompson/
Cunningham/Regen
Nashville, Tennessee

Management Committee

Left to right: Eisenbeis, Jones, Guynn, Berthaume, Oliver

Left to right: DeBeer, Estes, Barron, Brown, Kepler; not pictured: Herr

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
Corporate Services Division

ANNE M. DEBEER
Senior Vice President
Corporate Services/
Financial Services Divisions

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

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

FREDERICK R. HERR
Senior Vice President
System Retail Payments Office

RICHARD R. OLIVER
Executive Vice President
System Retail Payments Office

LOIS C. BERTHAUME
Adviser
Senior Vice President and
General Auditor
Auditing Department

MARY KEPLER
Adviser
Vice President and
Director of Human Resources
Human Resources Department

RICHARD A. JONES
Adviser
Senior Vice President and
General Counsel
Legal Department

Other Corporate Officers

Senior Vice Presidents

HENRY BOURGAUX
System Retail Payments Office

SCOTT H. DAKE
System Retail Payments Office

DONALD E. NELSON
System Retail Payments Office

WILLIAM J. TIGNANELLI
System Retail Payments Office

Vice Presidents

ANDRE T. ANDERSON
Supervision and
Regulation Division

EDWARD C. ANDREWS
(RESIGNED)
General Services Department
and Law Enforcement Unit

JOHN S. BRANIGIN
System Retail Payments Office

DAVID F. CARR
Human Resources Department

SUZANNA J. COSTELLO
Supervision and
Regulation Division

THOMAS J. CUNNINGHAM
Associate Director of Research
Research Division

LEAH DAVENPORT
Check Function Office

GERALD P. DWYER JR.
Research Department

J. STEPHEN FOLEY
Supervision and
Regulation Division

MARIE GOODING
System Retail Payments Office

CYNTHIA GOODWIN
Supervision and
Regulation Division

MARY MANDEL
Executive Support Office

BOBBIE H. McCRACKIN
Public Affairs Officer
Public Affairs Department

ROBERT M. SCHENCK
Supervision and
Regulation Division

LARRY J. SCHULZ
System Retail Payments Office

ELLIS W. TALLMAN
Research Department

ADRIENNE M. WELLS
System Retail Payments Office

RONALD N. ZIMMERMAN
Supervision and
Regulation Division

Assistant Vice Presidents

JOHN H. ATKINSON
Supervision and
Regulation Division

WILLIAM B. BOWLING
Supervision and
Regulation Division

TREV B. BROWN
(RESIGNED)
Check Function Office

JOAN H. BUCHANAN
Supervision and
Regulation Division

DAVID J. CHRISTERSON
System Retail Payments Office

CHAPELLE D. DAVIS
Supervision and
Regulation Division

W. JEFFREY DEVINE
Financial Sales/
Business Development

PAUL W. GRAHAM
Check Function Office
Jacksonville Office

ROBERT HAWKINS
Supervision and
Regulation Division

CAROLYN C. HEALY
Supervision and
Regulation Division
Miami Office

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Accounting Department

SUSAN HOY
Legal Department

BRADLEY M. JOINER
Information Security/Systems

EVETTE H. JONES
Check Function Office

JACQUELYN H. LEE
Automation Operations

MARGARET DARLENE MARTIN
System Retail Payments Office

MARIE E. McNALLY
Facilities Management

ELIZABETH McQUERRY
System Retail Payments Office

D. PIERCE NELSON
Public Information Officer
Public Affairs Department

ALVIN L. PILKINTON JR.
Auditing Department

MARION P. RIVERS III
Supervision and
Regulation Division

JOHN C. ROBERTSON
Research Department

SUSAN L. ROBERTSON
System Retail Payments Office

MELINDA J. RUSHING
System Retail Payments Office

JUAN C. SANCHEZ
Supervision and
Regulation Division

DORIS SANTANA
Financial Statistics/
Structural Analysis

DAVID W. SMITH
Supervision and
Regulation Division

TIMOTHY R. SMITH
Community Relations Officer
Public Affairs Department

ARUNA SRINIVASAN
Credit and Risk Management

ALLEN STANLEY
Supervision and
Regulation Division

DAVID E. TATUM
Supervision and
Regulation Division

JOEL WARREN
Check Function Office
Jacksonville Office

CHARLES L. WEEMS
Check Function Office

JULIUS G. WEYMAN
System Retail Payments Office

Branch Officers

Atlanta

JAMES M. McKEE
Senior Vice President and
Branch Manager

CHRISTOPHER N. ALEXANDER
Assistant Vice President

ROBERT A. LOVE
Assistant Vice President

Jacksonville

CHRISTOPHER L. OAKLEY
Vice President and
Branch Manager

CHRISTINA WILSON
Assistant Vice President

Nashville

MELVYN K. PURCELL
Senior Vice President and
Branch Manager

ANNITA T. MOORE
Assistant Vice President and
Assistant Branch Manager

Birmingham

LEE C. JONES
Vice President and
Branch Manager

CHARLES W. PRIME
Assistant Vice President

Miami

JUAN DEL BUSTO
Vice President and
Branch Manager

ROBERT A. DE ZAYAS
Assistant Vice President

New Orleans

ROBERT J. MUSSO
Senior Vice President and
Branch Manager

AMY S. GOODMAN
Vice President and
Assistant Branch Manager

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 2005 was PricewaterhouseCoopers LLP (PwC). Fees for these services totaled $4.6 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 2005, the bank did not engage PwC for any material 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, 2005 (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 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 2, 2006
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 ("FRBA") maintained effective internal control over financial reporting and the safeguarding of assets as they relate to the financial statements as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. FRBA'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 FRBA maintained effective internal control over financial reporting and over the safeguarding of assets as they relate to the financial statements as of December 31, 2005, 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 FRBA 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 8, 2006
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, 2005 and 2004, 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, 2005 and 2004, and results of its operations for the years then ended, on the basis of accounting described in Note 3.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 8, 2006
Atlanta, Georgia

Statements of Condition

(in millions)	As of December 31, 2005	As of December 31, 2004
Assets		
Gold certificates	$ 945	$ 894
Special drawing rights certificates	166	166
Coin	89	82
Items in process of collection	1,281	637
Loans to depository institutions	7	8
U.S. government securities, net	58,040	48,931
Investments denominated in foreign currencies	829	1,181
Accrued interest receivable	451	343
Interdistrict settlement account	10,086	9,938
Bank premises and equipment, net	283	333
Other assets	93	42
Total assets	**$ 72,270**	**$ 62,555**
Liabilities and Capital		
Liabilities		
Federal Reserve Notes outstanding, net	$ 65,614	$ 56,768
Securities sold under agreements to repurchase	2,360	2,076
Deposits		
Depository institutions	1,626	1,722
Other deposits	2	2
Deferred credit items	763	796
Interest on Federal Reserve notes due U.S. Treasury	13	56
Accrued benefit costs	89	86
Other liabilities	19	17
Total liabilities	**$ 70,486**	**$ 61,523**
Capital		
Capital paid-in	$ 892	$ 516
Surplus	892	516
Total capital	**$ 1,784**	**$ 1,032**
Total liabilities and capital	**$ 72,270**	**$ 62,555**

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

Statements of Income

(in millions)	For the years ended December 31, 2005		December 31, 2004	
Interest income				
Interest on U.S. government securities	$	2,107	$	1,484
Interest on investments denominated in foreign currencies		13		15
Total interest income	**$**	**2,120**	**$**	**1,499**
Interest expense				
Interest expense on securities sold under agreements to repurchase	$	61	$	20
Net interest income	**$**	**2,059**	**$**	**1,479**
Other operating income				
Income from services	$	786	$	161
Reimbursable services to government agencies		17		17
Foreign currency gains (losses), net		(124)		68
Other income		6		3
Total other operating income	**$**	**685**	**$**	**249**
Operating expenses				
Salaries and other benefits	$	165	$	152
Occupancy expense		21		21
Equipment expense		20		22
Compensation paid for check services costs incurred		483		—
Assessments by Board of Governors		72		77
Other expenses		145		94
Total operating expenses	**$**	**906**	**$**	**366**
Net income prior to distribution	$	1,838	$	1,362
Distribution of net income				
Dividends paid to member banks	$	42	$	30
Transferred to surplus		376		27
Payments to U.S. Treasury as interest on Federal Reserve notes		1,420		1,305
Total distribution	**$**	**1,838**	**$**	**1,362**

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

Statements of Changes in Capital

(in millions)	For the years ended December 31, 2005, and December 31, 2004					
	Capital Paid-In		Surplus		Total Capital	
Balance at January 1, 2004						
(9.8 million shares)	$	489	$	489	$	978
Transferred to surplus		—		27		27
Net change in capital stock issued (0.5 million shares)		27		—		27
Balance at December 31, 2004						
(10.3 million shares)	$	516	$	516	$	1,032
Transferred to surplus		—		376		376
Net change in capital stock issued (7.5 million shares)		376		—		376
Balance at December 31, 2005						
(17.8 million shares)	$	892	$	892	$	1,784

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

Notes to Financial Statements

1. STRUCTURE

The Federal Reserve Bank of Atlanta ("Bank") is part of the Federal Reserve System ("System") and one of the twelve Reserve Banks ("Reserve Banks") created by Congress under the Federal Reserve Act of 1913 ("Federal Reserve Act"), which established the central bank of the United States. 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.

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. Banks that are members of the System include all national banks and any state-chartered banks that apply and are approved for membership in the System. 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.

The System also consists, in part, of the Board of Governors of the Federal Reserve System ("Board of Governors") and the Federal Open Market Committee ("FOMC"). The Board of Governors, an independent federal agency, is charged by the Federal Reserve Act with a number of specific duties, including general supervision over the Reserve Banks. 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.

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 system 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, state member banks, and U.S. offices of foreign banking organizations; and administering other regulations of the Board of Governors. The System also provides certain services to foreign central banks, governments, and international official institutions.

The FOMC, in the conduct of monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and annually issues authorizations and directives to the FRBNY for its execution of transactions. FRBNY is authorized to conduct operations in domestic markets, including direct purchase and sale of U.S. government securities, the purchase of securities under agreements to resell, the sale of securities under agreements to repurchase, and the lending of U.S. government securities. FRBNY executes these open market transactions and holds the resulting securities, with the exception of securities purchased under agreements to resell, 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 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. The FRBNY is authorized by the FOMC to hold balances of, and to execute spot and forward foreign exchange ("F/X") and securities contracts for nine foreign currencies and to invest such foreign currency holdings ensuring adequate liquidity is maintained. In addition, FRBNY is authorized to maintain reciprocal currency arrangements ("F/X swaps") with two central banks and "warehouse" foreign currencies for the U.S. Treasury and Exchange Stabilization Fund ("ESF") through the Reserve Banks. In connection with its foreign currency activities, FRBNY may enter into contracts that 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.

Although Reserve Banks are separate legal entities, in the interests of greater efficiency and effectiveness, they collaborate in the delivery of certain operations and services. The collaboration takes the form of centralized competency centers, operations sites, and product or service offices that have responsibility for the delivery of certain services on behalf of the Reserve Banks. Various operational and management models are used and are supported by service agreements between the Reserve Bank providing the service and the other eleven Reserve Banks. In some cases, costs incurred by a Reserve Bank for services provided to other Reserve Banks are not shared; in other cases, Reserve Banks are billed for services provided to them by another Reserve Bank.

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, Accounting-Related Projects, Customer Support Projects, National Information Center for Supervision and Regulation, Audit Services, and Special Check-Related Projects.

Beginning in 2005, the Reserve Banks adopted a new management model for providing check services to depository institutions. Under this new model, the Federal Reserve Bank of Atlanta ("FRBA") has the overall responsibility for managing the Reserve Banks' provision of check services and recognizes total System check revenue on its Statements of Income. FRBA compensates the other eleven Banks for the costs incurred to provide check services. This compensation is reported as "Compensation paid for check services costs incurred" in the Statements of Income. If the management model had been in place in 2004, the Bank would have reported $546 million as compensation provided and $620 million in check revenue would have been reported by the Bank as "Income from Services" rather than by the other 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 various accounting standard-setting bodies. 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 and the financial statements have been prepared in accordance with the Financial Accounting Manual.

Differences exist between the accounting principles and practices in the *Financial Accounting Manual* and those generally accepted in the United States ("GAAP") primarily due to the unique nature of the Bank's powers and responsibilities as part of the nation's central bank. The primary difference is the presentation of all security holdings at amortized cost, rather than using the fair value presentation requirements in accordance with GAAP. Amortized cost more appropriately reflects the Bank's security holdings given its unique responsibility to conduct monetary policy. While the application of current market prices to the securities holdings 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 Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold prior to maturity. Decisions regarding security and foreign currency 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 securities and currencies are incidental to the open market operations and do not motivate its activities or policy decisions.

In addition, the Bank has elected not to present a Statement of Cash Flows because the liquidity and cash position of the Bank are not a primary concern given the Bank's unique powers and responsibilities. A Statement of Cash Flows, therefore, would not provide any additional meaningful information. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income, and Changes in Capital. 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, 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 and Special Drawing Rights Certificates
The Secretary of the U.S. Treasury is authorized to issue gold and special drawing rights ("SDR") certificates to the Reserve Banks.

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 the average Federal Reserve notes outstanding in each Reserve Bank.

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 2005 or 2004.

b. Loans to Depository Institutions
All depository institutions that maintain reservable transaction accounts or nonpersonal time deposits, as defined in regulations issued by the Board of Governors, have borrowing privileges at the discretion of the Reserve Bank. 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 Board of Directors of the Reserve Bank, subject to review by the Board of Governors.

c. U.S. Government Securities and Investments Denominated in Foreign Currencies
U.S. government 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. Gains and losses resulting from sales of securities are determined by specific issues based on average cost. 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 (losses), net."

Activity related to U.S. government securities, including the related premiums, discounts, and realized and unrealized gains and losses, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of interdistrict clearings that occurs in April of each year. The settlement equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding in each District. Activity related to investments in foreign-currency-denominated assets is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31.

d. U.S. Government Securities Sold under Agreements to Repurchase and Securities Lending
Securities sold under agreements to repurchase are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These transactions are carried in the Statements of Condition at their contractual amounts, and the related accrued interest is reported as a component of "Other liabilities."

U.S. government securities held in the SOMA are lent 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. Securities-lending transactions are fully collateralized by other U.S. government securities, and the collateral taken is in excess of the market value of the securities loaned. The FRBNY charges the dealer or bank a fee for borrowing securities, and the fees are reported as a component of "Other income" in the Statements of Income.

Activity related to U.S. government securities sold under agreements to repurchase and securities lending is allocated to each Reserve Bank on a percentage basis derived from the annual settlement of interdistrict clearings. Securities purchased under agreements to resell are allocated to FRBNY and not to the other Banks.

e. Foreign Currency Swaps and Warehousing
F/X swap arrangements are contractual agreements between two parties to exchange specified currencies, at a specified price, on a specified date. The parties agree to exchange their currencies up to a pre-arranged maximum amount and for an agreed-upon period of time (up to twelve months), at an agreed-upon interest rate. These arrangements give the FOMC temporary access to the foreign currencies it may need to intervene to support the dollar and give the counterparty temporary access to dollars it may need to support its own currency. Drawings under the F/X swap arrangements can be initiated by either FRBNY or the counterparty (the drawer) and must be agreed to by the drawee. The F/X swaps are structured so that the party initiating the transaction bears the exchange rate risk upon maturity. 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 U.S. Treasury, U.S. dollars for foreign currencies held by the U.S. 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 U.S. Treasury and ESF for financing purchases of foreign currencies and related international operations.

Foreign currency swaps and warehousing agreements are revalued daily at current market exchange rates. Activity related to these agreements, with the exception of the unrealized gains and losses resulting from the daily revaluation, is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. Unrealized gains and losses resulting from the daily revaluation are allocated to FRBNY and not to the other Reserve Banks.

f. 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 and are amortized over the remaining useful life of the asset. Maintenance, repairs, and minor replacements are charged to operating expense in the year incurred. Capitalized assets including software, building, leasehold improvements, furniture, and equipment are impaired when it is determined that the net realizable value is significantly less than book value and is not recoverable.

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.

g. Interdistrict Settlement Account
At the close of business each day, each Reserve Bank assembles the payments due to or from other Reserve Banks as a result of the day's transactions that involve depository institution accounts held by other Districts. Such transactions may include funds settlement, check clearing, and ACH operations. The cumulative net amount due to or from the other Reserve Banks is reflected in the "Interdistrict settlement account" in the Statements of Condition.

h. 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.

Assets eligible to be pledged as collateral security include all Bank assets. 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 deducted.

The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the Federal Reserve notes. To satisfy the obligation to provide sufficient collateral for outstanding 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 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 the currency issued to the Bank but not in circulation of $19,039 million, and $17,376 million at December 31, 2005 and 2004, respectively.

i. Items in Process of Collection and Deferred Credit Items

The balance in the "Items in process of collection" line in the Statements of Condition primarily represents amounts attributable to checks that have been deposited for collection by the payee depository institution and, as of the balance sheet date, have not yet been collected from the payor depository institution. "Deferred credit items" are the counterpart liability to items in process of collection, and the amounts in this account arise from deferring credit for deposited items until the amounts are collected. The balances in both accounts can fluctuate and vary significantly from day to day.

j. 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. These shares are nonvoting with a par value of $100 and may not be transferred or hypothecated. As a member bank's capital and surplus change, its holdings of Reserve Bank stock must be adjusted. Currently, only one-half of the subscription is paid-in and the remainder is subject to call. By law, each Bank is required to pay each member bank 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.

k. 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 an increase in capital paid-in at a Reserve Bank, payments to the U.S. Treasury are suspended and earnings are retained until the surplus is equal to the capital paid-in. Weekly payments to the U.S. Treasury may vary significantly.

In the event of a decrease in capital paid-in, the excess surplus, after equating capital paid-in and surplus at December 31, is distributed to the U.S. Treasury in the following year. This amount is reported as a component of "Payments to U.S. Treasury as interest on Federal Reserve notes."

l. Income and Costs Related to U.S. 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.

m. Assessments by the Board of Governors

The Board of Governors assesses the Reserve Banks to fund its operations based on each Reserve Bank's capital and surplus balances. The Board of Governors also assesses each Reserve Bank for the expenses incurred for the U.S. Treasury to issue and retire Federal Reserve notes based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the previous year.

n. 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 $2 million and $3 million for the years ended December 31, 2005 and 2004, respectively, and are reported as a component of "Occupancy expense."

o. Restructuring Charges

In 2003, the System began the restructuring of several operations, primarily check, cash, and U.S. Treasury 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. These restructuring activities continued in 2004 and 2005.

Footnote 10 describes the restructuring and provides information about the Bank's costs and liabilities associated with employee separations and contract terminations. The costs associated with the write-down of certain Bank assets are discussed in footnote 6. Costs and liabilities associated with enhanced pension benefits in connection with the restructuring activities for all Reserve Banks are recorded on the books of the FRBNY and those associated with enhanced post-retirement benefits are discussed in footnote 9.

4. U.S. GOVERNMENT SECURITIES, SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE, AND SECURITIES LENDING

The FRBNY, on behalf of the Reserve Banks, holds securities bought outright in the SOMA. The Bank's allocated share of SOMA balances was approximately 7.737 percent and 6.744 percent at December 31, 2005 and 2004, respectively.

The Bank's allocated share of U.S. government securities, net, held in the SOMA at December 31, was as follows (in millions):

	2005	2004
Par value		
U.S. government		
Bills	$ 20,987	$ 17,734
Notes	29,408	24,334
Bonds	7,181	6,340
Total par value	57,576	48,408
Unamortized premiums	682	634
Unaccreted discounts	(218)	(111)
Total allocated to Bank	$ 58,040	$ 48,931

The total of the U.S. government securities, net, held in the SOMA was $750,202 million and $725,584 million at December 31, 2005 and 2004, respectively.

At December 31, 2005 and 2004, the total contract amount of securities sold under agreements to repurchase was $30,505 million and $30,783 million, respectively, of which $2,360 million and $2,076 million were allocated to the Bank. The total par value of the SOMA securities pledged for securities sold under agreements to repurchase at December 31, 2005 and 2004, was $30,559 million and $30,808 million, respectively, of which $2,364 million and $2,078 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, 2005, 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	$ 3,172	$ 2,360
16 days to 90 days	13,328	—
91 days to 1 year	14,412	—
Over 1 year to 5 years	16,304	—
Over 5 years to 10 years	4,386	—
Over 10 years	5,974	—
Total	$ 57,576	$ 2,360

At December 31, 2005 and 2004, U.S. government securities with par values of $3,776 million and $6,609 million, respectively, were loaned from the SOMA, of which $292 million and $446 million, respectively, 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.

The Bank's allocated share of investments denominated in foreign currencies was approximately 4.383 percent and 5.528 percent at December 31, 2005 and 2004, respectively.

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

	2005	2004
European Union Euro		
Foreign currency deposits	$ 237	$ 336
Securities purchased under agreements to resell	85	119
Government debt instruments	156	218
Japanese Yen		
Foreign currency deposits	115	85
Government debt instruments	237	423
Total	$ 830	$ 1,181

Total System investments denominated in foreign currencies were $18,928 million and $21,368 million at December 31, 2005 and 2004, respectively.

The maturity distribution of investments denominated in foreign currencies which were allocated to the Bank at December 31, 2005, was as follows (in millions):

Maturities of Investments Denominated in Foreign Currencies	European Euro	Japanese Yen	Total
Within 15 days	$ 148	$ 115	$ 263
16 days to 90 days	113	30	143
91 days to 1 year	92	44	136
Over 1 year to 5 years	125	163	288
Over 5 years to 10 years	—	—	—
Over 10 years	—	—	—
Total	$ 478	$ 352	$ 830

At December 31, 2005 and 2004, there were no material open or outstanding foreign exchange contracts.

At December 31, 2005 and 2004, 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):

	Useful Life Range (in years)	2005	2004
Bank premises and equipment			
Land	N/A	$ 39	$ 41
Buildings	1–46	211	245
Building machinery and equipment	1–19	35	37
Construction in progress	N/A	3	1
Furniture and equipment	1–16	115	126
Subtotal		$ 403	$ 450
Accumulated depreciation		(120)	(117)
Bank premises and equipment, net		$ 283	$ 333
Depreciation expense, for the years ended		$ 19	$ 18

The Bank leases space to outside tenants with lease terms ranging from one to ten years. Rental income from such leases was $459 thousand and $582 thousand for the years ended December 31, 2005 and 2004, respectively.

Future minimum lease payments under noncancelable agreements in existence at December 31, 2005, were (in millions):

2006	$	1.2
2007		1.1
2008		1.0
2009		1.0
2010		1.0
Thereafter		0.8
	$	6.1

The Bank has capitalized software assets, net of amortization, of $2 million and $3 million at December 31, 2005 and 2004, respectively. Amortization expense was $2 million and $3 million for the years ended December 31, 2005 and 2004, respectively. Capitalized software assets are reported as a component of "Other assets" and related amortization is reported as a component of "Other expenses."

Assets impaired as a result of the Bank's restructuring plan include software, buildings, land, and equipment. The Bank recognized a $40 million impairment loss on the Birmingham branch building for the year ended December 31, 2005 and asset impairment losses of $.3 million for the year ended December 31, 2004. Impairment losses were determined using fair values based on quoted market values or other valuation techniques and are reported as a component of "Other expenses."

7. COMMITMENTS AND CONTINGENCIES

At December 31, 2005, the Bank was obligated under noncancelable leases for premises and equipment with terms ranging from one to approximately four 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 $1 million and $2 million for the years ended December 31, 2005 and 2004, respectively. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases, net of sublease rentals, with terms of one year or more, at December 31, 2005, were (in thousands):

		Operating
2006	$	315
2007		315
2008		316
2009		293
	$	1,239

At December 31, 2005, the Bank, acting on behalf of the Reserve Banks, had contractual commitments extending through the year 2007 totaling $114 million. As of December 31, 2005, none of these commitments was recognized. Purchases of $ 29 million and $ 28 million were made against these commitments during 2005 and 2004, respectively. It is estimated that the Bank's allocated share of these commitments will be $39 million. These commitments represent air and ground transportation services for the Federal Reserve Check Transportation System, which serves all Reserve Banks. The fixed payments for the next five years under these commitments are (in millions):

		Fixed Commitment
2006	$	28
2007		11
2008		—
2009		—
2010		—

Under the Insurance Agreement of the Federal Reserve Banks, each Reserve Bank 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, 2005 or 2004.

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 three 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"). Employees at certain compensation levels participate in the Benefit Equalization Retirement Plan ("BEP") and certain Bank officers participate in the Supplemental Employee Retirement Plan ("SERP").

The System Plan is a multi-employer 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 System. No separate accounting is maintained of assets contributed by the participating employers. The FRBNY acts as a sponsor of the System Plan and the costs associated with the Plan are not redistributed to other participating employers. The Bank's benefit obligation and net pension costs for the BEP and the SERP at December 31, 2005 and 2004, 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, 2005 and 2004, and are reported as a component of "Salaries and other benefits." The Bank matches employee contributions based on a specified formula. For the years ended December 31, 2005 and 2004, the Bank matched 80 percent on the first 6 percent of employee contributions for employees with less than five years of service and 100 percent on the first 6 percent of employee contributions for employees with five or more years of service.

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.

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

	2005	2004
Accumulated postretirement benefit obligation at January 1	$ 85.7	$ 91.7
Service cost-benefits earned during the period	2.2	2.0
Interest cost of accumulated benefit obligation	4.1	5.0
Actuarial (gain) loss	(5.4)	1.3
Contributions by plan participants	1.2	0.9
Benefits paid	(4.3)	(3.8)
Plan amendments	—	(11.4)
Accumulated postretirement benefit obligation at December 31	$ 83.5	$ 85.7

At December 31, 2005 and 2004, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 5.50 percent and 5.75 percent, respectively.

Discount rates reflect yields available on high quality corporate bonds that would generate the cash flows necessary to pay the plan's benefits when due.

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

	2005	2004
Fair value of plan assets at January 1	$ —	$ —
Contributions by the employer	3.1	2.9
Contributions by plan participants	1.2	0.9
Benefits paid	(4.3)	(3.8)
Fair value of plan assets at December 31	$ —	$ —
Unfunded postretirement benefit obligation	$ 83.5	$ 85.7
Unrecognized prior service cost	12.9	15.1
Unrecognized net actuarial loss	(20.8)	(26.7)
Accrued postretirement benefit costs	$ 75.6	$ 74.1

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

For measurement purposes, the assumed health care cost trend rates at December 31 are as follows:

	2005	2004
Health care cost trend rate assumed for next year (percent)	9.00	9.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) (percent)	5.00	4.75
Year that the rate reaches the ultimate trend rate	2011	2011

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, 2005 (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	$ 1.1	$ (0.9)
Effect on accumulated postretirement benefit obligation	10.8	(8.9)

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

	2005	2004
Service cost-benefits earned during the period	$ 2.2	$ 2.1
Interest cost of accumulated benefit obligation	4.1	5.0
Amortization of prior service cost	(2.2)	(2.1)
Recognized net actuarial loss	0.5	0.8
Total periodic expense	$ 4.6	$ 5.8
Curtailment gain	—	(15.0)
Net periodic postretirement benefit costs	$ 4.6	$ (9.2)

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2005 and 2004, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 5.75 percent and 6.25 percent, respectively.

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

A plan amendment that modified the credited service period eligibility requirements created a curtailment gain in 2004.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 established a prescription drug benefit under Medicare ("Medicare Part D") and a federal subsidy to sponsors of retiree health care benefit plans that provide benefits that are at least actuarially equivalent to Medicare Part D. The benefits provided by the Bank's plan to certain participants are at least actuarially equivalent to the Medicare Part D prescription drug benefit. The estimated effects of the subsidy, retroactive to January 1, 2004, are reflected in actuarial gain in the accumulated postretirement benefit obligation and in actuarial loss in the net periodic postretirement benefit costs.

Following is a summary of expected benefit payments (in millions):

Expected benefit payments (in millions):	Without Subsidy	With Subsidy
2006	$ 4	$ 3
2007	4	4
2008	4	4
2009	5	4
2010	5	4
2011–2015	29	25
Total	$ 51	$ 44

Postemployment Benefits

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined using a December 31, 2005 measurement date and include the cost of medical and dental insurance, survivor income, and disability benefits. The accrued postemployment benefit costs recognized by the Bank was $12 million for each of the years ended December 31, 2005 and 2004. This cost is included as a component of "Accrued benefit costs." Net periodic postemployment benefit costs included in 2005 and 2004 operating expenses were $2 million and $3 million, respectively, and are recorded as a component of "Salaries and other benefits."

10. BUSINESS 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. In 2004 and 2005, additional consolidation and restructuring initiatives were announced in the check and cash operations. These actions resulted in the following business restructuring charges (in millions):

	Total Estimated Costs	Accrued Liability 12/31/04	Total Charges 12/31/05	Total Paid 12/31/05	Accrued Liability 12/31/05
Employee separation	$ 16	$ 4	$ 3	$ 2	$ 5

Employee separation costs are primarily severance costs related to identified staff reductions of approximately 473, including 128 and 185 staff reductions related to restructuring announced in 2005 and 2004, respectively. These costs 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."

Restructuring costs associated with the write-downs of certain Bank assets, including software, buildings, and equipment are discussed in footnote 6. 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 restructuring that are not estimable and are not recognized as liabilities will be incurred in 2006. The Bank anticipates substantially completing its announced plans by 2007.